ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS AND NOTES FOR THE YEAR ENDED 31 DECEMBER 2022 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

(ORIGINALLY ISSUED IN TURKISH)

CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Adel Kalemcilik Ticaret Ve Sanayi A.Ş.

A. Audit of the financial statements

1. Our opinion

We have audited the accompanying financial statements of Adel Kalemcilik Ticaret Ve Sanayi A.Ş. (the "Company") which comprise the statement of financial position as at 31 December 2022, the statement of profit or loss, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements comprising a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2. Basis for opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We hereby declare that we are independent of the Company in accordance with the Ethical Rules for Independent Auditors (including Independence Standards) (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	**How the key audit matter was addressed in the audit**
Revenue recognition	
Revenue TL 895.273 Thousand has been recognized in the statement of profit or loss and other comprehensive income for the accounting period 1 January-31 December 2022. Revenue is recognized in the financial statements when the Company fulfils its perfomance obligation by transferring control of the promised products to its customers. Since sales contracts are complex, the recognition of revenue in the relevant period depends on the correct evaluation of the sales conditions specific to each situation. For this reason, there is a risk that the revenue will not be recognized in the correct period or amount for the products whose production is completed and delivered, or for those whose invoices have not yet been issued to the customer. Revenue is one of the most significant indicators in the performance evaluation of the Company. Revenue has been selected as a key audit matter because it is of great importance in terms of evaluating the results of the strategies implemented during the year and monitoring performance and it has significant, decisive impact on more than one financial statement item. Disclosures regarding the Company's revenue-related accounting policies and amounts are included in Notes 2.2.1 of the attached financial statements.	The following audit procedures have been applied for the recognition of revenue: - Testing the design and implementation of internal controls on revenue recognition by understanding the Company's revenue process, - Evaluating whether the accounting policies applied by the Company management for recording revenue are in terms of TFRS, - Testing the transactions recorded as revenue during the period by sampling method by comparing them with invoices, supporting documents and collections from customers, - Testing the balances of trade receivables using the sampling method by sending confirmation letters, - Testing whether the sales returns realized after the reporting period are included in the financial statements in the relevant period, - Testing the revenue items belong to period ending and the beginning of the following period with the sampling method regarding the cut-off of the revenue, - Evaluating the accuracy and adequacy of the revenue related disclosures included in footnotes financial statements in terms of TFRS.

4. Other matters

The financial statements of Adel Kalemcilik Ticaret Ve Sanayi Anonim Şirketi for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 1 March 2022.

5. Responsibilities of management and those charged with governance for the financial statements

The Company management is responsible for the preparation and fair presentation of the financial statements in accordance with TFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Company's financial reporting process.

6. Auditor's responsibilities for the audit of the financial statements

Responsibilities of independent auditors in an independent audit are as follows:
Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards actions taken to eliminate threats or safeguards applied.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B. Other responsibilities arising from regulatory requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2022 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.

2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.

3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 28 February 2023.

Additional explanation for convenience translation into English

Turkish Financial Reporting Standards differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of IAS 29 - Financial Reporting in Hyperinflationary Economies by 31 December 2022. Accordingly, the accompanying financial statements are not intended to present fairly the financial position and results of operations of the Company in accordance with IFRS.

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ORIGINALLY ISSUED IN TURKISH

Salim Alyanak, SMMM
Partner

Istanbul, 28 February 2023

CONTENTS	PAGES

CONVENIENCE TRANSLATION INTO ENGLISH OF YEAR END FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

ADEL KALEMCİLİK TİCARET VE SANAYİ ANONİM ŞİRKETİ
FINANCIAL STATEMENTS AS OF 31 DECEMBER 2022 AND 2021

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

	Note	Audited 31 December 2022	Audited 31 December 2021
Assets			
Current assets			
Cash and cash equivalences	4	292.369	342.560
Trade receivables		56.428	92.569
- Receivables from related parties	23	10.469	18.468
- Receivables from third parties	8	45.959	74.101
Other receivables		1.846	2.108
- Other receivables from related parties	23	134	-
- Other receivables from third parties	9	1.712	2.108
Derivative instruments	25.1	-	12.505
Inventories	10	240.774	113.968
Prepaid expenses	15	11.551	15.341
Curent tax-related assets	15	24.499	4.704
Other current assets	15	15.017	8.656
Total current assets		**642.484**	**592.411**
Non-current assets			
Financial investments	5	4	234
Property, plant and equipment	11	108.365	99.115
Right of use assets	7	29.994	2.223
Intangible assets	12	15.484	11.749
Prepaid expenses	15	2.838	1.304
Deferred tax assets	21	9.370	1.221
Total non-current assets		**166.055**	**115.846**
Total assets		**808.539**	**708.257**

CONVENIENCE TRANSLATION INTO ENGLISH OF YEAR END FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

ADEL KALEMCİLİK TİCARET VE SANAYİ ANONİM ŞİRKETİ
FINANCIAL STATEMENTS AS OF 31 DECEMBER 2022 AND 31 DECEMBER 2021

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

	Notes	Audited 31 December 2022	Audited 31 December 2021
Liabilities			
Current liabilities			
Short term borrowings	7	486.890	303.390
Short term portion of long term borrowings		17.199	195.192
- Short term portion of long term borrowings from third parties	7	17.199	195.192
- Bank loans		7.317	192.339
- Lease liabilities		9.882	2.853
Trade payables		57.815	35.895
- Due to related parties	23	695	982
- Due to third parties	8	57.120	34.913
Employee benefit liabilities	9	27.636	6.714
Other payables		1.582	1.331
- Due to third parties	9	1.582	1.331
Derivative instruments	25.1	5.082	-
Deferred income	15	6.360	2.474
Current tax liabilities	21	497	-
Short term provision		4.979	3.316
- Provisions for employment benefits	14	4.187	1.870
- Other short term provisions	13	792	1.446
Total current liabilities		**608.040**	**548.312**
Non-current liabilities			
Long term borrowings		28.260	14.107
- Long term borrowings from third parties	7	28.260	14.107
- Bank loans		7.000	14.000
- Lease liabilities		21.260	107
Long term provision		37.938	14.573
- Provisions for employment termination benefits	14	37.938	14.573
Total non-current liabilities		**66.198**	**28.680**
Equity			
Share capital	16	23.625	23.625
Inflation adjustment to share capital	16	1.584	1.584
Other comprehensive expenses that will not be reclassified to profit or loss		(6.355)	(554)
- Losses on remeasurement of defined benefit obligations		(6.355)	(554)
Other comprehensive expenses/(income) that will be reclassified to profit or loss		(5.336)	8.317
- Currency translation differences		(1.455)	(1.455)
- Gains/(loss) on hedge		(3.881)	9.772
Restricted reserves	16	27.715	32.555
Retained earnings	16	55.576	78.436
Net profit/(loss) for the period		37.492	(12.698)
Total equity		**134.301**	**131.265**
Total liabilities and equity		**808.539**	**708.257**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

Profit or loss	Notes	Audited 1 January - 31 December 2022	Audited 1 January - 31 December 2021
Revenue	17	895.273	486.155
Cost of sales (-)	17	(534.820)	(332.290)
Gross profit		**360.453**	**153.865**
General administrative expenses (-)	18	(75.388)	(39.383)
Marketing expenses (-)	18	(138.765)	(73.567)
Research and development cost (-)	18	(4.015)	(1.334)
Other income from operating activities	19	16.553	4.066
Other expenses from operating activities (-)	19	(10.574)	(6.497)
Operating profit		**148.264**	**37.150**
Income from investment activities	19	428	627
Expens from investment activities (-)	19	(73)	(5)
Operating profit before finance costs		**148.619**	**37.772**
Finance income	20	49.969	13.917
Finance costs (-)	20	(163.409)	(65.465)
Profit/(Loss) before tax from continuing operations		**35.179**	**(13.776)**
Tax income from continuing operations		**2.313**	**1.078**
- Taxes on expense	21	(497)	(43)
- Deferred tax income	21	2.810	1.121
Net profit /(loss) for the year		**37.492**	**(12.698)**
Profit /(loss) per share (1 TRY per share)	22	**1,5870**	**(0,5375)**

ADEL KALEMCİLİK TİCARET VE SANAYİ ANONİM ŞİRKETİ OTHER COMPREHENSIVE INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2022 AND 31 DECEMBER 2021

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

	Notes	Audited 1 January - 31 December 2022	Audited 1 January - 31 December 2021
Net profit /(loss) for the year		**37.492**	**(12.698)**
Other comprehensive income/expense			
Other comprehensive expenses that will not be reclassified to profit or loss		(5.801)	120
- *Remeasurements of defined benefit assets/liabilities*	14	(7.251)	150
Other comprehensive expenses that will not be reclassified to profit or loss, tax effect		1.450	(30)
- *Deferred tax income /(expense)*		1.450	(30)
Other comprehensive expenses that will be reclassified to profit or loss		(13.653)	13.456
- *Currency translation differences*		-	-
- *Other comprehensive income (expense) on cash flow hedge*	25. 1	(17.588)	17.292
-Other comprehensive expenses that will be reclassified to profit or loss, tax effect		3.935	(3.836)
- *Deferred tax income /(expense)*		3.935	(3.836)
Other comprehensive income /(expense)		**(19.454)**	**13.576**
Total comprehensive income		**18.038**	**878**

Accompanying notes are an integral part of these financial statements.

ADEL KALEMCİLİK TİCARET VE SANAYİ ANONİM ŞİRKETİ
STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2022 AND 2021

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

			Other comprehensive income (loss) that will not be reclassified in profit or loss	Other comprehensive loss/(income) that will be reclassified in profit or loss					
	Share capital	**Inflation adjustment to share capital**	**Defined benefit plans revaluation and measurement(losses)/gains**	**Currency translation differences**	**Gains/(loss) on hedge**	**Restricted reserves**	**Retained earnings**	**Net profit/(loss) for the period**	**Total equity**
Balances as of 1 January 2021	**23.625**	**1.584**	**(674)**	**(1.455)**	**(3.684)**	**68.746**	**55.332**	**1.915**	**145.389**
Transfers	-	-	-	-	-	(36.191)	38.106	(1.915)	-
Dividends	-	-	-	-	-	-	(15.002)	-	(15.002)
Total comprehensive income	-	-	120	-	13.456	-	-	(12.698)	878
Balances as of 31 December 2021	**23.625**	**1.584**	**(554)**	**(1.455)**	**9.772**	**32.555**	**78.436**	**(12.698)**	**131.265**
Balances as of 1 January 2022	**23.625**	**1.584**	**(554)**	**(1.455)**	**9.772**	**32.555**	**78.436**	**(12.698)**	**131.265**
Transfers	-	-	-	-	-	(4.840)	(7.858)	12.698	-
Dividends	-	-	-	-	-	-	(15.002)	-	(15.002)
Total comprehensive income	-	-	(5.801)	-	(13.653)	-	-	37.492	18.038
Balances as of 31 December 2022	**23.625**	**1.584**	**(6.355)**	**(1.455)**	**(3.881)**	**27.715**	**55.576**	**37.492**	**134.301**

Accompanying notes are an integral part of these financial statements.

