

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT FOR THE PERIOD
1 JANUARY 2020 - 31 DECEMBER 2020**

(ORIGINALLY ISSUED IN TURKISH)

(CONVENIENCE TRANSLATION 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) Report on the Audit of the Financial Statements

1) Opinion

We have audited the financial statements of Adel Kalemcilik Ticaret ve Sanayi A.Ş. ("the Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, 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

We conducted our audit in accordance with the standards on auditing issued by Capital Markets Board and the Standards on Independent Auditing ("SIA") which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibility is disclosed under *Responsibilities of the Independent Auditor on the Independent Audit of the Annual Report* in detail. We declare that we are independent from the Company in accordance with the *Code of Ethics for Independent Auditors* ("Code of Ethics") issued by Public Oversight Accounting and Auditing Standards Authority ("POA") and ethical provisions stated in the regulation of audit. We have fulfilled other responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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. These matters were addressed in the context of our 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.

3) Key Audit Matters (cont'd)

Key Audit Matter	How This Matter Was Addressed In the Audit
<p><i>Sales discounts</i></p> <p>Revenue at Adel Kalemcilik Ticaret ve Sanayi A.Ş. is measured by taking into consideration the discounts provided by the content of various sales contracts made with customers. Considering the scope and diversity of the related contractual conditions, recognition of sales discounts has been identified as a key audit matter for our audit since the fair and complete calculation of discounts for the sales occurred in period ended 31 December 2020 is a complex area and it is possible for these calculations to contain material errors and inaccuracies, and the sales discount amounting to TL 116,534 (31 December 2019: TL 109,926) is material in terms of the financial statements.</p> <p>The accounting policy for the discounts is explained in Note 2 and related note is presented in Note 17.</p>	<p>Audit procedures have been performed to evaluate the design and implementation of controls designed to ensure that such sales reductions are made in accordance with customer contracts and sales discount circular.</p> <p>In order to determine whether the discounts are recognized in the correct amounts, the compliance of the transactions to the agreement conditions were tested and evaluated by sampling method and accuracy of the data which is the basis of the calculation was checked by recalculating the data.</p> <p>Current account reconciliations with major retailers that are part of the sales discounts are tested by external confirmation method and tests in detail.</p> <p>Furthermore, the adequacy of the information in the financial statements and in Note 17 has been assessed in terms of TAS.</p>

4) Responsibilities of Management and Those Charged with Governance for the Financial Statements

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.



5) Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our objectives are 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the standards on auditing issued by Capital Markets Board and SIA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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.

As part of an audit in accordance with the standards on auditing issued by Capital Markets Board and SIA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of 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.)
- Obtain an understanding of 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 Entity'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 Entity'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 auditor's report. However, future events or conditions may cause the Entity 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.

5) Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

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 also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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) Report on Other Legal and Regulatory Requirements


In accordance with paragraph, four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 1 March 2021.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Company's set of accounts and financial statements prepared for the period 1 January - 31 December 2020 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

The engagement partner on the audit resulting in this independent auditor's report is H. Erdem Selçuk.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**



H. Erdem Selçuk
Partner

İstanbul, 1 March 2021

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ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

AUDITED STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Audited 31 December 2020	Audited 31 December 2019
Assets			
Current assets:			
Cash and cash equivalents	4	279,347	13,421
Trade receivables		59,496	82,018
- Due from related parties	23	13,584	13,050
- Due from third parties	8	45,912	68,968
Other receivables		560	453
- Due from third parties	9	560	453
Derivative financial instruments	25.1	-	1,369
Inventories	10	139,751	137,387
Prepaid expenses	15	535	1,310
Current tax assets	15	14,283	9,957
Other current assets	15	19,859	15,725
Total current assets		513,831	261,640
Non-current assets:			
Financial investments	5	234	234
Property, plant and equipment	11	100,774	105,340
Right-of-use assets	7	5,371	6,904
Intangible assets	12	7,988	8,273
Prepaid expenses	15	2,255	2,408
Deferred tax assets	21	3,966	4,651
Other non-current assets	15	-	71
Total non-current assets		120,588	127,881
Total assets		634,419	389,521

These financial statements for the period 1 January - 31 December 2020, have been approved for issue by the Board of Directors on 1 March 2021 and signed on its behalf by General Manager Evrim Hizaler Aydın and Finance and Accounting Director İrfan Çetin.

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

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

AUDITED STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Audited 31 December 2020	Audited 31 December 2019
Liabilities and equity			
Current liabilities:			
Short-term borrowings	7	309,336	118,687
Short-term portions of long-term borrowings		15,245	7,241
- Short-term portion of long-term borrowings from third parties	7	15,245	7,241
- Bank loans		11,628	-
- Lease payables		3,617	7,241
Trade payables		38,336	22,331
- Trade payables to related parties	23	1,690	1,072
- Trade payables to third parties	8	36,646	21,259
Payables related to employee benefits	9	6,514	4,502
Other payables		17,407	915
- Other payables to related parties	23	15,002	-
- Other payables to third parties	9	2,405	915
Derivative financial instruments	25.1	4,641	-
Short-term provisions		4,045	2,978
- Short-term provisions for employee benefits	14	1,468	825
- Other short-term provisions	13	2,577	2,153
Other current liabilities	15	13,916	10,048
Total current liabilities		409,440	166,702
Non-current liabilities:			
Long-term borrowings		69,673	51,042
- Long-term borrowings from third parties	7	69,673	51,042
- Bank Loans		67,071	46,285
- Lease payables		2,602	4,757
Payables related to employee benefits	9	191	-
Long-term provisions		9,726	8,558
- Long-term provisions for employee benefits	14	9,726	8,558
Total non-current liabilities		79,590	59,600
Equity:			
Share capital	16	23,625	23,625
Adjustment to share capital	16	1,584	1,584
Accumulated other comprehensive income / (expenses) that will not be reclassified subsequently to profit or loss		(674)	(1,009)
- Gains / (losses) on revaluation and remeasurement		(674)	(1,009)
Accumulated other comprehensive income / (expenses) that will be reclassified subsequently to profit or loss		(5,139)	(61)
- Foreign currency translation reserves		(1,455)	(1,129)
- Gains/(losses) on hedge accounting		(3,684)	1,068
Restricted reserves appropriated from profit	16	68,746	68,293
Prior years' profit	16	55,332	85,460
Net profit / (loss) for the period		1,915	(14,673)
Total equity		145,389	163,219
Total liabilities and equity		634,419	389,521

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

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.**AUDITED STATEMENTS OF PROFIT OR LOSS FOR THE
YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019**

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

Profit or loss	Notes	Audited	
		1 January - 31 December 2020	1 January - 31 December 2019
Revenue	17	391.147	347.114
Cost of sales (-)	17	(242.358)	(195.290)
Gross profit		148.789	151.824
General administrative expenses (-)	18	(35.070)	(32.191)
Marketing expenses (-)	18	(74.414)	(64.314)
Research development expenses (-)	18	(2.176)	(1.492)
Other income from operating activities	19	5.933	5.216
Other expenses from operating activities (-)	19	(8.262)	(8.163)
Operating profit		34.800	50.880
Income from investing activities	19	387	3.164
Expenses from investing activities (-)	19	(1)	(4)
Share of profit/(loss) of investments accounted by equity method	19	(164)	(6.081)
Operating profit before finance income/(expense)		35.022	47.959
Finance income	20	7.530	3.887
Finance expenses (-)	20	(38.827)	(69.762)
Profit / (loss) before tax from continuing operations		3.725	(17.916)
Continuing operating tax expense		(1.810)	3.243
- Current tax expense	21	-	-
- Deferred tax income	21	(1.810)	3.243
Profit / (loss) for the period		1.915	(14.673)
Earnings/(loss) per share (total TL)	22	0,0811	(0,6211)

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

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.**AUDITED STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE PERIODS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019**

(Amounts expressed in thousand Turkish Lira ("TL") unless otherwise indicated.)