CONVENIENCE TRANSLATION INTO ENGLISH OF YEAR END FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

ADEL KALEMCİLİK TİCARET VE SANAYİ ANONİM ŞİRKETİ
CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2022 AND 31 DECEMBER 2021

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

	Note	Audited 2022	Audited 2021
Cash flow from operating activities		**140.195**	**41.003**
Net profit /(loss) for the period		**37.492**	**(12.698)**
Adjustments to reconcile net profit /(loss) for the period		**172.854**	**71.193**
Adjustments for depreciation and amortization expense	11,12	26.353	16.687
Adjustments for impairment loss/(reversal)		4.040	(1.988)
- Allowance for doubful receivables	*8*	*301*	*867*
- Adjustments for inventory impairment/(cancellation)	*10*	3.739	*(2.855)*
Adjustments for provisions		19.898	5.271
-Adjustments for employment termination benefits	14	*20.553*	*6.402*
- Adjustments for lawsuit and other provisions	13	*(655)*	*(1.131)*
Adjustments for dividends	19	*(81)*	*(83)*
Adjustments for interest income/expense		117.546	52.787
- Adjustments for interest income	*20*	*(35.513)*	*(13.811)*
- Adjustments for interest expense	*20*	*156.314*	*64.737*
- Rediscount on interest loss	19	-	1.861
- Rediscount on interest income	19	*(3.255)*	-
Adjustments for unrealized currency translations		7.039	-
Adjustments for fair value gains		646	136
Adjustments for tax incomes	21	(2.313)	(1.078)
Gain on sale of tangible and intangible assets		(274)	(539)
Changes in working capital		**(48.315)**	**(26.025)**
Decrease/(increase) in trade receivables		35.839	(35.800)
Decrease/(increase) in other receivables		262	(1.548)
Increase/(decrease) in inventory		(130.545)	28.638
Decrease/(increase) in prepaid expenses		2.256	(13.856)
Increase/(decrease) in trade payables		25.175	(2.318)
Increase/(decrease) in employment termination benefits		20.922	9
Decrease/(increase) in other payables		251	(1.074)
Increase in deferred revenue		3.886	2.471
Decreases/increases in others		(6.361)	(2.547)
- Increase/(decrease) in other assets		*(6.858)*	*11.203*
- Increase/(decrease) in other liabilities		*497*	*(13.750)*
Cash used in operating activities		**162.031**	**32.470**
Dividends		81	-
Employee termination benefits paid	14	(2.122)	(1.003)
Tax paid		(19.795)	9.536
Cash flow from investing activities		**(28.023)**	**(15.102)**
Proceeds from sale of property, plant and equipment		425	565
Acquisition of property, plant and equipment and intangible assets	11,12	(28.448)	(15.667)
Cash flow from financing activities		**(161.861)**	**35.430**
Proceeds from bank borrowings	7	518.734	805.350
Repayment of borrowings	7	(555.095)	(693.423)
Repayment of lease liabilities		(15.243)	(3.896)
Dividends paid	16	(15.002)	(30.004)
Interest paid	7	(130.873)	(54.394)
Interest received		34.001	11.797
Other cash inflow	20	1.617	-
Decrease /(increase) in cash and cash equivalents		**(49.689)**	**61.331**
Cash and cash equivalents at the beginning of the year	**4**	**340.546**	**279.215**
Cash and cash equivalents at the end of the year	**4**	**290.857**	**340.546**

Accompanying notes are an integral part of these financial statements.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 1 – Company's organizaton and nature of operations

Adel Kalemcilik Ticaret ve Sanayi A.Ş. ("Company") 's fields of activity are, respectively, the production of wooden wall pencils, colored pencils, toy products and other stationery equipment, the sale and export of finished products in the facilities, and importing all kinds of raw materials, semi-finished products and finished products, to buy and sell.

The company was established on 17 July 1967 and registered with the Istanbul Chamber of Industry(iso) and the istanbul chamber of commerce (ito) on the same date with the registration number 96078.

The registered address of the company's headquarters is as follows:

Fatih Sultan Mehmet Dist. Balkan St. No:58 Buyaka E Block
34771 Tepeüstü - Ümraniye/İstanbul

The Company is registered to the Capital Markets Board ("CMB") and its shares have been traded on Borsa Istanbul ("BIST") since 1996. As of 31 December 2022, the Company has 27.71% of its shares registered in the BIST. The shareholders holding the majority of the Company's shares and their share ratios are as follows:

	(%)
AG Anadolu Grubu Holding A.Ş.	56.89
Faber-Castell Aktiengesellschaft	15.40
Shares publicly held	27.71
	100.00

The company is controlled by AG Anadolu Grubu Holding A.Ş., its parent company. AG Anadolu Grubu Holding A.Ş. is controlled by AG Sınai Yatırım ve Yönetim A.Ş., and AG Sınai Yatırım ve Yönetim A.Ş. is a management company that ultimately manages, with equal representation of and by way of equal management by the Süleyman Kamil Yazıcı family and the Özilhan family, the affiliates of AG Anadolu Grubu Holding A.Ş.

The average number of employees of the Company as at 31 December 2022 is 383 (31 December 2021: 361).

As of 31 December 2022, the joint venture of the Company accounted for using the equity method and its shareholding ratios are as follows:

Company name	**Field of Activity**	**Country**	**(%)**
LLC Faber-Castell Anadolu	All types of stationery buying and selling products	Russia	50.00

LLC Faber-Castell Anadolu which is moscow-based joint venture registered in the Russia on 13 September 2011 was established to import and export, trade and distribute all types of stationery and office supplies, painting, art and hobby products, diversified toys.

The activities of LLC Faber-Castell Anadolu were terminated in 2019. But our company continues its operations in the russian market by exporting directly.

NOTE 2 – Basis of presentation of financial statements

2.1 Basis of preparation and presentation of financial statements

2.1.1 Statement of compliance with TFRS

The accompanying financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which was published in the Official Gazette No:28676 on June 13, 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards and interpretations ("TAS") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

In addition, the consolidated financial statements are presented in accordance with the specified format in "TFRS Taxonomy Announcement", issued on 15 April 2019 by the POA, and "the Financial Statements Examples and Guidelines for Use", which is published by the Capital Markets Board of Turkey.

These financial statements of the Company as of 31 December 2022 have been approved for issue by the Board of Directors ("BOD") on 28 February 2023. The owners of the Company and regulatories have the power to amend the consolidated financial statements after the issue in the General Assembly meeting of the Company.

2.1.2 Functional and reporting currency

The Company is based on the Turkish Commercial Code ("TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance of the Republic of Türkiye in keeping its accounting records and preparing its statutory financial statements. Investments valued by the equity method in foreign countries, have prepared their statutory financial statements in accordance with the laws and regulations applicable in the countries in which they operate. Financial statements of company have been prepared in Turkish lira on the basis of historical cost, excluding financial assets and liabilities that are expressed at their fair values. The financial statements have been prepared by reflecting the necessary adjustments and classifications in order to make the correct presentation in accordance with TMS/TFRS to the legal records prepared on the historical cost basis.

2.1.3 Adjustment of financial statements during periods of high inflation

On 20 January 2022, the Public Oversight Accounting and Auditing Standards Authority made a statement on the Implementation of Financial Reporting in High Inflation Economies within the Scope of Turkish Financial Reporting Standards, Financial Reporting Standard for Large and Medium Sized Enterprises. Accordingly, it is stated that businesses applying TFRS do not need to make any adjustments in their financial statements for 2021 within the scope of TAS 29 - Financial Reporting in High Inflation Economies ("TAS 29"). As of the preparation date of these consolidated financial statements, no new disclosure has been made by POA within the scope of TAS 29, and no inflation adjustment has been made in accordance with TAS 29 while preparing the consolidated financial statements as of 31 December 2022.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.1 Basis of preparation and presentation of financial statements (Continued)

2.1.4 Shares in affiliates and joint ventures

A partnership is a joint venture in which entities with joint control in an arrangement have rights to the net assets in the joint arrangement. Joint control is based on the control contract on an economic activity. This control is deemed to exist when the decisions of the relevant activities require the parties sharing the control to agree with the unanimity of votes.

The results and assets and liabilities of associates or joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sales, in which case it is accounted for in accordance with TFRS 5. Under the equity method, an investment in associate or a joint venture is initially recognized in the financial statement of financial position at cost and adjusted thereafter to recognize the Company's share of the porfit or loss and other comprehensive income of the associate or a joint venture.
When the Company's whare of losses of an associate or a joint venture exceeds the Company's interest in that associate or a joint venture (which includes any long term interests that, in substance, form part of the Company's net investment in the associate or a joint venture), the company discontinues recognizin its share of further losses. Additional losses are recognized only to the extent that the Comapny has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture

2.2 Significant accounting estimates and decisions

The summary of significant accounting policies applied during the preparation of the financial statements is as follows:

2.2.1 Revenue

The Company records revenue when fullfills performance obligation while transferring committed service or good to their customer. An asset is transferred when (or as) the control of an asset is transferred to the customer.

The Company records revenue accordance with the following 5 main principles:

• Determination of customer contracts
• Determination of performance obligation on contracts
• Determination of transaction fee on contracts
• Allocation of transaction price to performance obligation in contracts
• Revenue recognation when each performance obligation is fullfilled

Revenues are measured at the fair value of the amount of receivables collected or receivable. Estimated customer returns, discounts and provisions are deducted from this amount. The revenue is reflected in the financial statements over the transaction price. Except for the amounts collected on behalf of third parties, the transaction fee includes wooden wall pencils, colored pencils and copy pens, ballpoint pens, mechanical pencils and mini, liquid ink pens, felt-tip pens, crayons, watercolors, erasers, finger paints, excluding the amounts collected on behalf of third parties. It is the price he expects to deserve in return for the transfer of play dough, gouache paint, toys and other stationery products to the customer.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.1 Recording revenues (Continued)

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

2.2.2 Inventories

The inventories of the Company consist of raw materials, operating items, packaging items, semi-finished and finished items, stationery and toy items.

Inventories are stated at the lower of cost and net realizable value. Costs including some of the fixed and variable general production expenses are valued according to the method appropriate to the class of the inventories and mostly according to the weighted average cost method. Net realizable value represents the estimated selling price less all estimated cost of completion and costs necessary to maket he sales.

When the net realizable value of inventory is less then cost, the inventory is written down to the net realizable value and the expense is included in statement of profit or loss in the period the write-down or loss occured. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

2.2.3 Loans and borrowing cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs shall be recognized as an expense when incurred. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.4 Property, plant and equipment

Property, plant and equipment are carried with their cost after subtracting accumulated depreciation and impairment. Property, plant and equipment are depreciated principally on a straight-line basis.

Land is not depreciated as it is deemed to have an indefinite life. The estimated useful lives of assets are as follows:

	Useful lives
Land improvements	8 - 15
Buildings	5 - 50
Plant, machinery and equipment	3 - 20
Vehicles	3 - 12
Furniture and fixtures	1 - 50

Expenses for repair and maintenance of property, plant and equipment are normally charged to the statement of profit or loss. They are, however, capitalized and depreciated through the estimated useful life of the property, plant and equipment in exceptional cases if they result in an enlargement or substantial improvement of the respective assets.

2.2.5 Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the period in which it is incurred. Useful lives of intangible assets are determined as either finite or infinite. Intangible assets are amortized on a straight line basis over the estimated useful lives.
The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets with indefinite useful life formed in the financial statements in accordance with purchase method, are not subject to amortization and the carrying amounts of such intangibles are reviewed for impairment at least annually and whenever there is an indication of possible impairment.

An intangible asset is derecognized 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 derecognized. This difference is recognized in profit or loss when the asset is excluded from the statement of financial position.

	Useful lives
Rights	3-15
Research and development expenses	5
Other intangible assets	2-15

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.6 Impairment of assets

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2.2.7 Research and development expenses

Research expenses are recorded as expense when incurred. Project costs related to the development of new products or the testing and design of developed products are considered intangible assets if the project is commercially and technologically viable and the costs can be reliably determined. Other development expenses are recognized as expense when incurred. Development expenses recorded as expense in the previous period cannot be capitalized in the next period.

2.2.8 Financial instruments

Financial assets

Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Company classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss based on the characteristics of contractual cash flows. The Company reclassifies all financial assets effected from the change in the business model it uses for the management of financial assets. The reclassification of financial assets is applied prospectively from the reclassification date. In such cases, no adjustment is made to gains, losses (including any gains or losses of impairment) or interest previously recognized in the financial statements.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.8 Financial instruments (Continued)

Financial assets shown at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met:

(a) holding the financial asset under a business model that seeks to collect contractual cash flows;
(b) the contractual terms of the financial asset result in cash flows at specified dates that include only payments of principal and interest on the principal outstanding balance.

Interest income on financial assets shown at amortized cost is calculated using the effective interest method. This income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset except:

This income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset, except:

(a) financial assets that are credit-impaired when purchased or created. For such financial assets, the Company applies a credit-adjusted effective interest rate to the amortized cost of the financial asset, as of its initial recognition.
(b) financial assets that were not credit-impaired financial assets when purchased or created but subsequently become credit-impaired financial assets. For such financial assets, the Company applies the effective interest rate to the amortized cost of the asset in subsequent reporting periods.