	Notes	Audited	
		1 January - 31 December 2020	1 January - 31 December 2019
Net profit / (loss) for the period		1,915	(14,673)
Other comprehensive income/expenses			
Items that will not be reclassified to profit or loss		335	(139)
- Gains/(losses) on remeasurement of defined benefits plans	14	419	(178)
- Taxes related to other comprehensive income that will not be reclassified in profit or loss		(84)	39
-Deferred tax (expense) income		(84)	39
Items that will be reclassified to profit or loss		(5,078)	9,260
- Foreign currency translation differences	6	(326)	(548)
-Other comprehensive income / (expense) related to cash flow hedges		(5,961)	12,574
- Taxes related to other comprehensive income that will be reclassified in profit or loss		1,209	(2,766)
-Deferred tax (expense)/income		1,209	(2,766)
Other comprehensive income/(expense)		(4,743)	9,121
Total comprehensive income/(expense)		(2,828)	(5,552)

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

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

AUDITED STATEMENTS CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

	Share capital	Adjustments to share capital	Other accumulated comprehensive income and expenses that will be reclassified to profit or loss	Other accumulated comprehensive income and expenses that will not be reclassified to profit or loss		Restricted reserves appropriated from profit	Retained earnings		Total equity
			Gains/(losses) on remeasurement of defined benefit plans	Foreign currency translation differences	Hedging gains (losses)		Prior years' profit	Net profit / (loss) for the period	
Balances as of 1 January 2019	23,625	1,584	(870)	(581)	(8,740)	66,410	93,523	13,830	188,781
Transfers	-	-	-	-	-	1,883	11,947	(13,830)	-
Dividends	-	-	-	-	-	-	(20,010)	-	(20,010)
Total comprehensive income / (expense)	-	-	(139)	(548)	9,808	-	-	(14,673)	(5,552)
Balances as of 31 December 2019	23,625	1,584	(1,009)	(1,129)	1,068	68,293	85,460	(14,673)	163,219
Balances as of 1 January 2020	23,625	1,584	(1,009)	(1,129)	1,068	68,293	85,460	(14,673)	163,219
Transfers	-	-	-	-	-	453	(15,126)	14,673	-
Dividends	-	-	-	-	-	-	(15,002)	-	(15,002)
Total comprehensive income / (expense)	-	-	335	(326)	(4,752)	-	-	1,915	(2,828)
Balances as of 31 December 2020	23,625	1,584	(674)	(1,455)	(3,684)	68,746	55,332	1,915	145,389

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

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

AUDITED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira ("TL") unless otherwise indicated.)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		90,524	105,210
Profit/(loss) for the year		1,915	(14,673)
Adjustments related to reconcile profit (loss):		53,666	84,456
Adjustments related to depreciation and amortisation expense		17,162	15,701
Adjustments related to impairment loss (reversal of impairment loss)		232	1,376
- Adjustments related to impairment loss (reversal) of receivables	8	416	(116)
- Adjustments related to impairment loss (reversal) of inventories	10	(184)	1,492
Adjustments related to provisions		3,592	2,792
- Adjustments related to (reversal of) provisions related with employee benefits		3,168	2,962
- Adjustments related to (reversal of) lawsuit and/or penalty provisions		424	(170)
Adjustments related to Dividend (Income) Expense	19	-	(283)
Adjustments related to interest (income) and expenses		31,042	64,909
- Adjustments related to interest income	20	(7,270)	(3,325)
- Adjustments related to interest expense	20	38,266	69,064
- Deferred Finance Expenses from Deferred Settlement Purchases	19	3,096	175
- Unearned Finance Income from Deferred Settlement Sales	19	(3,050)	(1,005)
Adjustments Related to Fair Value Losses (Gains)		50	-
Adjustments related to undistributed (profit) losses of investments accounted through equity method	19	164	6,081
Adjustments related to tax (income) expense	21	1,810	(3,243)
Adjustments related to (gains)/losses arised from disposal of non-current assets	19	(386)	(2,877)
Changes in working capital		40,208	29,752
Adjustments related to decrease (increase) in trade receivables		19,010	(4,283)
Adjustments related to decrease (increase) in other receivables related to operations		(107)	1,364
Adjustments related to decrease (increase) in inventories		(2,180)	19,500
Adjustments related to decrease (increase) in prepaid expenses		929	(164)
Adjustments related to increase (decrease) in trade payables		19,054	(779)
Increase (decrease) in payables related to employee benefits		2,203	(1,713)
Adjustments related to increase (decrease) in other payables related to operations		1,490	(2,504)
Other adjustments related to increase (decrease) in working capital		(191)	18,331
- Decrease (increase) in other assets related with operations		(4,063)	10,682
- Increase (decrease) in other liabilities related with operations		3,872	7,649
Cash flows from/(used in) operations		95,789	99,535
Dividend received		-	283
Payments related with provisions for employee benefits	14	(938)	(1,195)
Income taxes refund (paid)		(4,327)	6,587
CASH FLOWS FROM INVESTING ACTIVITIES		(9,247)	(14,159)
Cash outflows arising from acquisition of shares of associates and/or joint ventures or due to share capital increase	6	(490)	(6,629)
Proceeds from sale of property, plant and equipment and intangible assets		989	2,935
Purchase of property, plant and equipment and intangible assets	11.12	(9,746)	(10,465)
CASH FLOWS FROM FINANCING ACTIVITIES		184,517	(136,785)
Proceeds from borrowings		461,285	490,200
Repayments of borrowings		(246,403)	(526,914)
Cash Outflows Related to Debt Payments Arising from Lease Agreements		(8,385)	(10,986)
Dividend paid	16	-	(20,010)
Interest paid		(29,118)	(72,400)
Interest Received		7,138	3,325
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		265,794	(45,734)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	4	13,421	59,155
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	279,215	13,421

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

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Adel Kalemcilik Ticaret ve Sanayi A.Ş.’s (the “Company”) principal business activity is production of cedar wood pencils, toys, crayons and other stationery equipment, selling and exportation of goods that are produced in facilities, importation, purchasing and selling of all kind of primary materials, semi-finished goods, finished goods and trade goods that are also in respect to the principle business activity.

The Company was established in 17 July 1967 and at the same date registered with Istanbul Chamber of Industry and Istanbul Chamber of Commerce with the registration number of 96078.

The address of the Company’s head office is as follow:

Fatih Sultan Mehmet Mah. Balkan Cad. No: 58 Buyaka E Blok
34771 Tepeüstü-Ümraniye/İstanbul

The Company is registered with the Capital Markets Board (“CMB”) and its shares have been quoted on the Istanbul Stock Exchange (“BIST”) since 1996. As of 31 December 2020, the publicly quoted shares are 27.71% of the total shares. The principal shareholders and their respective shareholdings in the Company are as follows:

	(%)
AG Anadolu Grubu Holding A.Ş.	56.89
Faber-Castell Aktiengesellschaft	15.40
Publicly traded	27.71
	100.00

As of 31 December 2020, the average number of employees of the Company is 371 (31 December 2019: 344).

As of 31 December 2020, the Company’s interest in jointly controlled entity is accounted for using the equity method is as follows:

Company name	Principal activity	Country	(%)
LLC Faber-Castell Anadolu	Trade of stationery	Russia	50.00

Faber Castell Anadolu LLC is established and registered in Moscow, Russia as a jointly controlled entity at 13 September 2011. The principal activities are; trading and distributing of stationery, art, painting and hobby equipment and toys.

As of 2019, the activities of LLC Faber-Castell Anadolu have been ceased and our Company continues its activities in the Russian market by exporting.

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

2.1.1 Statement of compliance to TAS

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 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards/Turkish Financial Reporting Standards (“TFRS”) and interpretations that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority (“POA”) under Article 5 of the Communiqué.

The financial statements of the Company prepared as of 31 December 2020 have been approved by the Company's Board of Directors on 1 March 2021. The General Assembly has the authority to change the financial statements.

2.1.2 Currency used

The Company takes the Turkish Commercial Code (“TCC”), tax legislation and Uniform Chart of Accounts introduced by Turkish Ministry of Finance as basic for bookkeeping and preparation of the statutory financial statements. Investment accounted through equity method operating in another country has prepared its statutory financial statements in accordance with the laws and regulations of the country in which it operates. The financial statements have been prepared in Turkish Lira based on the historical costs except for the assets and liabilities presented with their fair value. The financial statements have been arranged by applying the required adjustments and classifications to the statutory records prepared on historical cost basis in order to provide accurate presentation in line with TAS/TFRS.

2.1.3 Preparation of financial statements in hyperinflationary economies

In accordance with the communique issued by CMB, for companies that operate in Turkey and prepare their financial statements applying Turkish Accounting Standards, it is decided not to apply inflation accounting from 1 January 2005 which is published on 17 March 2005 numbered 11/367. Accordingly, as of 1 January 2005 No:29 “Financial Reporting in Hyperinflationary Economies” (“TAS 29”) was not applied.

**NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR
THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019**

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of presentation (continued)

2.1.4 Investments in associates and joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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 sale, 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 statement of financial position at cost and adjusted thereafter to recognize the Company’s share of the profit or loss and other comprehensive income of the associate or a joint venture. When the Company’s share 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 recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

2.2 Significant accounting policies

The significant accounting policies followed in the preparation of these financial statements are summarised below:

2.2.1 Revenue recognition

The Company recognizes revenue when the goods or services is transferred to the customer and when or as performance obligation is fulfilled. Goods is counted to be transferred when (or as) the control belongs to the customer.

The Company recognizes revenue based on the following main principles:

- (a) Identify the contracts with a customer
- (b) Identify the performance obligations in the contract
- (c) Determine the transaction price in the contract
- (d) Allocate the transaction price to the performance obligations in the contract
- (e) Recognize revenue when (or as) the entity satisfies a performance obligation

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.1 Revenue recognition (continued)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, commissions and provisions. Revenue is recognized in the financial statements at the transaction price. The transaction cost is the price the Company expects to earn in return for transferring pledged cedar wood pencils, crayons and copy pens, pens, mechanical pencils and their mins, markers, pastes, watercolors, erasers, finger paints, play dough, gouache paint, toys and other stationery products to the customer.

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 mainly composed of raw materials, auxiliary materials, packaging materials, semi-finished goods and pencil and other stationery equipment as finished goods.

Inventories are valued at the lower of cost or net realizable value. Cost of inventories comprises the purchase cost and the cost of bringing inventories into their present location and condition. Bringing inventories into their present location and condition also includes costs that are directly associated with production such as direct labour expenses. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities.

The cost of inventories is determined on the monthly weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realizable value of inventory is less than 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 occurred. 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 costs

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred (Note 7). In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings. Finance costs arising from loans are recognized in the income statement in the period they are incurred.

The financial investment income received by temporarily evaluating the unspent amount of credit related to the investment, in financial investments, is offset against the borrowing costs that are appropriate for capitalisation. All other borrowing costs are recorded in the income statement for the period in which they were incurred. The Company does not have any borrowing costs capitalized in the current and previous periods regarding qualifying assets.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.3 Loans and borrowing costs (continued)

The Company have made a sale and lease back agreement for the first time during the year ended 31 December 2016. Related accounting policy is as follows:

Sell and lease back agreement

The Company has made a sale and lease back agreement on 29 June 2016 which is related to property, plant and equipment with a financial leasing company. The relevant agreement has terminated as at 8 July 2020. The Company interpreted this contract within the scope of TAS Interpretation 27 "Regarding the Legal Effect of the Appearance of Operations in the Appearance of the Charter" as the substance that the accounting record should reflect the nature of the construction agreement due to;

- the possession of all the risks and benefits arising from the ownership of the assets of the contractual entity and the possession of all the rights of use with regards to the asset before the agreement,
- the primary purpose of the deal is to provide long term financing to the Company, rather than the transfer of the right to use the related asset,
- involving an option that is almost certain to use, the right of early termination for the Company any time during the term of the contract,

evaluating it outside the scope of "IFRS 16 Leases". In this context, the consideration received from the financial lease, which corresponds to the fair value of the plant, machinery and equipment subject to the contract, is recognized in borrowings in the financial statements. The transaction did not reflect a gain or loss on sale of property, plant and equipment except for the interest expense accrued for the period between the date on which the lease contract is valid and the balance sheet date to the income statement for the year ended 31 December 2020.

2.2.4 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided on restated amounts of property, plant and equipment using the straight-line method based on the estimated useful lives of the assets.

Depreciation is calculated according to straight-line method to carry costs of every fixed asset with following ratios (%) while useful lives are taken as a basis:

	Useful life
Land improvement	3.33-50
Buildings	2-5
Machinery and equipment	8.33-10
Vehicles	20
Fixtures	20

Lands are not depreciated due to their indefinite useful life. Gains or losses on disposals of property, plant and equipment are included in the related income or expense accounts, as appropriate. Repair and maintenance expenditures are capitalized if they result in an enlargement or substantial improvement of the respective asset.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.5 Intangible assets

Intangible assets are presented with their costs after accumulated amortization and depletion and permanent impairment are reduced from the costs. Amortization for these assets is calculated considering their expected useful lives by using straight-line method. Expected useful lives and straight-line methods are revised to determine potential effects of changes of estimations every year and if there is any that change is prudentially booked. Software purchased is capitalized on the spot of purchase considering the costs that are occurred between the purchase date and the date that software becomes ready for use. The costs are depreciated based on their useful lives.

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.

2.2.6 Impairment of assets

When incidents occur that makes book value not likely to be recovered that are depreciable, impairment test is applied on them. An impairment loss is recognised for the amount by which the carrying amount of the asset or a cash generating unit related to the asset exceeds its recoverable amount, which is the higher of an asset’s net selling price and value in use. For the purpose of assessing the impairment, assets are grouped at the lowest levels in which there are separately identifiable cash flows. Non-financial assets other than goodwill that are subject to impairment are reviewed for possible reversal of the impairment at each reporting date. In the financial statements of 31 December 2020, there is no impairment loss related to profit or loss in the current year.

2.2.7 Research and development expenses

Research and development expenses are recognized when they are incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognized as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognized as an expense as incurred. Development expenditures previously recognized as an expense are not capitalized as an asset in a subsequent period.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.8 Financial instruments

Financial assets

At initial recognition, the Company measures a financial asset at its fair value, except for trade receivables, other receivables and cash and cash equivalents that do not contain significant financing component. The Company measure trade receivables at their transaction price (as determine in TFRS 15) if the trade receivables do not contain a significant financing component in accordance with TFRS 15 (or when the entity applies the practical expedient) at initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets on initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

The Company classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortised 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.

Financial assets at amortized cost

A financial asset that meets the following conditions are measured subsequently at amortised cost:

- (a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income on financial assets carried 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:

- (a) Credit-impaired financial assets when purchased or generated. For such financial assets, the Company applies the effective interest rate on the amortized cost of a financial asset based on the loan from the date of the recognition in the financial statements.
- (b) Non-financial assets that are impaired at the time of acquisition or generation but subsequently become a financial asset that has been impaired. For such financial assets, the Company applies the effective interest rate to the amortized cost of the asset in the subsequent reporting periods.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.8 Financial instruments

Financial assets at amortized cost (cont'd)

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss.

The Company directly reduces the gross carrying amount of a financial asset and derecognizes when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Financial assets at FVTOCI

A financial asset that meets the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, the Company accounts for the cumulative gain or loss that was previously recognised in other comprehensive income in financial statements. Interest calculated using the effective interest method is recognised in profit or loss.

The Company may make an irrevocable election at initial recognition to present subsequent changes in fair value of an equity investment not held for trading in other comprehensive income.

Financial assets at fair value through profit or loss

If a financial asset is not measured at amortized cost or at fair value through other comprehensive income, it is measured at fair value through profit or loss.

Derivative financial instruments which are not designated as effective hedging instruments are also classified as financial assets at fair value through profit or loss. These financial assets are stated at fair value and gains and losses arising from the valuation are recognized in the statement of profit or loss.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.8 Financial instruments (continued)

Impairment

The Company recognises a loss allowance for expected credit losses on financial assets that are measured at amortized cost or fair value through other comprehensive income.

The Company applies the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income. However, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

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

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses except for purchased or originated credit impaired financial assets. For purchased or originated credit-impaired financial assets, the Company only recognises the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance at the reporting date.

The Company measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables that do not contain a significant financing component, which is referred as simplified approach.

Financial liabilities

When a financial liability is recognised initially, the Company measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

After initial recognition, the Company measures all financial liabilities at amortised cost:

(a) Financial liabilities at FVTPL: These liabilities including derivative instruments are subsequently measured at fair value.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.8 Financial instruments (continued)

Financial liabilities (continued)

(b) Financial liabilities arising if the transfer of the financial asset does not meet the conditions of derecognition from the financial statements or if the ongoing relationship approach is applied: When the Company continues to present an asset based on the ongoing relationship approach, a liability in relation to this is also recognised in the financial statements. The transferred asset and the related liability are measured to reflect the rights and liabilities that the Company continues to hold. The transferred liability is measured in the same manner as the net book value of the transferred asset.