If the contractual cash flows of a financial asset have been changed or otherwise restructured and such modification or restructuring does not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated and the restructuring gain or loss is recognized in profit or loss.

In the absence of reasonable expectations regarding the partial or total recovery of a financial asset's value, the Company deducts the financial asset from the financial statements by directly deducting its gross book value.

Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:
(a) holding the financial asset under a business model that aims to collect the contractual cash flows and sell the financial asset;
(b) the contractual terms of the financial asset result in cash flows at specified dates that include only payments of principal and interest on the principal outstanding balance.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.8 Financial instruments (Continued)

Gains or losses on a financial asset measured at fair value through other comprehensive income, other than impairment gains or losses and foreign exchange gains or losses. are determined until the financial asset is derecognised or reclassified, reflected in other comprehensive income. When a financial asset is reclassified. the total gain or loss previously recognized in other comprehensive income is subtracted from equity as a reclassification adjustment and recognized in profit or loss at the reclassification date. If a financial asset measured at fair value through other comprehensive income is reclassified, the entity recognizes the total gain or loss that it previously recognized in other comprehensive income. Interest calculated using the effective interest method is recognized as profit or loss.

At initial recognition, the Company may make an irreversible choice to present subsequent changes in the fair value of the investment in an equity instrument not held for trading in other comprehensive income.

Financial assets at fair value through profit or loss

Unless a financial asset is measured at amortized cost or at fair value through other comprehensive income, it is measured at fair value through profit or loss.
These financial assets, which constitute derivative products that have not been determined as an effective hedging instrument against financial risk, are also classified as financial assets at fair value through profit or loss. Related financial assets are shown with their fair values and gains and losses resulting from the valuation are recognized in the profit or loss statement.

Impairment

The Company makes a loss provision for expected credit losses related to financial assets carried at amortized cost and financial assets at fair value through other comprehensive income.

The Company applies the impairment provisions when recognizing and measuring the provision for loss for financial assets measured at fair value through other comprehensive income. However. the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

If the credit risk on a financial instrument has increased significantly since initial recognition. the entity measures the loss allowance for that financial instrument at an amount equal to lifetime expected credit losses at each reporting date.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.8 Financial instruments (Continued)

Unless at the reporting date, the credit risk of a financial instrument has not increased significantly since initial recognition, the Company's loss allowance for that instrument is equal to 12-month expected credit losses excluding financial assets that are credit-impaired at acquisition or origination, measures an amount. At the reporting date the entity
For financial assets that are credit-impaired when purchased or created. They recognize only the total changes in lifetime expected credit losses since initial recognition as a loss allowance.

The Company uses a simplified approach for trade receivables, contract assets and lease receivables, which are not significant financing elements, and calculates loss provisions always equal to lifetime expected credit losses.

Financial Liabilities

The Company measures the financial liability at its fair value when first recognizing it. In the initial measurement of liabilities other than those at fair value through profit or loss, transaction costs directly attributable to their acquisition or issuance are added to the fair value.

The company classifies all financial liabilities as measured at amortized cost at subsequent recognition, except for:

(a) Financial liabilities at fair value through profit or loss: These liabilities are measured at fair value at subsequent recognition, including derivatives.

(b) Financial liabilities arising if the transfer of the financial asset does not meet the requirements for derecognition or if the continuing relationship approach is applied: If the company continues to present an asset in the financial statements to the extent of its continuing relationship. It also reflects a related liability in the financial statements. The transferred asset and the associated liability are measured to reflect the rights and obligations that the entity continues to hold. The liability attached to the transferred asset is measured in the same manner as the net book value of the transferred asset.

(c) Contingent consideration recognized by the acquirer in a business combination to which IFRS 3 applies: After initial recognition, the fair value changes in such contingent consideration are measured through profit or loss.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.8 Financial instruments (Continued)

The Company does not reclassify any financial liabilities.

Recognition and derecognition of financial assets and liabilities

The company records financial assets and liabilities only if it is a party to the contract of financial instruments. The Company derecognises the financial asset when its contractual rights to cash flows from the financial asset expire or transfer the related financial asset and all the risks and rewards of ownership of that asset to another party. In cases where all the risks and rewards of ownership of the asset are not transferred to another party and the control of the asset is retained by the Company. the Company continues to account for its remaining share in the asset and the liabilities arising from and due to this asset. In the event that the Company retains all the risks and rewards of ownership of a transferred asset. the financial asset continues to be accounted for and a collateralized liability against the transferred financial asset is also recognized for the revenues obtained. The company derecognises the financial liability only if the obligation defined in the contract is eliminated canceled or expired.

2.2.9 Transactions in foreign currency

In the statutory accounts of the Company, transactions in foreign currencies (currencies other than Turkish lira) are translated into Turkish Lira at the rates of exchange ruling at the transaction dates. Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Gains and losses arising on settlement and translation of foreign currency items are included in the statements of income.

2.2.10 Earnings per share

Earnings/loss per share is the portion of the net profit or loss that accounts for the common share, which divided by the weighted average unit of common share. In Turkey, companies, can increase their capitals by the "bonus share" method that they distributed from the prior year profits. This type of "bonus share" distribution, is considered as issued share in the earnings per share calculations. Accordingly, weighted average share amount used in this calculations are computed by considering the prior effects of the distributed shares as well.

2.2.11 Events after the reporting period

It refers to events that occur in favor of or against the enterprise between the balance sheet date and the date of authorization for the publication of the balance sheet. In case there is new evidence of the existence of the said events as of the balance sheet date or if the related events occur after the balance sheet date, the company discloses the said issues in the related footnotes.

In case of occurrence of events requiring adjustment after the balance sheet date, the company adjusts the amounts included in the financial statements in accordance with this new situation.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.12 Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation.The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.
When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of receivable can be measured reliably.

2.2.13 Related parties

A related party is a person or entity that is related to the entity that prepares its financial statements (the reporting entity).

(a) Directly, or indirectly through one or more intermediaries, the party:
  (i) Controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  (ii) Has an interest in the entity that gives it significant influence over the entity; or
  (iii) Has joint control over the entity;
(b) The party is an associate of the entity;
(c) The party is a joint venture in which the entity is a venture;
(d) The party is a member of the key management personnel of the entity or its parent;
(e) The party is a close member of the family of any individual referred to in (a) or (d);
(f) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or;
(g) The party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Company calculates deferred tax liability for all taxable temporary differences related to its subsidiaries, if the offset time of taxable temporary differences could be controlled and the offset of taxable temporary differences is probable in a foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.15 Provision for retirement and severance pay

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Company. Such payments are considered as being part of defined retirement benefit plan as per Turkish Accounting Standard 19 (revised) "Employee Benefits" ("TAS 19"). The retirement benefit obligation recognised in the balance sheet represents the net present value of the total due to retirement of all employees. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

2.2.16 Statement of cash flow

In statement of cash flow, cash flows are classified according to operating, investment and finance activities. Cash flows from operating activities reflect cash flows generated from fast-moving consuming goods sales and rent income from trade centers of the Company. Cash flows from investment activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Company. Cash flows relating to finance activities express sources of financial activities and payment schedules of the Company.

2.2.17 Capital and dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

2.2.18 Netting/offset

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2.2.19 Trade receivables and provisions for doubtful trade receivables

Trade receivables resulting from the supply of a product to a buyer by the Company are shown net of unaccrued financial income. Trade receivables after unaccrued financial income are calculated by discounting the amounts to be obtained in the following periods of the receivables recorded from the original invoice value using the effective interest method. Short-term receivables with no specified interest rate are shown at cost, unless the effect of the original effective interest rate is significant. The Company allocates provision for doubtful receivables for related trade receivables. If there is an objective finding that collection is not possible.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.19 Trade receivables and provisions for doubtful trade receivables (Continued)

The amount of this provision is the difference between the book value of the receivable and the recoverable amount. The recoverable amount is the discounted value of all cash flows including the amounts that can be collected from guarantees and guarantees based on the original effective interest rate of the trade receivable.

Following the provision for doubtful receivables. If all or part of the amount is collected, the collected amount is deducted from the doubtful receivables provision and accounted for under other operating income.

2.2.20 Leases

As a lesse

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

The company considers the following conditions when assessing whether a contract transfers the right to control the use of an identified asset for a specified period of time:

a) the contract involved the use of an identified asset – this may be specified explicitly or implicitly.
b) the asset should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified.
c) the Company has the right to obtain substantially all of the economic benefits from the use of an asset throughout the period of use; and
d) the Company has the right to direct use of the asset. The Company concludes to have the right of use, when it is predetermined how and for what purpose the Company will use the asset. The Company has the right to direct use of asset if either:

After the above-mentioned assessments, the Company reflects a right-of-use asset and a lease liability in its financial statements at the actual commencement date of the lease.

a) The Company has the right to manage and change how and for what purpose the asset will be used throughout the period of use. or
b) Decisions on how and for what purpose the asset will be used are predetermined:

i. the Company has the right to operate (or to have the right to direct others to operate) the asset over its useful life and the lessor does not have the rights to change the terms to operate or;
ii. ii. the Company designed the asset (or the specific features) in a way that predetermines how and for what purpose it is used.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.20 Leases (Continued)

Right-of-use asset

The company measures the right-of-use asset at its cost at the actual commencement date of the lease. The cost of the right-of-use asset includes:

a) amount of the initial measurement of the lease liability;
b) any lease payments made at or before the commencement date, less any lease incentives received;
c) any initial direct costs incurred by the Company; and
d) to apply a cost model, the Company measure the right-of-use asset at cost:

When applying the company cost method. the right-of-use asset:

a) less any accumulated depreciation and any accumulated impairment losses; and
b) adjusted for any remeasurement of the lease liability.

The Company applies the straight-line method to depreciate the right of use. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the Company depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, The Company depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Company 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 Company measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company use the lessee's incremental borrowing rate.

At the commencement date, 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) the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
d) payments of penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminatethe lease.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.20 Leases (Continued)

After the commencement date, the Company measure 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,
or to reflect revised in- substance fixed lease payments.

Facilitating applications

Short-term lease contracts with a lease term of 12 months or less and contracts for information technology equipment leases (predominantly printers, laptop computers, mobile phones, etc.) determined by the Company as low value are considered within the scope of the exception recognized by TFRS 16 Leases Standard. Payments related to contracts continue to be recognized as expenses in the period in which they occur.

As a lessor

All leases for which the Company is a lessor are classified as operating leases. In operating leases, the leased assets are classified under investment properties, tangible fixed assets or other current assets in the balance sheet and the rental income obtained is reflected in the income statement in equal amounts during the lease period. Rental income is reflected to the income statement on a straight-line basis throughout the rental period.

Additions to right-of-use assets, depreciation expenses and book values are presented in Note 7 by underlying asset class.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.2 Significant accounting estimates and decisions (Continued)

2.2.21 Comparative information and restatement of prior period financial statements

Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current period consolidated financial statements and significant changes are explained. The financial statements of the Company include comparative financial information to enable the determination of the trends in the financial position and performance. The Company has prepared its financial position statement as of 31 December 2022 with the financial position statement prepared as of 31 December 2021; The profit or loss statement for the period 1 January- 31 December 2022, the profit or loss statement for the 1 January- 31 December 2021 accounting period, and the other comprehensive income statement for the 1 January- 31 December 2022 accounting period, the 1 January- 31 December 2021 accounting period, other comprehensive income statement, cash flow statement for the accounting period 1 January- 31 December 2022 and statements of changes in shareholders' equity are prepared comparatively with the related financial statements for the accounting period 1 January - 31 December 2021. In the statement of financial position prepared as of 31 December 2021, advances given in the amount of 12.400 TL in other assets were reclassified to prepaid expenses, advances received in other short-term liabilities amounting to 1.996 TL and income from future months amounting to 478 TL were reclassified to deferred income.

2.3 New and revised turkish financial reporting standards

a. Standards, amendments, and interpretations applicable as of 31 December 2022:

- **Amendment to TFRS 16, 'Leases' – Covid-19 related rent concessions Extension of the practical expedient (effective 1 April 2021);** As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the TASB published an amendment to TFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the TASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

- **A number of narrow-scope amendments to TFRS 3, TAS 16, TAS 37 and some annual improvements on TFRS 1, TFRS 9, TAS 41 and TFRS 16;** effective from annual periods beginning on or after 1 January 2022.

    - **Amendments to TFRS 3**, 'Business combinations' update a reference in TFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

    - **Amendments to TAS 16**, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.3 New and revised turkish financial reporting standards (Continued)

a. Standards, amendments, and interpretations applicable as of 31 December 2022: (Continued)

- **A number of narrow-scope amendments to TFRS 3, TAS 16, TAS 37 and some annual improvements on TFRS 1, TFRS 9, TAS 41 and TFRS 16;** effective from annual periods beginning on or after 1 January 2022.
  - **Amendments to TAS 37**, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

    Annual improvements make minor amendments to TFRS 1, 'First-time Adoption of TFRS', TFRS 9, 'Financial Instruments', TAS 41, 'Agriculture' and the Illustrative Examples accompanying TFRS 16, 'Leases'.

- **Narrow scope amendments to TAS 1, Practice statement 2 and TAS 8;** effective from annual periods beginning on or after 1 January 2023. The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

- **Amendment to TAS 12 – Deferred tax related to assets and liabilities arising from a single transaction;** effective from annual periods beginning on or after 1 January 2023. These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

- **Amendment to TFRS 16 – Leases on sale and leaseback;** effective from annual periods beginning on or after 1 January 2024. These amendments include requirements for sale and leaseback transactions in TFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.

- **Amendment to TAS 1 – Non current liabilities with covenants;** effective from annual periods beginning on or after 1 January 2024. These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

- **TFRS 17, 'Insurance Contracts', as amended in December 2021;** effective from annual periods beginning on or after 1 January 2023. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

NOTE 2 – Basis of presentation of financial statements (Continued)

2.4 Changes and errors in accounting estimates

Changes in accounting policies or accounting errors are applied retrospectively and the consolidated financial statements of the comparative period are restated. If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes are for the following periods, changes are applied both on the current and following years prospectively. Except for the subject mentioned in "Comparative Information and Restatement of Prior Period Financial Statements", the Company has not identified any significant accounting error or estimated changes in accounting policies in the current year

The nature and amount of a change in the accounting estimate that has an effect on the current period's operating result or is expected to have an effect on the following periods is disclosed in the footnotes of the financial statements, unless it is not possible to estimate the effect on future periods. There has been no change or error in the accounting estimates of the financial statements for the 31 December 2022 accounting period.

2.5 Financial statements of a joint venture operating in a foreign country

The financial statements of the joint venture operating in a foreign country have been prepared in accordance with the legislation in force in the country in which it operates and have been prepared by reflecting the necessary corrections and classifications in order to comply with the "Communiqué on the Principles of Financial Reporting in the Capital Markets".

The assets and liabilities of subsidiaries and joint ventures operating in foreign countries are translated at the rate of exchange ruling at the balance sheet date and the income statements of foreign subsidiaries and joint ventures are translated at average exchange rates. Differences that occur by the usage of closing and average exchange rates are followed under currency translation differences classified under equity.

2.6 Seasonality of activities

The company organizes a sales campaign for certain products at the beginning of the year. Afterwards, distributor fairs are held within the scope of the sale of the products produced in the first period of the year. In these fairs, checks, DDS and credit cards are received against the order amounts of the customers, and most of the orders are shipped in the first half of the year.

2.7 Significant accounting judgments, estimates and assumptions

Fair values of derivatives and other financial instruments

Derivatives are recognized initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Expected credit losses

Provision for doubtful receivables is accounted for using expected credit losses defined in TFRS 9 standard. Calculated using expected credit losses and excluding dealers subject to the Direct Debit System, taking into account the company's forecasts for the future, in addition to past experience.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 2 – Basis of presentation of financial statements (Continued)

2.8 Government incentives and grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to such grants, and that the grants will be received. They are recognized as income over the period to match them with the related costs that they are intended to compensate. Income relating to government grants is recognized as a deduction from the appropriate expense.

NOTE 3 – Segment reporting

Fields of activity of the Company established in Türkiye are, respectively, the production of wooden wall pencils, colored pencils, toy products and other stationery equipment, the sale and export of finished products in the facilities, and importing all kinds of raw materials, semi-finished products and finished products, to buy and sell.

The Company's field of activity, the nature and economic characteristics of the products, the production processes, the classification according to the risks of the customers and the methods used in the distribution of the products are similar. In addition, the organizational structure of the Company has been established in such a way that a single activity is managed instead of the Company being managed in separate divisions containing different activities. For these reasons, the Company's operations are considered as a single operating segment, and the Company's operating results, the determination of the resources to be allocated to these activities, and the examination of the performances of these activities are evaluated within this framework.

NOTE 4 – Cash and cash equivalents

	31 December 2022	31 December 2021
Demand deposit	3.350	3.989
Time deposit	285.746	332.008
Other cash equivalents	1.761	4.549
Cash and cash equivalents in the statement of cash flows	**290.857**	**340.546**
Interest income accruals	1.512	2.014
	292.369	**342.560**

The Company has no blocked deposits as of 31 December 2022 (31 December 2021: None).

As of 31 December 2022, the Company has reserved a portion of 2.656.889 USD equivalent to 49.661 TL of its bank deposits for the payments related to the purchases of raw materials and commercial goods to be made in the future.

NOTE 5 – Financial investments

	31 December 2022		31 December 2021	
	%	**TL**	**%**	**TL**
Ülkü Kırtasiye Ticaret ve Sanayi A.Ş.	7,67	4	7,67	234
		4		**234**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 6 – Investments accounted through equity method

As of 31 December 2022 and 31 December 2021, the joint venture of the Company is as follows:

	31 December 2022	Pay (%)	31 December 2021	Pay (%)
LLC Faber-Castell Anadolu	-	50,00	-	50,00
	-		**-**	

31 December 2022	Assets	Liabilities	Net sales	Profit/(loss)
Faber-Castell Anadolu LLC	779	2.027	-	(167)
31 December 2021	**Assets**	**Liabilities**	**Net sales**	**Profit/(loss)**
Faber-Castell Anadolu LLC	774	1.331	-	(106)

NOTE 7 – Liabilities and right of use assets

31 December 2022	Interest rate %	Balance
Short term borrowings		
TL loans (*)	14,6 - 26,57	486.890
		486.890

(*) As of 31 December 2022, the interest accrual calculated for the short-term loans of the Company has been classified under the related short-term bank loans.

31 December 2022	Interest rate %	Balance
Short-term portions of long-term borrowings		
Short-term portions of long-term finance leases	8,00	137
Short-term portions of lease liabilities of long-term right-of-use assets	14,89 - 21,10	9.745
Short-term portions of long-term loans (*)	16,50	7.317
		17.199

(*) As of 31 December 2022, the interest accrual calculated for the short-term loans of the Company has been classified under the related short-term bank loans.

31 December 2022	Interest rate %	Balance
Long term borrowings		
TL Loans	16,50	7.000
Long-term lease liabilities	8,00	9
Lease liabilities of long-term right-of-use assets	14,89 - 21,10	21.251
		28.260

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 7 – Liabilities and right of use assets (Continued)

31 December 2021	**Interest rate %**	**Balance**
Short term borrowings		
TL loans (*)	18,15 - 19,5	303.390
		303.390

(*) As of 31 December 2022, the interest accrual calculated for the short-term loans of the Company has been classified under the related short-term bank loans.

31 December 2021	**Interest rate %**	**Balance**
Short-term portions of long-term borrowings		
Short-term portions of long-term finance leases (*)	8,00	96
Short-term portions of lease liabilities of long-term right-of-use assets	14,89	2.757
Short-term portions of long-term loans (*)	9,7 - 22,8	192.339
		195.192

(*) As of 31 December 2022, the interest accrual calculated for the short-term loans of the Company has been classified under the related short-term bank loans.

31 December 2021	**Interest rate %**	**Balance**
Long term borrowings		
TL Loans	16,50	14.000
Long term lease liabilities	8,00	107
		14.107

As of 31 December 2022 and 31 December 2021, the maturity details of the Company's long-term loans and financial lease borrowings are given below.

31 December 2022	**Total liabilities**
1-2 years	24.760
2-3 years	3.500
	28.260

31 December 2021	**Total liabilities**
1-2 years	7.107
2-3 years	7.000
	14.107

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 7 – Liabilities and right of use assets (Continued)

The movement table of bank loans is as follows:

	2022	2021
1 January	**509.729**	**388.035**
Interest expense	151.673	64.164
Interest paid	(130.873)	(54.397)
Cash inflows from borrowing	518.734	805.350
Cash outflows related to debt payments	(555.095)	(693.423)
Currency translation differences	7.039	-
31 December	**501.207**	**509.729**

Movement table of lease payables is as follows:

	2022	2021
1 January	**2.960**	**6.219**
Interest expense	4.641	575
Interest paid	(4)	(6)
Currency translation differences	(24)	68
Increase in lease liability for the period	38.812	-
Cash outflows related to lease payments for the period	(15.243)	(3.896)
31 December	**31.142**	**2.960**

The movement table of the right-of-use assets of the Company as of 31 December 2022 and 31 December 2021 is given below.

Right of use assets	Vehicles	Buildings	Total
As of 1 January 2022,	2.223	-	2.223
Additions	17.234	21.578	38.812
Current depreciation expense	(3.848)	(7.193)	(11.041)
As of 31 December 2022,	**15.609**	**14.385**	**29.994**

Right of use assets	Vehicles	Buildings	Total
As of 1 January 2021,	5.371	-	5.371
Current depreciation expense	(3.148)	-	(3.148)
As of 31 December 2021,	**2.223**	**-**	**2.223**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 8 – Trade receivables and payables

As of 31 December 2022 and 2021, the Company's trade receivables are as follows:

Trade Receivables	**31 December 2022**	**31 December 2021**
Trade receivables from related parties (Note 23)	10.469	18.468
Trade receivables from third parties	45.959	74.101
	56.428	**92.569**

Trade receivables from third parties	**31 December 2022**	**31 December 2021**
Cheques and notes receivables	690	15.698
Trade receivables	52.120	67.721
Interest income on credit sales	(995)	(3.763)
Expected credit loss (-)	(5.856)	(5.555)
	45.959	**74.101**

As of 31 December 2022 and 2021, the movement table for doubtful trade receivables is as follows:

	2022	**2021**
1 January	**5.555**	**4.688**
Additions	301	1.270
Reversal of provision (including collections)	-	(403)
31 December	**5.856**	**5.555**

As of 31 December 2022 and 2021, the Company's trade payables are as follows:

Trade payables	**31 December 2022**	**31 December 2021**
Trade payables to related parties (Note 23)	695	982
Trade payables to third parties	57.120	34.913
	57.815	**35.895**

Trade payables to third parties	**31 December 2022**	**31 December 2021**
Suppliers	57.743	35.475
Other trade payables	15	-
Interest expenses on credit purhase (-)	(638)	(562)
	57.120	**34.913**

NOTE 9 – Other receivables and payables

As of 31 December 2022 and 2021, the Company's other receivables are as follows:

Other receivables	**31 December 2022**	**31 December 2021**
Other receivables from related parties (Note 23)	134	-
Other receivables from third parties	1.712	2.108
	1.846	**2.108**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 9 – Other receivables and payables (Continued)

As of 31 December 2022 and 2021, the Company's other receivables are as follows:

Other receivables from third parties	**31 December 2022**	**31 December 2021**
Deposits and guarantees given	707	940
Receivables from employees	260	304
Other miscellaneous receivables	745	864
	1.712	**2.108**

As of 31 December 2022 and 2021, the Company's other payables are as follows:

Other payables	**31 December 2022**	**31 December 2021**
Other payables to third parties	1.582	1.331
	1.582	**1.331**

Other payables to third parties	**31 December 2022**	**31 December 2021**
Taxes, fees and deductions payables	1.339	1.086
Other	243	245
	1.582	**1.331**

Employee benefit liabilities	**31 December 2022**	**31 December 2021**
Due to employees	11.400	981
Social security premiums payable	6.084	1.690
Other withholding tax liabilities	10.152	4.043
	27.636	**6.714**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 10 – Inventories

	31 December 2022	31 December 2021
Raw materials	85.316	37.101
Semi-finished goods	35.040	6.986
Finished goods	60.128	16.482
Trade goods	63.744	54.159
Other inventories	2.119	1.074
Impairment of inventories (*)	(5.573)	(1.834)
	240.774	**113.968**

(*) The inventory, which was allocated for inventory impairment amounting to 4.082 TL was destroyed.