(c) A contingent consideration recognized in the financial statements by the entity acquired in a business combination where TFRS 3 is applied: After initial recognition, the related contingent consideration is measured as at FVTPL.

The Company does not reclassify any financial liabilities.

Recognition and derecognition of financial assets and liabilities

The Company recognises a financial asset or a financial liability in its statement of financial position when, and only, the entity becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. An entity shall remove a financial liability from its statement of financial position when, and only, the obligation specified in the contract is discharged or cancelled or expires.

2.2.9 Foreign currency transactions

Transactions in foreign currencies have been translated at the exchange rates prevailing at the dates of the transactions, monetary assets and liabilities denominated in foreign currencies have been translated into TL at the buying rate of Central Bank of the Republic of Turkey prevailing at the balance sheet dates. Foreign currency exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized in the statement of income under finance income and finance expenses.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.10 Earnings per share

Earnings per share are determined by dividing net income by the weighted average number of shares circulating during the period concerned. In Turkey, companies can raise their share capital by distributing “Bonus Shares” to shareholders from retained earnings. In computing earnings per share, such “bonus share” distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

2.2.11 Events after the reporting period

Events after the reporting period refers to events occurring in favor or against the entity 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 these issues in the relevant notes.

The Company adjusts the amounts recognized in the financial statements to reflect the adjusting events after the balance sheet date.

2.2.12 Provisions, contingent assets and liabilities

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, and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed continuously to determine whether the possibility of an outflow of resources embodying economic benefits is probable. When the possibility of an outflow of resources embodying economic benefits is probable for the accounts classified as contingent liabilities, provision is provided in the financial statements for related contingent liabilities except for the situations there is not a reliable estimation.

The Company discloses the contingent liabilities that are probable but there is not a reliable estimation for the amount of resources embodying economic benefits.

Assets that result from previous events that cannot be controlled fully by the Company and depend on the realization of one or more uncertain events, is considered as a contingent asset. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.12 Provisions, contingent assets and liabilities (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the 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 is preparing its financial statements.

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

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

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.14 Taxation on income

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible. The Company’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Such temporary differences are mainly due to recognition of income and expenses in different periods in accordance with CMB Financial Reporting Standards or Tax Laws. Deferred income tax is measured based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are recognised for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax assets and liabilities related to income taxes levied by the same taxation authority are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized directly in equity. In such case, the tax is also recognized in equity.

2.2.15 Provision for employment termination benefits

Under the Turkish law and union agreements, severance 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 the revised TAS 19 “Employee Benefits”. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses. Interest charges included in the employment termination expenses has been presented as interest expense in operating profit or loss. The actuarial gains and losses are recognized in other comprehensive income.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.16 Statement of cash flows

Cash and cash equivalents are presented on the statement of financial position with their historic costs. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand, deposits at which are easily convertible into cash and do not carry any material value changes, have high liquidity. Cash flows during the period are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows generated from the Company’s activities. Cash flows from investing activities represent the cash flows that are used in or provided from the investing activities of the Company (investments in assets and financial investments). Cash flows from financing activities represent the cash proceeds from the financing activities of the Company and the repayments of these funds.

2.2.17 Share capital and dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are recognized in equity in the period in which they are declared.

2.2.18 Offsetting

All items with significant amounts and nature, even with similar characteristics, are presented separately in the financial statements. Insignificant amounts are grouped and presented by means of items having similar substance and function. When the nature of transactions and events necessitate offsetting, presentation of these transactions and events over their net amounts or recognition of the assets after deducting the related impairment are not considered as a violation of the rule of non-offsetting.

2.2.19 Trade receivables and provision for uncollectible receivables

Trade receivables that are created by the Company by way of providing goods or services directly to a debtor are carried at amortised cost. Trade receivables are stated at face value less allowance for the unearned portion of imputed finance income included in their face values by using the effective interest rate method. Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant. A credit risk provision for trade receivables is provided if there is objective evidence that the Company will not be able to collect all amounts due.

The amount of the provision is the difference between the carrying amount and the recoverable amount. The recoverable amount is the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

After allocation of impairment provision, the impairment amount is deducted from the provision and recorded as other income when it is partially or fully collected.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting policies (continued)

2.2.20 TFRS 16 Leases

The Company rents various offices, warehouses, equipment and vehicles. Lease contracts are usually made for certain periods, but may have extension options as described below. Lease terms can be negotiated individually and include a wide range of different terms and conditions. Lease contracts are not subject to any agreement, but leased assets cannot be used as a guarantee for borrowing purposes.

Lease payments are discounted using the interest rate applied to the lease. If this rate cannot be determined, the alternative borrowing rate of the lessee is used as the rate at which the lessor will have to borrow funds required to obtain a similar value asset with similar terms and conditions in a similar economic environment.

Right-of-use assets are measured at cost using:

- the first measurement amount of the lease obligation
- lease payments made on or before the start date, less lease incentives received
- initial direct costs
- restoration costs

Payments for short-term lease agreements and lease of low-value assets are recognized as an expense reflected in profit or loss on a straight-line basis. Short-term leases are the leases with a lease period of 12 months or less.

2.2.21 Comparative information and restatement of prior periods financial statements

Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current period 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 statement of financial position of the Company as of 31 December 2020 has been presented with the comparative statement of financial position as at 31 December 2019; the statement of profit or loss, statement of comprehensive income, statement of cash flows and the statement of changes in equity for the period 1 January - 31 December 2020 have been presented with the related comparative financial statements for the period 1 January - 31 December 2019.

2.3 New and Revised Turkish Financial Reporting Standards

a) New and revised TFRS Standards that are effective for the current year

Amendments to TFRS 3	<i>Definition of a Business</i>
Amendments to TAS 1 and TAS 8	<i>Definition of Material</i>
Amendments to TFRS 9, TAS 39 and TFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to TFRS 16	<i>COVID-19 Related Rent Concessions</i>
Amendments to Conceptual Framework	<i>Amendments to References to the Conceptual Framework in TFRSs</i>

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 New and Revised Turkish Financial Reporting Standards (continued)

a) New and revised TFRS Standards that are effective for the current year (continued)

Amendments to TFRS 3 Definition of a Business

The definition of “business” is important because the accounting for the acquisition of an activity and asset group varies depending on whether the group is a business or only an asset group. The definition of “business” in TFRS 3 Business Combinations standard has been amended. With this change:

- By confirming that a business should include inputs and a process; clarified that the process should be essential and that the process and inputs should contribute significantly to the creation of outputs.
- The definition of a business has been simplified by focusing on the definition of goods and services offered to customers and other income from ordinary activities.
- An optional test has been added to facilitate the process of deciding whether a company acquired a business or a group of assets.

Amendments to TAS 1 and TAS 8 Definition of Material

The amendments in Definition of Material (Amendments to TAS 1 and TAS 8) clarify the definition of ‘material’ and align the definition used in the Conceptual Framework and the standards.

Amendments to TFRS 9, TAS 39 and TFRS 7 Interest Rate Benchmark Reform

The amendments clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

Amendments to TFRS 16 COVID-19 Related Rent Concessions

The changes in COVID-19 Related Rent Concessions (Amendment to TFRS 16) brings practical expedient which allows a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- there are no substantive changes to other terms and conditions of the lease.

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(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 New and Revised Turkish Financial Reporting Standards (Continued)

Amendments to TFRS 16 COVID-19 Related Rent Concessions (cont’d)

The amendment is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The Company has not elected early application of the amendments. There is no rent concession related to COVID-19.

Amendments to References to the Conceptual Framework in TFRSs

The references to the Conceptual Framework revised the related paragraphs in TFRS 2, TFRS 3, TFRS 6, TFRS 14, TAS 1, TAS 8, TAS 34, TAS 37, TAS 38, TFRS Interpretation 12, TFRS Interpretation 19, TFRS Interpretation 20, TFRS Interpretation 22, and SIC 32. The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

b) New and revised TFRSs in issue but not yet effective

The Company has not yet adopted the following standards and amendments and interpretations to the existing standards:

TFRS 17	<i>Insurance Contracts</i>
Amendments to TAS 1	<i>Classification of Liabilities as Current or Non-Current</i>
Amendments to TFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to TAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to TAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to TFRS Standards 2018-2020	<i>Amendments to TFRS 1, TFRS 9 and TAS 41</i>
Amendments to TFRS 4	<i>Extension of the Temporary Exemption from Applying TFRS 9</i>
Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i>

TFRS 17 Insurance Contracts

TFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. TFRS 17 supersedes TFRS 4 Insurance Contracts as of 1 January 2021.