As of 31 December 2022 and 2021, the movement table for the provision for inventory impairment, as a result of the assessment of the recoverability of inventories, is as follows:

	2022	2021
1 January	**1.834**	**4.689**
Provisions no longer required (-)	(4.082)	(4.689)
Addition	7.821	1.834
31 December	**5.573**	**1.834**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 11 – Property, plant and equipment

	Lands	Land improvements and buildings	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Construction in progress	Total
As of 1 January 2022,								
Cost	1.838	2.122	62.926	76.626	1.364	27.486	8.503	180.865
Accumulated depreciation	-	(1.417)	(9.249)	(48.732)	(1.307)	(21.045)	-	(81.750)
Net book value	**1.838**	**705**	**53.677**	**27.894**	**57**	**6.441**	**8.503**	**99.115**
Opening balance	**1.838**	**705**	**53.677**	**27.894**	**57**	**6.441**	**8.503**	**99.115**
Additions	-	-	1.351	8.366	-	3.732	10.333	23.782
Disposal cost	-	-	(550)	(354)	-	(453)	-	(1.357)
Disposal depreciation	-	-	550	321	-	351	-	1.222
Transfers	-	-	-	311	-	-	(4.039)	(3.728)
Depreciation (*)	-	(236)	(2.087)	(5.667)	(35)	(2.644)	-	(10.669)
Closing balance	**1.838**	**469**	**52.941**	**30.871**	**22**	**7.427**	**14.797**	**108.365**
As of 31 December 2022,								
Cost	1.838	2.122	63.727	84.949	1.364	30.765	14.797	199.562
Accumulated depreciation	-	(1.653)	(10.786)	(54.078)	(1.342)	(23.338)	-	(91.197)
Net book value	**1.838**	**469**	**52.941**	**30.871**	**22**	**7.427**	**14.797**	**108.365**

(*) 7.173 TL of depreciation expenses is included in the cost of goods sold, 558 TL is included in general administrative expenses, 265 TL is included in research and development expenses, and 2.673 TL is included in marketing, sales and distribution expenses.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 11 – Property, plant and equipment (Continued)

	Lands	Land improvements and buildings	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Construction in progress	Total
As of 1 January 2021,								
Cost	1.848	2.122	62.926	73.768	1.364	31.851	5.157	179.036
Accumulated depreciation	-	(1.181)	(7.862)	(43.147)	(1.270)	(24.802)	-	(78.262)
Net book value	**1.848**	**941**	**55.064**	**30.621**	**94**	**7.049**	**5.157**	**100.774**
Opening balance	**1.848**	**941**	**55.064**	**30.621**	**94**	**7.049**	**5.157**	**100.774**
Additions	-	-	-	2.807	-	1.995	5.975	10.777
Disposal cost	(10)	-	-	-	-	(6.360)	-	(6.370)
Disposal depreciation	-	-	-	-	-	6.344	-	6.344
Transfers	-	-	-	51	-	-	(2.629)	(2.578)
Depreciation (*)	-	(236)	(1.387)	(5.585)	(37)	(2.587)	-	(9.832)
Closing balance	**1.838**	**705**	**53.677**	**27.894**	**57**	**6.441**	**8.503**	**99.115**
As of 31 December 2021,								
Cost	1.838	2.122	62.926	76.626	1.364	27.486	8.503	180.865
Accumulated depreciation	-	(1.417)	(9.249)	(48.732)	(1.307)	(21.045)	-	(81.750)
Net book value	**1.838**	**705**	**53.677**	**27.894**	**57**	**6.441**	**8.503**	**99.115**

(*) 6.432 TL of depreciation expenses is included in the cost of goods sold, 463 TL is included in general administrative expenses, 268 TL is included in research and development expenses, and 2.669 TL is included in marketing, sales and distribution expenses.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 12 – Intangible assets

Intangible assets include computer software, rights and development costs.

	Rights	Developments	License agreements	Other intangible assets	Total
As of 1 January 2022,					
Cost	319	3.022	25.614	2.671	31.626
Accumulated amortizations	(223)	(745)	(18.017)	(892)	(19.877)
Net book value	**96**	**2.277**	**7.597**	**1.779**	**11.749**
Opening balance	**96**	**2.277**	**7.597**	**1.779**	**11.749**
					-
Additions	-	226	4.440	-	4.666
Disposal cost	-	-	(21)	-	(21)
Disposal depreciation	-	-	5	-	5
Transfers	-	1.347	2.381	-	3.728
Depreciation (*)	(44)	(764)	(3.265)	(570)	(4.643)
Closing balance	**52**	**3.086**	**11.137**	**1.209**	**15.484**
As of 31 December 2022,					
Cost	319	4.595	32.419	2.671	40.004
Accumulated amortizations	(267)	(1.509)	(21.282)	(1.462)	(24.520)
Net book value	**52**	**3.086**	**11.137**	**1.209**	**15.484**

	Rights	Developments	License agreements	Other intangible assets	Total
As of 1 January 2021,					
Cost	314	1.956	20.476	1.412	24.158
Accumulated amortizations	(179)	(239)	(15.310)	(442)	(16.170)
Net book value	**135**	**1.717**	**5.166**	**970**	**7.988**
Opening balance	**135**	**1.717**	**5.166**	**970**	**7.988**
					-
Additions	5	297	3.844	744	4.890
Transfers	-	770	1.293	515	2.578
Amortizations (*)	(44)	(505)	(2.707)	(451)	(3.707)
Closing balance	**96**	**2.279**	**7.596**	**1.778**	**11.749**
As of 31 December 2021,					
Cost	319	3.022	25.614	2.671	31.626
Accumulated amortizations	(223)	(745)	(18.017)	(892)	(19.877)
Net book value	**96**	**2.277**	**7.597**	**1.779**	**11.749**

(*) For the current period, 1.298 TL of the amortization is included in the cost of goods sold, 404 TL is included in general administrative expenses, 596 TL is included in research and development expenses, and 2.345 TL is included in marketing. sales and distribution expenses, (December 31. 2021: For the current period. TL 909 of the amortization is based on cost of goods sold, 429 TL on general administrative expenses, 343 TL on research and development expenses, and 2.026 TL on marketing, sales and distribution, included in their expenses.)

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 13 – Provisions, contingent assets and liabilities

	31 December 2022	31 December 2021
Provisions for lawsuits	792	1.446
	792	**1.446**

24 employee of the Company filed a lawsuit against the Company for the cancellation of the employment contract, reemployment and other compensation claims and 792 TL, which was calculated as a result of the evaluations of the lawyers based on the relevant lawsuits, was set aside for lawsuit. The provision of 655 TL for the current period is included in other income from main activities.

	2022	2021
As of 1 January,	**1.446**	**2.577**
Provisions no longer required (-)	(654)	(1.131)
As of 31 December,	**792**	**1.446**

Contingent liabilities and contingent assets

Due to the inability of Adel Kalemcilik Ticaret ve Sanayi A.Ş. to collect the 60 TL receivable arising from the current account relationship with its customer, Istanbul 18th Enforcement Directorate 2012/20785E and 2012/18797E and Kartal 1st Enforcement Directorate with file number 2012/6142E. enforcement proceedings were made and the sale of the seized properties was requested on 7 October 2013. The appraisal report has been notified and the sale process of the immovable is in progress.

Adel Kalemcilik Ticaret ve Sanayi A.Ş. could not collect its receivable of 594 TL arising from its current account relationship with its customer. For this reason, enforcement proceedings were initiated with the file numbers 2014/14137E, 2014/15246E, 2014/16896E and 2015/574E opened within the part of Izmir 2nd, 8th, 10th and 14th Enforcement Directorate, and the payment was made by proceeding with the lien specific to the commercial bills about the debtor company. Dept enforcement proceedings have been issued. Investigations are continuing for the collection of the receivable. There are commercial lawsuits filed against Adel Kalemcilik Ticaret ve Sanayi A.Ş. The total amount paid due to lawsuits is 879 TL. As of 31 December 2022, the provisions have been made for the entire relevant amount. The Company has objected to these lawsuits and the lawsuits are continuing.

With the file number 2016/12354 E (New Basis: 2021/14645 E.) opened within the body of the 17th Executive Directorate of Istanbul Anatolia, due to the failure of Adel Kalemcilik Ticaret ve Sanayi A. A lawsuit has been filed and a provision has been made for the entire amount in question. The main follow-up has been started and answers are awaited within the scope of the general inquiry.

Due to the inability of Adel Kalemcilik Ticaret ve Sanayi A.Ş. to collect 361 TL of its receivables arising from the current account relationship with its customer, a credit accounting has been registered to the bankruptcy desk with the file number 2017/32 to the Istanbul Anatolian 3rd Bankruptcy Directorate. The provisions have been made for the entire relevant amount.

Deposits and guarantees given	31 December 2022	31 December 2021
Letters of credit	32.968	-
Guarantees letter	25.483	31.751

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 13 – Provisions, contingent assets and liabilities (Continued)

Deposits and guarantees given (Continued)

As of 31 December 2022 and 31 December 2021, the tables regarding the Company's collateral/pledge/mortgage ("CPM") position are as follows:

31 December 2022

	Letter of guarantees, pledge and mortgages provided by the Company	**TL equivalents**	**EUR**	**TL**
A.	Total amount of GPMs given on behalf of the Company's legal personality	25.483	-	25.483
B.	Total amount of GPMs given in favor of subsidiaries included in full consolidation	-	-	-
C.	Total amount of GPMs given by the Company for the liabilities of 3rd parties in order to run ordinary course of business	-	-	-
D.	Total amount of other GPM's	-	-	-
	i. Total amount of GPMs given in favor of the parent Company	-	-	-
	ii. Total amount of GPMs given in favor of other group companies not in the scope of B and C above	-	-	-
	iii. Total amount of GPMs given in favor of third party companies not in the scope of C above	-	-	-
		25.483	**-**	**25.483**

31 December 2021

	Letter of guarantees, pledge and mortgages provided by the Company	**TL equivalents**	**EUR**	**TL**
A.	Total amount of GPMs given on behalf of the Company's legal personality	31.751	1.066	16.102
B.	Total amount of GPMs given in favor of subsidiaries included in full consolidation			
C.	Total amount of GPMs given by the Company for the liabilities of 3rd parties in order to run ordinary course of business	-	-	-
D.	Total amount of other GPM's			
	i. Total amount of GPMs given in favor of the parent Company			
	ii. Total amount of GPMs given in favor of other group companies not in the scope of B and C above	-	-	-
	iii. Total amount of GPMs given in favor of third party companies not in the scope of C above			
		31.751	**1.066**	**16.102**

The ratio of other CPMs given by the company to the equity of the Company is 0% as of 31 December 2022 (31 December 2021: 0%).

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 14 – Employee benefits

Short term employee benefits	**31 December 2022**	**31 December 2021**
Premium accruals	3.256	1.002
Provisions for unused vacations	931	868
	4.187	**1.870**

Long term employee benefits	**31 December 2022**	**31 December 2021**
Provisons for employee termination benefits	37.939	14.573
	37.939	**14.573**

The movement table of unused vacation accruals as of 31 December 2022 and 2021 is as follows:

	2022	**2021**
As of 1 January,	**868**	**673**
Charge for the period	63	195
As of 31 December,	**931**	**868**

Provisions for employee termination benefits

Pursuant to the provisions of the Labor Law in force, employees whose employment contracts are terminated to qualify for severance pay are obliged to pay the legal severance pay to which they are entitled. In addition, in accordance with the provisions of the Social Security Law No. 506, dated March 6, 1981, numbered 2422, and dated August 25, 1999, numbered 4447 and the Amended Article 60 of the Social Security Law, which is still in effect, there is an obligation to pay the legal severance indemnity to those who are entitled to leave the job by receiving severance pay. Some transitional provisions related to pre-retirement service conditions were removed from the Law with the amendment of the relevant law on 23 May 2002.

As of 31 December 2022, severance pay to be paid is subject to a monthly ceiling of TRY 15.371,40.(31 December 2021: TRY 10.848,59). The maximum amount of TRY 19,982.83 effective as of 1 January 2023 has been taken into account in calculating the severance pay provision of the company (31 December 2021: TRY 10,848.59 effective as of 1 January 2022). Actuarial losses and gains are recognized in profit or loss as the effect on the financial statements is immaterial.

Severance pay liability is not legally subject to any funding. The severance pay provision is calculated by estimating the present value of the future probable obligation of the company arising from the retirement of its employees. TAS 19 ("Employee Benefits") requires the company's liabilities to be developed using actuarial valuation methods within the scope of defined benefit plans. Accordingly, the actuarial assumptions used in the calculation of total liabilities are as follows:

The actuarial assumptions used in the calculation of total liabilities are given below. Actuarial loss/(gain) is accounted for under "Remeasurement Gains/Losses of Defined Benefit Plans" in the statement of comprehensive income.

(Amounts are expressed in thousands of Turkish lira (“TL”) unless otherwise stated.)

NOTE 14 – Employee benefits (Continued)

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 the effects of future inflation. Therefore, the provisions in the accompanying financial statements as of 31 December 2022 are calculated by estimating the present value of the future probable obligation arising from the retirement of the employees. Provisions at the report date are calculated using the real discount rate of approximately 0,49% (31 December 2021: 4,35%) based on the assumptions of 10,08% annual inflation (31 December 2021: 15,00%) and 0.49% discount rate. The severance payments are not made for those who leave the job with his/her wish; estimated rate related to these severance pay amounts that will remain in the Company's account is considered. The Probability of retirement not leaving until retirement is 92,73% as of 31 December 2022 (31 December 2021: 95,08%)

	2022	2021
As of 1 January,	**14.573**	**9.726**
Service cost	17.603	5.597
Interest cost	633	403
Severance pay paid	(2.122)	(1.003)
Actuarial loss /(gain)	7.251	(150)
As of 31 December,	**37.938**	**14.573**

	31 December 2022	31 December 2021
Discount rate (%)	0,49	4,35
Turnover rate used in retirement probability calculation (%)	92,73	95,08

NOTE 15 – Other assets and liabilities

Short-term prepaid expenses	31 December 2022	31 December 2021
Advances given	8.500	12.400
Prepaid expenses for the next months	3.051	2.941
	11.551	**15.341**

Current tax assets	31 December 2022	31 December 2021
Prepaid taxes and funds	24.499	4.704
	24.499	**4.704**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 15 – Other assets and liabilities (Continued)

Other current assets	**31 December 2022**	**31 December 2021**
Deffered vat	14.655	8.030
Advances to personnel	236	-
Work advance	24	10
Other miscellaneous current assets	102	616
	15.017	**8.656**

Long-term prepaid expenses	**31 December 2022**	**31 December 2021**
Prepaid expenses for future years	2.838	1.304
	2.838	**1.304**

Deffered income	**31 December 2022**	**31 December 2021**
Advances received	5.471	1.998
Short-term deferred income	889	476
	6.360	**2.474**

NOTE 16 – Capital, reserves and other equity items

Equity

The shareholders of the Company and their shares in the capital are given below.

	31 December 2022		**31 December 2021**	
	% Share	**TRY**	**% Share**	**TRY**
AG Anadolu Grubu Holding A.Ş.	56,89	13.439	56,89	13.439
Faber - Castell Aktiengesellschaft	15,40	3.638	15,40	3.638
Shares publicly held	27,71	6.548	27,71	6.548
Paid in capital	**100,00**	**23.625**	**100,00**	**23.625**
Inflation adjustment to share capital		1.584		1.584
Total capital		**25.209**		**25.209**

Inflation adjustment to share capital represent the effect of restating cash additions to paid-in capital with year-end purchasing power.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 16 – Capital, reserves and other equity items (Continued)

Number of shares and share groups and privileges:

3.637.941 shares of the Company, amounting to 3.638 TL, are registered in the name of the holder and 19.987.059 shares, amounting to 19.987 TL, are bearer share certificates in accordance with the Foreign Capital Legislation. There are no privileges granted to shareholders in the election of the Board of Directors.

Restricted reserves

The legal reserves consist of first and second legal reserves in accordance with the TCC. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Company's restated share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company's restated share capital. Under TCC, the legal reserves are only available for netting off losses unless they exceed 50% of the historical paid-in share capital otherwise they are not allowed to be used for other purposes. As a result of the sale of the immovable and participation shares evaluated within the scope of Article 5/e of the Corporate Tax Law No. 5520, 75% of the sales profit has been classified as "Profit from the sale of real estate and participation shares".

	31 December 2022	31 December 2021
Legal reserves	26.725	25.225
Real estate and subsidiary shares sales profit	990	7.330
	27.715	**32.555**

Retained Earnings

Publicly listed companies distribute dividends in accordance with the requirements of CMB as explained below:

	31 December 2022	31 December 2021
Extraordinary reserves	82.625	99.127
Other retained earnigs /(loss)	(27.049)	(20.691)
	55.576	**78.436**

Dividend distribution

Based on the CMB decision numbered 7/242 taken on February 25, 2005; distributable profit -calculated upon the regulations of CMB related with the dividend distribution- shall be fully distributed if the amount is adequate to be provided by the distributable profits with respect to the statutory books, otherwise, all of the net distributable amount in the statutory books shall be distributed. No profit distribution shall be made in the case of tax loss is met in either local books or the financial statements prepared in accordance with CMB regulations.

In accordance with the CMB decision dated January 27, 2010, it is decided to remove the obligation related with the minimum dividend distribution rate for publicly traded companies.

Inflation adjustment to shareholders' equity can only be netted-off against prior years' losses and used as an internal source for capital increase where extraordinary reserves can be netted-off against prior years' loss and used in the distribution of bonus shares and dividends to shareholders. In case inflation adjustment to issued capital is used as dividend distribution in cash, it is subject to corporation tax.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 16 – Capital, reserves and other equity items (Continued)

Dividend distribution (Continued)

The distributable profit for the year 2022 is 33.491 TL in the legal records of the Company, and the total amount of other resources that can be subject to profit distribution without incurring additional corporate tax charge is 107.316 TL.

In accordance with the Ordinary General Assembly held on 27 April 2022 as there is no net distributable period profit according to the legal records in the profit distribution table prepared within the scope of the Capital Markets Board Dividend Guide for the operating year of 2021, the other source foreseen to be distributed is the gross of 15.002 TL from the previous years' profits for each share with a nominal value of 1 TL, at a gross rate of 63,5% and 1 TL in the amount of 0,635 TL. As of 28 September 2022, it was decided to distribute in cash at a net rate of 57,15%, amounting to TL 0,5715 for each share with a nominal value and was completed on 28 September 2022.

NOTE 17 – Revenue and cost of sales

	1 January - 31 December 2022	1 January - 31 December 2021
Domestic sales	1.036.701	541.628
Foreign sales	65.498	30.065
Sales discounts (-)	(206.926)	(85.538)
Net sales	**895.273**	**486.155**
Cost of sales (-)	**(534.820)**	**(332.290)**
Gross profit	**360.453**	**153.865**

The breakdown of the cost of sales by periods is as follows:

	1 January - 31 December 2022	1 January - 31 December 2021
Direct material cost	273.372	142.963
General production expenses	72.178	24.895
Direct labour costs	62.985	28.072
Depreciation and amortization expenses	8.471	7.341
Provision for inventories	7.821	1.834
Change in semi-finished goods	(28.054)	3.169
Change in finished goods	(47.728)	18.004
Cost of products sold	**349.045**	**226.278**
Cost of goods sold	185.775	106.012
Cost of sales	**534.820**	**332.290**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 18 – Expenses by natures

The operating expenses of the Company are as follows.

	1 January - 31 December 2022	1 January - 31 December 2021
Raw materials, supplies and merchandise	383.365	270.149
Personnel expenses	195.927	87.724
Domestic sales expenses	23.357	13.539
Depreciation and amortization expenses	26.353	16.687
Advertising expenses	9.363	5.540
Utilization expenses	22.747	3.937
Business and services	21.943	10.765
Informaiton systems expenses	9.072	5.510
Other expenses	60.861	32.723
	752.988	**446.574**

By nature expenses include cost of sales, research and development expenses, marketing, selling and distribution expenses and general administrative expenses.

	1 January - 31 December 2022	1 January - 31 December 2021
Cost of sales	534.820	332.290
Research and development expenses	4.015	1.334
Marketing, selling and distribution expenses	138.765	73.567
General administration expenses	75.388	39.383
	752.988	**446.574**

The distribution of personnel expenses in research and development expenses, cost of sales, general administrative expenses and marketing, selling and distribution expenses is as follows:

Personnel expenses	**2022**	**2021**
Cost of sales	94.891	38.583
Marketing, selling and distribution expenses	52.016	23.885
General administrative expenses	45.992	24.533
Research and development expenses	3.028	723
	195.927	**87.724**

Research and development expenses

	2022	**2021**
Personnel expenses	3.028	723
Depreciation and amortization expenses	861	611
Other expenses	126	-
	4.015	**1.334**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 18 – Expenses by natures (Continued)

Marketing sales distrubution expenses

	2022	2021
Personnel expenses	52.016	23.885
Domestic sales expenses	21.967	11.273
Depreciation and amortization expenses	16.059	7.843
Advertising expenses	9.359	5.540
License expenses	9.530	5.652
Rent expenses	139	1.607
Business and services	5.875	4.500
Other expenses	23.820	13.267
	138.765	**73.567**

General administrative expenses

	2022	2021
Personnel expenses	45.992	24.533
Business and services	15.040	7.914
Depreciation and amortization expenses	962	892
Other expenses	13.394	6.044
	75.388	**39.383**

NOTE 19 – Other operating and investment activities income and expenses

	1 January - 31 December 2022	1 January - 31 December 2021
Other income from main operations		
Rent income	1.099	-
Currency translation income	8.304	2.033
Unearned finance income from credit sales	3.255	-
Provision income from litigation (Note: 13)	655	1.131
Insurance income	556	3
Cancellation of doubtful trade receivable provision (Note:8)	-	403
Other	2.684	496
	16.553	**4.066**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 19 – Other operating and investment activities income and expenses (Continued)

	1 January - 31 December 2022	1 January - 31 December 2021
Other operating expense		
Currency translation expense	4.725	1.695
Donation expenses	3.300	-
Provisions for doubtful trade receivables (Not:8)	301	1.270
Deferred finance expense arising from credit purchases	-	1.861
Other	2.248	1.671
	10.574	**6.497**

Other incomes of the Company from its investment activities are as follows:

	1 January - 31 December 2022	1 January - 31 December 2021
Income (expenses) from investment activities		
Dividend income from subsidiaries	81	83
Real estate sales profit	-	472
Profit on sale of other property, plant and equipment, net	274	67
	355	**622**

NOTE 20 – Finance income and expenses

Finance income	1 January - 31 December 2022	1 January - 31 December 2021
Interest income	25.045	13.811
Foreign exchange income	12.839	106
Income on hedge	1.617	-
Income on currency-protected interest	10.468	-
	49.969	**13.917**

Finance expenses	1 January - 31 December 2022	1 January - 31 December 2021
Interest expenses	156.314	64.737
Foreign exchange expenses	56	325
Expenses on hedge	7.039	-
Other	-	403
	163.409	**65.465**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 21- Income taxes

	1 January - 31 December 2022	1 January - 31 December 2021
Current period statutory tax provision (-)	(497)	(43)
Deferred tax income	2.810	1.121
Total deferred tax income, net	**2.313**	**1.078**

The reconciliation of the period tax expense with the profit for the period is as follows:

	2022	2021
Profit / (loss) before tax	**35.179**	**(13.776)**
Tax rate	%23	%25
Calcuulated tax expenses	(8.091)	3.444
Non tax deductible expenses	(4.615)	(2.257)
Investment allowances	5.835	-
Research and development allowances	8.169	-
Tax exempt income	760	-
Other	255	(109)
Tax income	**2.313**	**1.078**