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(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 New and Revised Turkish Financial Reporting Standards (Continued)

b) New and revised TFRSs in issue but not yet effective (continued)

Amendments to TAS 1 Classification of Liabilities as Current or Non-Current

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

Amendment defers the effective date by one year. Amendments to TAS 1 are effective for annual reporting periods beginning on or after 1 January 2023 and earlier application is permitted.

Amendments to TFRS 3 Reference to the Conceptual Framework

The amendments update an outdated reference to the Conceptual Framework in TFRS 3 without significantly changing the requirements in the standard.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated *Conceptual Framework*) at the same time or earlier.

Amendments to TAS 16 Property, Plant and Equipment - Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

Amendments to TAS 37 Onerous Contracts - Cost of Fulfilling a Contract

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

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(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 New and Revised Turkish Financial Reporting Standards (Continued)

b) New and revised TFRSs in issue but not yet effective (continued)

Annual Improvements to TFRS Standards 2018-2020

Amendments to TFRS 1 *First time adoption of Turkish Financial Reporting Standards*

The amendment permits a subsidiary that applies paragraph D16(a) of TFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to TFRSs.

Amendments to TFRS 9 *Financial Instruments*

The amendment clarifies which fees an entity includes in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

Amendments to TAS 41 *Agriculture*

The amendment removes the requirement in paragraph 22 of TAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in TFRS 13.

The amendments to TFRS 1, TFRS 9, and TAS 41 are all effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

Amendments to TFRS 4 *Extension of the Temporary Exemption from Applying TFRS 9*

The amendment changes the fixed expiry date for the temporary exemption in TFRS 4 Insurance Contracts from applying TFRS 9 Financial Instruments, so that entities would be required to apply TFRS 9 for annual periods beginning on or after 1 January 2023.

Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 *Interest Rate Benchmark Reform – Phase 2*

The amendments in Interest Rate Benchmark Reform — Phase 2 (Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity’s progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

**NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR
THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019**

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 New and revised Turkish Financial Reporting Standards (Continued)

Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 *Interest Rate Benchmark Reform – Phase 2 (continued)*

The amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 are all effective for annual periods beginning on or after 1 January 2021. Early application is permitted.

2.4 Changes and errors in accounting estimates

Accounting estimates are made based on reliable information and reasonable estimation methods. However, if there are changes in the conditions related to the estimation, new information is obtained, or circumstances change, the estimations are reviewed. If the changes in accounting estimates only apply to one period, then they are applied in the current period when the change occurred; if the changes also apply to future periods, they are applied in both the period when the change occurred and in the future periods. These changes are also reflected in the financial tables when determining the period profit or loss.

The nature and amount of a change in the accounting estimate which is expected to have an effect on the activity results of the current period or future periods are shown in the notes of the financial statement, except in situations where the effect on future periods cannot be estimated. There are no significant changes in the accounting policies for the period 31 December 2019.

2.5 Financial statements of joint ventures operating in other countries

The financial statements of the joint venture operating in a foreign country have been prepared in accordance with the legislation in the country in which it operates and by reflecting the necessary adjustments and reclassifications in terms of compliance with the Communiqué on Principles of Financial Reporting in Capital Markets”. The assets and liabilities of the joint venture operating in a foreign country are translated into TL at the foreign exchange rate at the balance sheet date. Income and expenses are expressed in TL using the average exchange rate. Exchange differences arising from the usage of closing and average exchange rates are followed under “foreign currency translation differences” classified under equity.

2.6 Derivative financial instruments

The Company’s hedging transactions within the scope of Hedge Accounting are classified as cash flow hedges that are associated with a certain risk related to a recognized asset or liability or a highly probable forecast transaction and may affect net profit or loss.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument’s fair value in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they were designated.

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(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Derivative financial instruments (continued)

For cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of income as part of financial income and costs. In cash flow hedges, the amounts recognized directly in equity are included in profit or loss in the period or periods in which the forecast transaction that is the subject of the hedge affects profit or loss (for example, in case financial income or expense or an estimated sale is realized).

Where the hedged item is a non-financial asset or liability, it is included in the initial cost or carrying amount of the asset or liability, reversing the gain or loss previously recognized in equity.

2.7 Seasonality of the activities

The Company starts with a sales campaign for certain products at the beginning of the year and then organizes “dealer fairs” in February for the sales of the brands that it produces and imports. In these sales campaigns and dealer fairs, checks are received for the order amounts of the customers, and most of the shipment of the orders are carried out in the first half of the year.

2.8 Critical accounting judgments and key sources of estimation uncertainty

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques based on market-observable data, market comparable approach that reflects recent transaction prices for similar instruments.

Doubtful Trade Receivables

Provision for doubtful receivables is recognized by using expected credit losses defined in TFRS 9 standard. Expected credit losses are calculated taking into account the company's future projections in addition to prior years' experience.

2.9 Effect of Covid-19 on the Operations of the Company

The Company management has taken necessary actions to minimize the possible effects of COVID-19, which affects the whole world, on the operations and financial position of the Company. Due to the COVID-19 pandemic, there have been partial disruptions in the sales processes in parallel with the continuous postponement of the decisions for the full opening of the schools, which deeply affect the stationery industry in which the Company operates, and the developments / slowdowns in the general economic activity. With the contraction in the purchasing power of the consumer, additional discounts and sales campaigns have been carried out. The Company have studied various scenarios to minimize the impact of the pandemic on supply, production and sales activities.

While preparing its financial statements as at 31 December 2020, the Company evaluated the possible effects of the COVID-19 pandemic on the financial statements and reviewed the estimates and assumptions used in the preparation of the financial statements. As a result of the evaluations made, no significant impairment is anticipated in the financial statements prepared as of 31 December 2020.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

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NOTE 3 - SEGMENT REPORTING

The Company, which is incorporated and domiciled in Turkey, has primary operation of production of cedar wood pencils, crayons and other stationery equipment, sell and export goods that are produced in facilities, import purchase and sell of any kind of primary materials, semi-finished goods and finished goods. The Company’s operating segments, nature and economic characteristics of products, nature of production processes, classification of customers in terms of risk for their products and services and methods used to distribute their products are similar. Furthermore, the Company structure has been organized to operate in one segment rather than separate business segments. Consequently, the business activities of the Company are considered to be in one operating segment and the operating results, resources to be allocated to the segment and assessment of performance are managed in this respect.

NOTE 4 – NOTES TO THE STATEMENT OF CASH FLOWS

	31 December 2020	31 December 2019
Demand deposits	592	905
Time deposits	275,256	4,010
Checks received	-	8,402
Other cash equivalents	3,367	104
Cash and cash equivalents in the statement of cash flows	279,215	13,421
Interest income accruals	132	-
	279,347	13,421

The Company does not have any blocked deposits as of 31 December 2020 (31 December 2019: None). As of 31 December 2020, the Company has allocated TL 10,277, which is a portion of its bank accounts amounting equivalent to USD 1,400,000, for future payments for purchases of raw material and trade goods.

NOTE 5 - FINANCIAL INVESTMENTS

	31 December 2020		31 December 2019	
	%	TL	%	TL
Ülkü Kırtasiye Ticaret ve Sanayi A.Ş.	7.67	234	7.67	234
		234		234

NOTE 6 - INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Jointly controlled entity of the Company as of 31 December 2020 and 31 December 2019 is as follows:

	31 December 2020	Share (%)	31 December 2019	Share (%)
LLC Faber-Castell Anadolu	-	50.00	-	50.00
	-		-	

As of 31 December 2020, the share of jointly controlled equity has been restated in a way that the shares in the losses of the investments accounted through the equity method are adjusted only to reset the balance of joint ventures as the equity of the joint venture becomes negative after the losses incurred in 2019.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

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NOTE 6 - INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (Continued)

	2020	2019
1 January	-	-
Shareholder capital increase subject to common control	490	6,629
Share of profit/(loss) of the investments accounted for using the equity method (Note 19)	(164)	(6,081)
Effect of currency translation differences	(326)	(548)
31 December	-	-

Assets, liabilities, net sales and loss of the joint venture as of 31 December 2020 and 31 December 2019 are as follows:

31 December 2020	Assets	Liabilities	Net sales	Profit/(loss)
Faber-Castell Anadolu LLC	553	772	-	(548)
31 December 2019	Assets	Liabilities	Net sales	Profit/(loss)
Faber-Castell Anadolu LLC	796	1,406	3,552	(12,774)

NOTE 7 - BORROWINGS

31 December 2020	Interest rate %	Amount
Short-term borrowings		
TL loans (*)	6.9 - 8.50	309,336
		309,336

(*) As of 31 December 2020, interest accruals calculated for short-term TL borrowings was classified in relevant short-term bank loans.