	31 December 2022	31 December 2021
Period income tax provision	(497)	(43)
Prepaid tax expenses (-)	24.499	4.747
Profit for the period tax (liability)/receivable, net	**24.002**	**4.704**

	Total temporary differences		Deferred tax	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Adjustments to tangible and intangible assets	(20.240)	(18.178)	(4.048)	(3.636)
Adjustments related to provision for severance pay	37.939	14.573	7.588	2.915
Fixes on unearned futures trading	623	2.406	125	553
Adjustments related to royalty expense provision	380	-	76	-
Adjustments to carry forward financial loss	-	979	-	196
Adjustments for R&D discount	-	11.871	-	2.374
Adjustments related to investment incentive discount	-	4.457	-	891
Adjustments related to doubtful receivable provision	3.167	2.910	633	669
Adjustments for unused vacation provision	931	867	186	199
Adjustments to the provision for inventory impairment	11.147	1.834	2.229	422
Adjustments for litigation	792	1.446	158	333
Adjustments for promotional materials	2.300	1.876	460	432
Adjustments for derivative instruments	4.731	(19.425)	946	(4.466)
Adjustments regarding the accrual of incentive premiums	4.254	1.002	851	231
Other	829	428	166	108
Deferred tax asset/(liability)-,net	**46.853**	**7.046**	**9.370**	**1.221**

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 21- Income taxes (Continued)

	2022	2021
As of 1 January	**1.221**	**3.966**
Deferred tax revenue	2.810	1.121
Associated with other comprehensive income statement	5.339	(3.866)
31 December	**9.370**	**1.221**

NOTE 22 – Earning per share

Earnings per share is calculated by dividing the profit for the period by the weighted average number of shares of the Company during the period. The Company's earnings per share calculation is as follows.

	1 January - 31 December 2022	1 January - 31 December 2021
Profit /(loss) for the period	37.492	(12.698)
Average number of shares (1-TL nominal value weighted average number of shares)	23.625.000	23.625.000
Earnings per share /(loss) (Full TL)	**1,5870**	**(0,5375)**

NOTE 23 – Related parties transactions

Related Parties' Balances

	Receivables from related parties	
	31 December 2022	31 December 2021
Migros Ticaret A.Ş. (3)	6.462	16.169
Anadolu Etap Penkon Gıda ve İçecek	1.085	-
A.W.Faber Castell Peruana SA (3)	822	-
LLC Faber-Castell Anadolu (2)	655	505
A.W.Faber-Castell Vertrieb GmbH (3)	572	496
Aep Anadolu Etap Penkon (3)	128	811
Diğer	1.041	1.201
	10.765	**19.182**
Finance expense (-)	(296)	(714)
	10.469	**18.468**

Related Parties' Balances

	Payable to related parties	
	31 December 2022	31 December 2021
AG Anadolu Grubu Holding A.Ş. (1)	661	661
AEH Sigorta Acentalığı A.Ş. (3)	20	126
Other	19	209
	700	**996**
Finance income (-)	(5)	(14)
	695	**982**

1) Partners
2) Joint ventures
3) Other companies managed by the partner

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 23 – Related parties transactions (Continued)

Other receivables from related parties	31 December 2022	31 December 2021
Ülkü Kırtasiye Ticaret ve Sanayi A.Ş.	134	-
	134	**-**

Product purchase	1 January - 31 December 2022	1 January - 31 December 2021
A.W. Faber-Castell Vertrieb GmbH (3)	71.144	37.143
A.W. Faber-Castell (Guangzhou) Stationery Co. Ltd. (3)	25.007	18.948
A.W. Faber Castell (M) Sdn.Bhd. (3)	16.797	14.745
Pt Faber-Castell International Indonesia (3)	1.790	741
Other	74	253
	114.812	**71.830**

Product sales	1 January - 31 December 2022	1 January - 31 December 2021
Migros Ticaret A.Ş. (3)	26.554	17.093
A.W. Faber-Castell Vertrieb GmbH (3)	8.832	2.801
Anadolu Restoran İşletmeleri Ltd. Şti.	-	1.237
A.W. Faber Castell Peruana SA (3)	2.546	897
A.W. Faber Castell (Aust) (3)	-	1.081
Other	978	866
	38.910	**23.975**

Services received	1 January - 31 December 2022	1 January - 31 December 2021
AG Anadolu Grubu Holding A.Ş. (1)	10.998	6.301
Migros Ticaret A.Ş. (3)	1.965	3.806
Anadolu Efes Spor Kulübü (3)	2.000	1.493
Other	503	211
	15.466	**11.811**

Services given	1 January - 31 December 2022	1 January - 31 December 2021
A.W. Faber-Castell Vertrieb GmbH (3)	-	313
AEP Anadolu Etap Penkon Gıda ve Tarım Ürün San ve Tic A.Ş (3)	3.596	-
Anadolu Kaskasya Enerji Yatırımları A.Ş.(3)	1.056	1.314
Other	293	1.692
	4.945	**3.319**

1) Partners
2) Joint Ventures
3) Other companies managed by the partner

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 23 – Related parties transactions (Continued)

c) Benefits provided to key management

Key management personnel consist of the Head of the Agriculture, Energy and Industry Group, the General Manager and the managers who report directly to the General Manager. Benefits for senior executives are as follows:

	2022	2021
Short-term employee benefits	25.831	13.480
Other long-term benefits	1.129	418
Post-employment benefits	38	55
Benefits due to leaving the job	-	-
Share-based payments	-	-
	26.998	**13.953**

NOTE 24 – Nature and level of risks arising from financial instruments

(a) Capital risk management

The Company manages its capital to ensure that it will maintain its status as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance,
The capital structure of the Company consists of debt, which includes the borrowings and other debts, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The management of the Company considers the cost of capital and the risks associated with each class of capital. The management of the Company aims to balance its overall capital structure through the payment of dividends, new share issues and the issue of new debt or the redemption of existing debt. The Company controls its capital using the net debt / total equity ratio. This ratio is the calculated as net debt divided by total equity.

Net debt is calculated as total liability (comprises of financial liabilities, leasing and trade payables as presented in the statement of financial position) less cash and cash equivalents.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 24 – Nature and level of risks arising from financial instruments (Continued)

(a) Capital risk management (Continued)

	31 December 2022	31 December 2021
Total borrowings (*)	501.207	509.729
Less: Cash and cash equivalents	(292.369)	(342.560)
Net dept	208.838	167.169
Total equity	134.301	131.265
Total equity + net dept	**343.139**	**298.434**
Net dept / total equity ratio	**%61**	**%56**

(*) Right-of-use assets within the scope of TFRS16, financial lease liabilities are not included in total borrowings.

(b) Credit risk

Financial instruments have a counterparty risk as they may not fulfill requirements of the agreement. The Company manages credit risk by constantly evaluating the credibility of the related parties and by determining counterparty credit limits and due dates on a customer basis. Company also receives collaterals from customers as needed. Instruments that increase the credit reliability as guarantees received to determine the maximum amount of credit risk as of reporting date, are not taken into account.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

(c) Currency risk and management

Transactions in foreign currency cause the exchange rate risk to occur.

The Company is exposed to exchange rate risk due to changes in the exchange rates used in the conversion of foreign currency assets and liabilities into Turkish lira. Currency risk arises due to future commercial transactions and the difference between recorded assets and liabilities.

The TL equivalents of foreign currency assets and liabilities held by the Company are as follows:

	31 December 2022	31 December 2021
Assets	66.029	29.046
Liabilities	(8.511)	(6.805)
Net balance sheet foreign currency position	**57.518**	**22.241**

The Company is exposed to currency risk mainly in US Dollar and Euro.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 24 – Nature and level of risks arising from financial instruments (Continued)

(c) Currency risk and management (Continued)

Profit/Loss 31 December 2022	Appreciation of foreign currency	Depreciation Foreign currency
If the US Dollar changes 20% +/- against TL:		
1- USD net asset/liability	11.841	(11.841)
2- Part hedged against USD risk (-) (*)	-	-
3- USD net effect (1+2)	**11.841**	**(11.841)**
In case the Euro changes 20% +/- against TL:		
4- Euro net asset/liability	(338)	338
5- Hedged portion from Euro risk (-)	-	-
6- Euro net effect (4+5)	**(338)**	**338**
On average 20% +/- change in other exchange rates against TL:		
7- Other foreign currency net asset/liability	-	-
8- Hedged portion from other exchange rate risk (-)	-	-
9- Net effect on other FX assets (7+8)	-	-
	11.503	**(11.503)**

Profit/(Loss) 31 December 2021	Appreciation of Foreign currency	Depreciation of Foreign currency
If the US Dollar changes 20% +/- against TL:		
1- USD net asset/liability	3.656	(3.656)
2- Part hedged against USD risk (-) (*)	-	-
3- USD net effect (1+2)	**3.656**	**(3.656)**
In case the Euro changes 20% +/- against TL:		
4- - Euro net asset/liability	748	(748)
5- Hedged portion from Euro risk (-)	-	-
6- Euro net effect (4+5)	**748**	**(748)**
On average 20% +/- change in other exchange rates against TL:		
7- Other foreign currency net asset/liability	44	(44)
8- Hedged portion from other exchange rate risk (-)	-	-
9- Net effect on other FX assets (7+8)	**44**	**(44)**
	4.448	**(4.448)**

(*) The effect of derivative instruments for hedging purposes is not taken into account.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 24 – Nature and level of risks arising from financial instruments (Continued)

(c) Currency risk and management (Continued)

It summarizes the Company's foreign currency position risk. The recorded amounts of foreign currency assets and liabilities held by the Company are as follows. by foreign currency type:

	31 December 2022					31 December 2021				
	TL equivalent	**USD**	**Avro**	**GBP**	**Other**	**TL equivalent**	**USD**	**Avro**	**GBP**	**Other**
1. Trade receivables	15.967	751	97	-	10	12.437	612	306	-	-
2a. Monetary financial assets	49.668	2.608	45	-	-	2.437	187	1	-	-
2b. Non-monetary financial assets	-	-	-	-	-	-	-	-	-	-
3. Other	394	1	19	-	-	14.172	1.020	48	-	1.951
4. Total current assets (1+2+3)	**66.029**	**3.360**	**161**	**-**	**10**	**29.046**	**1.819**	**355**	**-**	**1.951**
5. Trade receivables	-	-	-	-	-	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-	-	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-	-	-	-	-	-	-
7. Other	-	-	-	-	-	-	-	-	-	-
8. Total non-current assets (5+6+7)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9. Total assets (4+8)	**66.029**	**3.360**	**161**	**-**	**10**	**29.046**	**1.819**	**355**	**-**	**1.951**
10. Ticari payables	8.295	183	244	-	6	4.683	252	96	-	6
11. Financial liabilities	-	-	-	-	-	-	-	-	-	-
12a. Other monetary liabilities	216	10	1	-	-	2.122	158	4	-	-
12b. Othre non-monetary liabilities	-	-	-	-	-	-	-	-	-	-
13. Total current liabilities (10+11+12)	**8.511**	**193**	**245**	**-**	**6**	**6.805**	**410**	**100**	**-**	**6**
14. Trade payables	-	-	-	-	-	-	-	-	-	-
15. Financial liabilities	-	-	-	-	-	-	-	-	-	-
16a. Other monetary liabilities	-	-	-	-	-	-	-	-	-	-
16b. Other non-monetary liabilities	-	-	-	-	-	-	-	-	-	-
17. Total non-current liabilities (14+15+16)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
18. Total liabilities (13+17)	**8.511**	**193**	**245**	**-**	**6**	**6.805**	**410**	**100**	**-**	**6**
19. Net asset/ (liability) position of off-balance sheet derivative instruments (19a-19b)	**184.178**	**9.850**	**-**	**-**	**-**	**100.770**	**7.765**	**-**	**-**	**-**
19a. Total asset amount hedged	184.178	9.850	-	-	-	100.770	7.765	-	-	-
19b. Total liabilities amount hedged	-	-	-	-	-	-	-	-	-	-
20. Net foreign currency asset / (liability) position (9-18+19)	**241.696**	**13.017**	**(84)**	**-**	**4**	**123.011**	**9.174**	**255**	**-**	**1.945**
21. Monetary items net foreign currency asset / (liability) position (1+2a+3+5+6a-10-11-12a-14-15-16a)	**57.518**	**3.167**	**(84)**	**-**	**4**	**22.241**	**1.409**	**255**	**-**	**1.945**
22. Total fair value of financial instruments used for currency hedge	-	-	-	-	-	12.505	964	-	-	-
23. Amount of Hedged Part of Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-
23. Amount of hedged part of foreign currency liabilities	-	-	-	-	-	-	-	-	-	-
23. Exports	**65.498**	**2.928**	**860**	**-**	**1.677**	**30.065**	**2.421**	**651**	**-**	**262**
24. Imports	**270.649**	**11.242**	**4.756**	**54**	**34.620**	**118.955**	**9.337**	**4.306**	**42**	**21.838**
%20 increase	**-**	**11.841**	**(338)**	**-**	**-**	**-**	**3.656**	**748**	**-**	**44**

NOTE 24 – Nature and level of risks arising from financial instruments (Continued)

(d) Interest rate risk and management

As of 31 December 2022, the Company does not have any floating rate borrowings.
(31 December 2021: None).