31 December 2020	Interest rate %	Amount
Short-term portion of long-term borrowings		
Short-term portion of long-term financial lease payables	8.00	34
Short-term portion of long-term lease payables of right-of-use assets	14.89	3,583
Short-term portion of long-term borrowings (*)	9.70 - 14.89	11,628
		15,245

(*) As of 31 December 2020, interest accruals calculated for short-term portions of long-term borrowings is classified in short-term portions of the related long-term borrowings.

31 December 2020	Interest rate %	Amount
Long-term borrowings		
TL loans	9.70 - 14.89	67,071
Long-term financial lease payables	8.00	145
Lease payables of long-term right-of-use assets	14.89	2,457
		69,673

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

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NOTE 7 - BORROWINGS (Continued)

31 December 2019	Interest rate %	Amount
Short-term borrowings		
TL loans (*)	10.50 - 12.25	118,687
		118,687

(*) As of 31 December 2019, interest accruals calculated for TL borrowings was allocated in short-term bank borrowings.

31 December 2019	Interest rate %	Amount
Short-term portion of long-term borrowings		
Short-term portion of long-term financial lease payables (*)	14.00	4,566
Short-term portion of long-term right-of-use assets	12.60	2,675
		7,241

(*) As of 31 December 2019, the Company calculated interest expense for its short-term portion of long-term borrowings, which is classified in short-term portions of long-term borrowings.

31 December 2019	Interest rate %	Amount
Uzun vadeli borçlanmalar		
TL loans	11.55 - 12.90	46,285
Long-term finance lease payables	12.60	97
Finance lease payables of long-term right-of-use assets	14.00	4,660
		51,042

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

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NOTE 7 - BORROWINGS (Continued)

Details of maturity of long-term loans and borrowings from leases as of 31 December 2020 ad 31 December 2019 are given below.

31 December 2020	Total liabilities
1 to 2 years	55,355
2 to 3 years	7,159
3 to 4 years	7,159
	69,673

31 December 2019	Total liabilities
1 to 2 years	24,359
2 to 3 years	12,365
3 to 4 years	7,159
4 to 5 years	7,159
	51,042

Movement of bank loans is as follows:

	<u>2020</u>	<u>2019</u>
1 January	164,972	205,390
Interest expense	37,146	67,427
Interest paid	(28,965)	(71,131)
Cash inflows from borrowings	461,285	490,200
Cash outflows from repayment of borrowings	(246,403)	(526,914)
31 December	388,035	164,972

Movement of right-of-use assets is as follows:

	<u>2020</u>	<u>2019</u>
1 January	6,904	4,155
Additions	1,635	7,869
Disposals	-	(4,155)
Depreciation for the period	(3,168)	(965)
31 December	5,371	6,904

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables	31 December 2020	31 December 2019
Notes receivables	12,326	22,531
Trade receivables	40,527	52,632
Less: Discounts	(2,253)	(1,923)
Less: Allowance for doubtful trade receivables	(4,688)	(4,272)
	45,912	68,968

Movements of the allowance for doubtful trade receivables in 31 December 2020 and 2019 are as follows:

	2020	2019
1 January	4,272	4,388
Provision reserved during the period	416	326
Provision for impairment released	-	(442)
31 December	4,688	4,272

Trade payables	31 December 2020	31 December 2019
Sellers	37,145	21,175
Other trade payables	6	318
Less: Discount	(505)	(234)
	36,646	21,259

NOTE 9 - OTHER RECEIVABLES AND PAYABLES

Other receivables from third parties	31 December 2020	31 December 2019
Deposits and guarantees given	260	186
Receivables from personnel	203	118
Other miscellaneous receivables	97	149
	560	453

Payables related to employee benefits	31 December 2020	31 December 2019
Payables to personnel	2,752	1,354
SSI premiums payable	1,447	1,145
Taxes, fees and deductions payable	2,315	2,003
	6,514	4,502

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NOTE 9 - OTHER RECEIVABLES AND PAYABLES (Continued)

Other payables to third parties	31 December 2020	31 December 2019
Taxes, fees and deductions payable	1,374	883
Other	1,031	32
	2,405	915
Payables related to long-term employee benefits	31 December 2020	31 December 2019
Due to personnel	191	-
	191	-

NOTE 10 - INVENTORIES

	31 December 2020	31 December 2019
Raw material	40,528	42,812
Work in process	10,155	10,962
Finished goods	39,174	36,257
Trade goods	53,661	51,013
Other inventories	922	1,216
Less: Provision for impairment of inventories	(4,689)	(4,873)
	139,751	137,387

The inventory amounting to TL 10,088 for which a provision for impairment on inventory has been destroyed. Movements of provision for impairment on inventories made upon the evaluation regarding the recoverability of inventories as of 31 December 2020 and 2019 are as follows:

	2020	2019
1 January	4,873	3,381
Provision for impairment released	(10,088)	(2,308)
Provision reserved during the period (-)	9,904	3,800
31 December	4,689	4,873

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Machinery and equipment (**)	Vehicles (**)	Furniture and fixtures (**)	Construction in progress	Total
As of 1 January 2020								
Cost	1,856	2,166	62,905	72,935	1,337	31,050	984	173,233
Accumulated depreciation	-	(987)	(6,475)	(37,501)	(1,226)	(21,704)	-	(67,893)
Net book value	1,856	1,179	56,430	35,434	111	9,346	984	105,340
Beginning of the period								
Beginning of the period	1,856	1,179	56,430	35,434	111	9,346	984	105,340
Additions	-	-	21	981	27	845	5,466	7,340
Cost value of disposals	(8)	(44)	-	(193)	-	(44)	(592)	(881)
Accumulated depreciation of disposals	-	44	-	192	-	42	-	278
Transfers	-	-	-	45	-	-	(701)	(656)
Depreciation (*)	-	(238)	(1,387)	(5,838)	(44)	(3,140)	-	(10,647)
End of the period	1,848	941	55,064	30,621	94	7,049	5,157	100,774
As of 31 December 2020								
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

(*) TL 6,707 of the depreciation expense is included in the cost of goods sold, TL 642 is included in general administrative expenses, TL 227 is included in research and development expenses and TL 3,071 is included in marketing, sales and distribution expenses.

(**) The financial lease agreement that the Company signed on 29 June 2016 has terminated and the relevant fixed assets have been acquired back on 8 July 2020.

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land	Land improvements	Buildings	Machinery and equipment (**)	Vehicles (**)	Furniture and fixtures (**)	Construction in progress	Total
As of 1 January 2019								
Cost	1,900	2,414	65,978	68,212	1,352	30,027	2,111	171,994
Accumulated depreciation	-	(1,000)	(8,171)	(31,864)	(1,087)	(18,790)	-	(60,912)
Net book value	1,900	1,414	57,807	36,348	265	11,237	2,111	111,082
Beginning of the period	1,900	1,414	57,807	36,348	265	11,237	2,111	111,082
Additions	-	5	10	3,496	-	1,413	1,421	6,345
Cost value of disposals	(44)	(253)	(3,083)	(327)	(15)	(390)	-	(4,112)
Accumulated depreciation of disposals	-	253	3,083	326	15	377	-	4,054
Transfers	-	-	-	1,554	-	-	(2,548)	(994)
Depreciation (*)	-	(240)	(1,387)	(5,963)	(154)	(3,291)	-	(11,035)
End of the period	1,856	1,179	56,430	35,434	111	9,346	984	105,340
As of 31 December 2019								
Cost	1,856	2,166	62,905	72,935	1,337	31,050	984	173,233
Accumulated depreciation	-	(987)	(6,475)	(37,501)	(1,226)	(21,704)	-	(67,893)
Net book value	1,856	1,179	56,430	35,434	111	9,346	984	105,340

(*) TL 6,971 of the depreciation expense is included in the cost of goods sold, TL 582 is included in general administrative expenses, TL 344 is included in research and development expenses and TL 3,139 is included in marketing, sales and distribution expenses.

(**) The Company signed a financial lease agreement on 29 June 2016 and certain fixed asset groups are included in the related fixed asset groups are included in this scope, net book value of the related fixed assets is TL 14,682 (Note 7).

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

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NOTE 12 - INTANGIBLE ASSETS

Intangible assets include software, rights and development costs.

	2020	2019
As of 1 January		
Cost	21,095	15,982
Accumulated amortization	(12,822)	(9,122)
Net book value	8,273	6,860
Net book value at the beginning of the period	8,273	6,860
Additions	2,406	4,120
Transfers	656	993
Amortization (*)	(3,347)	(3,700)
Net book value at the end of the period	7,988	8,273
As of 31 December		
Cost	24,157	21,095
Accumulated amortization	(16,169)	(12,822)
Net book value	7,988	8,273

(*) TL 1,125 of amortisation expense was allocated to cost of sales, TL 569 of amortisation expense was allocated to general administrative expenses, TL 203 of amortisation expense was allocated to research and development expenses, and TL 1,450 of amortisation expense was allocated to marketing, selling and distribution expenses (31 December 2019: TL 1,064 to cost of sales, TL 734 to general administrative expenses and TL 1,902 to marketing, selling and distribution expenses).

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

	31 December 2020	31 December 2019
Provision for Legal Cases	2,577	2,153
	2,577	2,153

39 employees of the Company filed 27 separate lawsuits against the Company for the annulment of the cancellation of employment contract, reinstatement claim and other claims for damages, and provision for lawsuit amounting to TL 2,577 was made for the lawsuits upon the evaluations made by the lawyers. For the current period, provision amounting to TL 424 was included in other expenses from operating activities.

Contingent assets and liabilities

Since the Adel Kalemçilik Ticaret ve Sanayi A.Ş. could not collect its receivables due to its current account relationship with its client, amounting to TL 60, executive proceedings were started with the İstanbul 18th Enforcement Office with file number 2012/20785E and 2012/18797E and with the Kartal 1st Enforcement Office with file number 2012/6142E and on 7 October 2013, a request was made to auction the real estate which had been sequestered.

The Company has an ongoing lawsuit with the General Directorate of Highways in relation to the expropriation price of the assets of the Company located in Giresun, Ulper, 640B14C3C section, 134 block 1 parcel. The Company was decided to have TL 720 as expropriation price and the lawsuits are ongoing.

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Contingent assets and liabilities (continued)

Since Adel Kalemcilik Ticaret ve Sanayi A.Ş could not collect its receivables due to its current account relationship with its client, amounting to TL 594, an executive proceeding was started with the İzmir 2nd, 8th, 10th and 14th Enforcement Office with file numbers 2014/14137E, 2014/15246E, 2014/1689E and 2015/574E. The debtor company was notified about their debts and payment order issued by going through the sequestration of their exchange notes.

The Company terminated the contracts of two subcontractors as of 31 August 2013. 29 lawsuits were opened against the Company within the scope of joint liability by the employees of these two subcontractors on the grounds that the legal obligations to the employees were not fulfilled. The potential compensation to be paid due to these lawsuits is TL 879. The Company has allocated a provision for the total of the amount of the lawsuit as of 31 December 2020. The Company has objected to these lawsuits and these cases are still on trial.

A lawsuit has been filed with the file number 2016/12354 E, which was opened in the 17th Executive Directorate of Istanbul Anatolia, after the lacked payment of TL 79 due to the current account relationship with the customers of Adel Kalemcilik Ticaret ve Sanayi A.Ş. The Company has allocated a provision for the total of the amount of the lawsuit as of 31 December 2020, the case is still ongoing.

As Adel Kalemcilik Ticaret ve Sanayi A.Ş. was unable to collect the receivable of TL 361 due to the current account relationship with the customers, receivable entry was made in bankruptcy estate with file number 2017/32 to İstanbul Anatolian 3rd Bankruptcy Office. Provision was made for the whole of the concerned amount.

Commitments and guarantees given

	31 December 2020	31 December 2019
Letter of credit commitments	3,624	3,964
Letter of guarantee	25,106	19,532

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Collaterals and commitments given (continued)

The tables related to the positions of collaterals, pledges and mortgages (“CPM”) of the Company as of 31 December 2020 and 31 December 2019 are as follows:

31 December 2020

CPM given by the Company	TL equivalent	US Dollar	Euro	TL
A. CPM given on behalf of the Company’s legal personality	25,106	-	1,949	7,550
B. CPM given on behalf of fully consolidated subsidiaries	-	-	-	-
C. CPM given for continuation of its economic activities on behalf of third parties	-	-	-	-
D. Total amount of other CPM	-	-	-	-
i. CPM given on behalf of the Parent	-	-	-	-
ii. CPM given on behalf of the Group companies excluding the articles B and C	-	-	-	-
iii. CPM given on behalf of third parties excluding the article C	-	-	-	-
	25,106	-	1,949	7,550

31 December 2019

CPM given by the Company	TL equivalent	US Dollar	Euro	TL
A. CPM given on behalf of the Company’s legal personality	19,532	-	2,795	2,218
B. CPM given on behalf of fully consolidated subsidiaries	-	-	-	-
C. CPM given for continuation of its economic activities on behalf of third parties	-	-	-	-
D. Total amount of other CPM	-	-	-	-
i. CPM given on behalf of the Parent	-	-	-	-
ii. CPM given on behalf of the Group companies excluding the articles B and C	-	-	-	-
iii. CPM given on behalf of third parties excluding the article C	-	-	-	-
	19,532	-	2,795	2,218

The ratio of other CPM to Company’s equity at 31 December 2020 is 0.00% (31 December 2019: 0.00%).

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 14 - EMPLOYEE BENEFITS

Short-term employee benefits	31 December 2020	31 December 2019
Premium accruals	795	422
Provision for unused vacation	673	403
	1,468	825
Long-term employee benefits	31 December 2020	31 December 2019
Provision for employment termination benefit	9,726	8,558
	9,726	8,558

The movements of provision for unused vacation as of 31 December 2020 and 2019 are as follows:

	2020	2019
1 January	403	372
Provision for the period	270	31
31 December	673	403

Provision for employment termination benefits

In accordance with the provisions of the Labor Law in effect, the Company is legally obliged to pay termination benefits to employees whose employment contract expires in a way to be entitled to termination benefit. In addition, in line with the current legislation, there is an obligation to pay the legal termination benefits to those who are entitled to leave of employment by receiving termination benefits. As of 1 January 2021, the ceiling amount for the termination benefit is TL 7,638.96 per month (1 January TL 2020: 6,730 TL). Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees of the Group. TAS 19 Employee Benefits stipulates the development of Group’s liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As of 31 December 2020 and 31 December 2019, provisions in the financial statements have been calculated by estimating the current value of potential future liabilities resulting from employee retirement.

	2020	2019
1 January	8,558	6,367
Service cost	2,206	2,945
Interest cost	319	263
Employment termination benefits paid	(938)	(1,195)
Remeasurement differences	(419)	178
31 December	9,726	8,558

	31 December 2020	31 December 2019
Real Discount Rate (%)	4.15	3.72
Turnover Rate to Estimate the Probability of Retirement (%)	94.84	94.97

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 15 - OTHER ASSETS AND LIABILITIES

Short-term prepaid expenses	31 December 2020	31 December 2019
Prepaid expenses	535	1,310
	535	1,310

Other current assets	31 December 2020	31 December 2019
Deferred value added tax	12,960	11,720
Order advances given	6,459	3,858
Business advances	6	13
Other miscellaneous current assets	434	134
	19,859	15,725

Current tax assets	31 December 2020	31 December 2019
Prepaid taxes and funds	14,283	9,957
	14,283	9,957

Other non-current assets	31 December 2020	31 December 2019
Other non-current assets	-	71
	-	71

Long-term prepaid expenses	31 December 2020	31 December 2019
Prepaid expenses	2,255	2,408
	2,255	2,408

Other short-term liabilities	31 December 2020	31 December 2019
Advances received	13,829	6,343
Deferred income	87	3,705
	13,916	10,048

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 16 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Paid-in capital

The Company’s shareholders and their shares in paid-in capital are as follows.