(e) Credit risk management

Holding financial instruments also carries the risk that the other party will not be able to fulfill the requirements of the agreement. The Company's collection risk mainly arises from its trade receivables. Trade receivables are evaluated taking into account the Company policies and procedures and accordingly, they are shown in the balance sheet net after provision for doubtful receivables.

The majority of the Company's sales are for the domestic market and it is mainly carried out through dealers and wholesalers. About 50% of the sales are due to the sales of the manufactured products. The commercial goods sold by the Company are of foreign origin. Therefore the company's merchandise costs are sensitive to the exchange rate. The cost of raw materials depends on the general price trend in the country. Approximately 94% of the Company's net sales are domestically oriented and the fluctuations in exchange rates are taken into account when determining price levels.

The Company collects its receivables mainly through checks received from its dealers and also uses a direct debit system (DBS). Since the issuers of the checks received in general are the customers of the dealers, risk distribution is provided. Due to the fact that the Company operates in this system, there is no significant risk arising from its receivables.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 24 – Nature and level of risks arising from financial instruments (Continued)

(e) Credit risk management (Continued)

	Trade receivables		Other receivables			
31 December 2022	**Related parties**	**Other**	**Related parties**	**Other**	**Cash in banks**	**Other financial assets**
Maximum net credit risk as of balance sheet date	**10.469**	**45.959**	**134**	**1.712**	**289.096**	**-**
- The part of maximum risk under guarantee with collateral etc.	**-**	**18.100**	**-**	**-**	**-**	**-**
A. Net book value of financial assets that are neither past due nor impaired	10.469	45.959	134	1.712	289.096	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	-	-	-	-	-
- The part under guarantee with collateral etc.	-	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	-	5.856	-	-	-	-
- Impairment (-)	-	(5.856)	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 24 – Nature and level of risks arising from financial instruments (Continued)

(e) Credit risk management (Continued)

	Trade receivables		Other receivables			
31 December 2021	**Related parties**	**Other**	**Related parties**	**Other**	**Cash in banks**	**Other financial assets**
Maximum net credit risk as of balance sheet date	**18.468**	**74.101**	**-**	**2.108**	**335.997**	**-**
- The part of maximum risk under guarantee with collateral etc.	**-**	**19.907**	**-**	**-**	**-**	**-**
A. Net book value of financial assets that are neither past due nor impaired	18.468	74.101	-	2.108	335.997	
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	-	-	-	-	-
- The part under guarantee with collateral etc.	-	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	-	5.555	-	-	-	-
- Impairment (-)	-	(5.555)	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 24 – Nature and level of risks arising from financial instruments (Continued)

(e) Credit risk management (Continued)

The details of the mortgages and guarantees received for the receivables with or without a balance are explained below.

	31 December 2022	31 December 2021
Mortgages	1.810	5.135
Pledge agreements	30	78
Letter of guarantees	10.938	16.220
	12.778	**21.433**

(f) Liquidity risk and management

The Company tries to manage its liquidity risk by regularly monitoring the cash flows and ensuring the continuation of sufficient funds and borrowing reserves by matching the maturities of financial assets and liabilities.

Liquidity risk tables

Prudent liquidity risk management refers to holding sufficient cash, availability of sufficient credit transactions and fund resources, and the power to close market positions.

The funding risk of current and prospective debt requirements is managed by maintaining the availability of sufficient number of high-quality lenders.

The maturity distribution of the Company's derivative and non-derivative financial liabilities in TL terms is shown below.

31 December 2022	Book Value	Total Cash outflow	Less than 3 Months	Between 3-12Months	Between 1-5 years	More than 5 years
Financial Liabilities	532.349	550.303	269.560	259.914	20.829	-
Trade Payables	57.120	57.758	57.758	-	-	-
Other Payables	29.218	29.219	29.219	-	-	-

31 December 2021	Book Value	Total Cash outflow	Less than 3 Months	Between 3-12 Months	Between 1-5 yearsı	More than 5 years
Financial liabilities	512.689	568.996	94.998	456.823	17.175	-
Trade Payables	34.913	35.586	35.586	-	-	-
Other Payables	8.045	10.670	9.011	1.659	-	-

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 25 – Financial instruments

25.1 Fair value

The Company considers that the recorded values of financial instruments reflect their fair values.

Fair value hedge accounting

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)
Level 2: Other valuation techniques including direct or indirect observable inputs
Level 3: Valuation techniques not containing observable market inputs

	31 December 2022	Level 1	Level 2	Level 3
Derivative financial liabilities	5.082	-	5.082	-

	31 Decmber 2021	Level 1	Level 2	Seviye 3
Derivative financial liabilities	-	-	-	-

	31 December 2022	Level 1	Level 2	Level 3
Derivative financial assets	-	-	-	-

	31 December 2021	Level 1	Level 2	Level 3
Derivative financial assets	12.505	-	12.505	-

25.2 Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognized at cost, and subsequently valued at fair value on 1 October 2018.

As of 31 December 2022, Adel has a foreign exchange forward transaction with a nominal value of TRL 184.178 amounting to USD 9.850.000 (31 December 2021: Nominal value of TRL 100.770 amounting to USD 7.765.000).

As of 31 December 2022, the Company has set aside USD 2.656.889 equivalent of TL 49.661 of bank deposits for the payments related to the raw material and commercial goods purchases to be made in the future.

The Company documented the relationship between hedging instruments and hedged items at the beginning of the hedge transaction and also documented risk management objectives and the strategy for performing a variety of hedging transactions. Company, both at the beginning of the process of hedging transaction and on a regular basis of the hedging transaction, documented the assessment whether instruments used in hedging transactions are effective in high-level balancing changes in values of hedged items.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 25 – Financial instruments (Continued)

25.2 Derivative financial instruments and hedging transactions (Continued)

The Company is a party to various forward foreign exchange contracts and options, depending on the management of exchange rate fluctuations. Derivative instruments purchased are mainly in foreign currency types in the market in which the Company operates for stock purchases, foreign currency-denominated machinery and equipment purchases, and other foreign-currency service contracts.

	2022			**2021**		
		Fair Value			**Fair Value**	
	Contract Amount	**Assets**	**Liabilities**	**Contract Amount**	**Assets**	**Liabilities**
For hedging purposes:						
Cross currency participation swaps	184.178	-	5.082	100.770	12.505	-
	184.178	**-**	**5.082**	**100.770**	**12.505**	**-**
Short term	184.178	-	5.082	100.770	12.505	-
	184.178	**-**	**5.082**	**100.770**	**12.505**	**-**

<u>Objectives in financial risk management:</u>

The Company's finance department is responsible for ensuring regular access to financial markets and monitoring and managing the financial risks incurred in connection with the Company's activities. These risks are; It includes market risk (including currency risk, fair interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company does not have speculative financial instruments (including derivative financial instruments) and does not have any activity related to the purchase and sale of such instruments.

(Amounts are expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 25 – Financial instruments (Continued)

25.2 Derivative financial instruments and hedging transactions (Continued)

31 December 2022	Note	Fair value differences reflected in other comprehensive income	Financial assets shown at amortized cost	Financial liabilities shown at amortized value	Book value	Fair value
Financial assets						
Cash and cash equivalences	4	-	292.369	-	292.369	292.369
Trade receivables	8	-	45.959	-	45.959	45.959
Receivables from related parties	23	-	10.603	-	10.603	10.603
Other financial assets	5, 9	-	4	-	4	4
Financial liabilities						
Financial borrowings	7	-	-	501.207	501.207	501.207
Lease liabilities	7	-	-	31.142	31.142	31.142
Trade payables	8	-	-	57.120	57.120	57.120
Payables from related parties	23	-	-	695	695	695
Derivative instruments	25. 1	-	-	5.082	5.082	5.082
Other financial liabilities	9	-	-	1.582	1.582	1.582

31 December 2021	Note	Fair value differences reflected in other comprehensive income	Financial assets shown at amortized cost	Financial liabilities shown at amortized value	Book value	Fair value
Financial assets						
Cash and cash equivalences	4	-	342.560	-	342.560	342.560
Trade receivables	8	-	74.101	-	74.101	74.101
Receivables from related parties	23	-	18.468	-	18.468	18.468
Derivative instruments	25. 1	12.505	-	-	12.505	12.505
Other financial assets	5, 9	-	2.342	-	2.342	2.342
Financial liabilities						
Financial borrowings	7	-	-	509.729	509.729	509.729
Lease liabilities	7	-	-	2.960	2.960	2.960
Trade payables	8	-	-	34.913	34.913	34.913
Payables from related parties	23	-	-	982	982	982
Other financial liabilities	9	-	-	1.331	1.331	1.331

NOTE 26 – Fees for service received from the independent auditor

The fees related to the services received by the Company from the Independent Auditing Firm (IAF) for the periods 1 January-31 December 2022 and 1 January -31 December 2021 are as follows:

	31 December 2022	31 December 2021
Independent audit fee for the reporting period	275	161
Fee for other assurance services	18	2
	293	**163**

NOTE 27 – Government incentives and grants

There is no cash support amount collected from Scientific and Technological Research Council of Turkey "TUBITAK" regarding the research and development activities of the Company in 2022. (31 December 2021: 109 TL).

As of 31 December 2022, the amount of research and development deduction that the Company can use in tax calculation due to its expenditures on research and development studies is 35.519 TL. (31 December 2021: 11.871 TL, advantages of tax: 2.374).

The company applied for an research and development center in order to benefit from the incentives and exemptions provided within the framework of the Law No. 5746, and as a result of the examination made by the Ministry of Industry and Technology, the research and development center certificate was given to be effective as of 19 June 2019.

The company realizes fixed asset investments with incentives within the scope of the "Council of Ministers Decisions on State Aids in Investments" numbered 2012/3305, which regulates the investment legislation. The investment projects whose investment process continues and which continue to benefit from the investment contribution amounts are as follows;

5.624 TL was spent within the scope of the incentive certificate numbered 502680. The contribution rate to the investment determined in the investment incentive certificate is 30% with the implementation of the Presidential Decision dated 29.12.2019 and numbered 1950 with 15 points increments. (31 December 2021: 3.715 TL, advantage of tax: 891 TL)

Within the scope of the incentive certificate numbered 502790 4.525 TL was spent. The incentive certificate is subject to VAT and customs tax exemption, and there is no corporate tax support. (31 December 2021: 550 TL)

NOTE 28 – Events after the reporting period

The Company's 376 day maturity, simple 32.50% fixed interest rate redemption dated 07 February 2024 to be sold to qualified investors without public offering in the country. As a result of the bookkeeping for the coupon bond paid with the ISIN code of TRSADEL22410, the issuance amount has been finalized as a nominal 150.000 TL. The sale transaction was completed on 26 January 2023 and the clearing of the transaction was 27 January 2023 within the scope of the issuance limit approved by the Capital Markets Board (CMB)'s decision dated 29 December 2022 and numbered 77/1865, Ak Yatırım Menkul Değerler A.Ş. mediated.