	<u>31 December 2020</u>		<u>31 December 2019</u>	
	<u>% Rate</u>	<u>Amount</u>	<u>% Rate</u>	<u>Amount</u>
AG Anadolu Grubu Holding A.Ş.	56.89	13,439	56.89	13,439
Faber - Castell Aktiengesellschaft	15.4	3,638	15.4	3,638
Public	27.71	6,548	27.71	6,548
Share capital	100.00	23,625	100.00	23,625
Capital adjustment differences		1,584		1,584
Total capital		25,209		25,209

Adjustment to share capital represents the effect of restating the cash additions to paid-in capital according to the purchasing power at the end of the year.

Number of shares, share groups and concessions:

While 3,637,941 of total shares of the Company amounting to TL 3,638 are registered in accordance with Foreign Capital Regulations, 19,987,059 of the total shares amounting to TL 19,987 are bearer shares. There are no privileges to the shareholders regarding Board of Directors election.

Restricted reserves appropriated from profit

According to Turkish Commercial Code (“TCC”), legal reserves are consisting of two parts as the first and second reserves. According to TCC, the first legal reserves is allocated from the 5% of net profit for the year until the amount reaches to 20% of paid in capital. The second legal reserves are allocated from the 10% of the dividend distributed which exceeds the 5% of the paid in capital. According to TCC, unless the legal reserves exceeds the 50% of paid in capital, they could be utilised solely through offsetting the net losses incurred. In the context of Corporate Tax Law 5520 Article 5/e, as a result of sales of property and financial investments, 75% of gain on sales was classified as “Profit from the sale of participation shares and property”.

	<u>31 December 2020</u>	<u>31 December 2019</u>
Legal reserves	22,225	22,225
Profit from the sale of participation and properties	46,521	46,068
	68,746	68,293

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 16 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

Retained earnings

Retained earnings consist of extraordinary reserves and other retained earnings. Based on CMB regulations, details of the Company’s retained earnings are as follows:

	31 December 2020	31 December 2019
Extraordinary reserves	53,841	83,969
Other prior years' profit	1,491	1,491
	55,332	85,460

Dividend distribution

Based on the CMB Decree 7/242, dated 25 February 2005, if the amount of profit distributions calculated in accordance with the net distributable profit requirements of the CMB does not exceed the statutory net distributable profit, the total amount of distributable profit should be distributed. If it exceeds the statutory net distributable profit, the total amount of the statutory net distributable profit should be distributed. It is stated that dividend distributions should not be made if there is a loss in either the financial statements prepared in accordance with CMB regulations or in the statutory financial statements. Based on CMB Decree No. 02/51, dated 27 January 2010, there is no mandatory minimum profit distribution requirement for the quoted entities at the stock exchange.

Equity inflation adjustment differences and recorded values of extraordinary reserves can be used for free capital increase, in cash dividend distribution or loss deduction. However, equity inflation adjustment differences are subject to corporate tax if used in cash dividend distribution.

The Company management’s profit distribution decision has been taken in General Assembly meeting. If the profit is going to be distributed, the total amount should be funded from statutory distributable profits.

The Company has no distributable profit for the period in 2020. The total amount of other resources that can be subject to profit distribution without additional corporate tax burden in the statutory records of the Company is TL 87,994. (31 December 2019: TL 92,381)

In the Ordinary General Assembly meeting held on 8 April 2020, it has been decided to distribute the dividend with gross amount of TL 15,001,875.00 from the prior years’ profit as other resource anticipated to be distributed as our Company has no profit for the period in both its audited financial statements of the prior periods prepared in accordance with Turkish Accounting/Turkish Financial Reporting Standards (TAS/TFRS) and on Non-consolidated basis within the scope of “The Communique on Principles of Financial Reporting in Capital Market” of CMB with Serial:II and No:14.1, and in its statutory records, at the rate of 63.5% in gross at the amount of TL 0.0635 for each share with nominal value of TL 1, and at the rate of 53.98% in net at the amount of TL 0.53975 for each share with nominal value of TL 1. However, the dividend payment was deferred in line with the Judgement of the The President of the Republic published in the Official Gazette dated 18 September 2020 and the amendment of the relevant Communiqué of the Ministry of Trade published in the Official Gazette dated 28/10/2020.

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 17 - REVENUE AND COST OF SALES

	1 January - 31 December 2020	1 January - 31 December 2019
Domestic sales	484,025	435,577
Export sales	23,656	21,463
Sales discounts (-)	(116,534)	(109,926)
Net sales	391,147	347,114
Cost of sales (-)	(242,358)	(195,290)
Gross profit	148,789	151,824

Breakdown of cost of sales for the periods is as follows:

	1 January - 31 December 2020	1 January - 31 December 2019
Raw material expenses	86,852	53,835
Direct labour expenses	22,673	13,979
Overhead expenses	22,886	19,083
Depreciation expenses	7,832	8,035
Provision for impairment of inventories	9,904	3,800
Change in work-in-progress inventories	808	(2,723)
Change in finished goods inventories	(13,007)	14,322
Cost of goods sold	137,948	110,331
Cost of trade goods sold	104,410	84,959
Cost of sales	242,358	195,290

NOTE 18 - EXPENSES BY NATURE

The Company’s operating expenses are as follows:

	1 January - 31 December 2020	1 January - 31 December 2019
Raw materials and trade goods	179,063	150,393
Personnel expenses	74,094	62,900
Domestic sales expense	13,616	9,516
Depreciation expenses	13,994	14,735
Outsourcing expenses	17,768	11,717
Rent expenses	12,000	9,602
Information technologies expenses	395	4,351
Other expenses	43,088	30,073
	354,018	293,287

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 18 - EXPENSES BY NATURE (Continued)

Expenses by nature comprise cost of sales, research and development expenses, marketing, sales and distribution expenses and general administrative expenses.

	1 January - 31 December 2020	1 January - 31 December 2019
Cost of sales	242,358	195,290
Research and development expenses	2,176	1,492
Marketing, sales and distribution expenses	74,414	64,314
General administrative expenses	35,070	32,191
	354,018	293,287

Distribution of personnel expenses within research and development expenses, cost of sales, marketing, sales and distribution expenses and general administrative expenses is as follows:

Personnel Expenses:	2020	2019
Research and development expenses	1,741	1,044
Cost of sales	30,970	23,248
Marketing, sales and distribution expenses	21,151	21,898
General administrative expenses	20,232	16,710
	74,094	62,900

Research and Development Expenses

	2020	2019
Personnel Expenses	1,741	1,044
Depreciation Expenses	430	344
Other Expenses	5	104
	2,176	1,492

Marketing, Sales and Distribution Expenses

	2020	2019
Personnel Expenses	21,151	21,898
Domestic Sales Expenses	12,436	9,516
Announcement and Advertisement Expenses	7,758	6,388
Depreciation Expenses	4,521	5,041
License and Similar Expenses	5,837	5,031
Lease Expenses	7,820	5,477
Transport Vehicle Expenses	2,974	3,155
Business and Services	6,399	3,393
Other Expenses	5,518	4,415
	74,414	64,314

General Administrative Expenses

	2020	2019
Personnel Expenses	20,232	16,710
Depreciation Expenses	1,211	1,316
Business and Services	9,356	9,633
Other Expenses	4,271	4,532
	35,070	32,191

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 19 - OTHER INCOME AND EXPENSES FROM OPERATING AND INVESTING ACTIVITIES

	1 January - 31 December 2020	1 January - 31 December 2019
Income from operating activities		
Foreign exchange gains	865	622
Insurance compensation income	174	10
Income from discount interest	3,050	1,005
Income from provision released	260	705
Inventory surplus	735	1,104
Maturity differences income	-	258
Other	849	1,512
	5,933	5,216

	1 January - 31 December 2020	1 January - 31 December 2019
Other expenses from operating activities		
Expenses from discount interest	3,096	175
Foreign exchange losses	1,580	291
Provisions for legal case expenses (Note:13)	684	534
Allowance for doubtful receivables	415	326
Sales of scrap and other material	509	1,032
Other	1,978	5,805
	8,262	8,163

Other income from investing activities is as follows:

	1 January - 31 December 2020	1 January - 31 December 2019
Income/expenses from investing activities, net		
Property sales profit	241	2,840
Dividend income from associates	-	283
Profit on sales of property, plant and equipment	145	37
	386	3,160

	1 January - 31 December 2020	1 January - 31 December 2019
Shares from profits (losses) of investments valued by equity method		
LLC Faber-Castell Anadolu (Note 6)	(164)	(6,081)
	(164)	(6,081)

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

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NOTE 20 - FINANCE INCOME AND EXPENSES

Finance income	1 January- 31 December 2020	1 January- 31 December 2019
Foreign exchange gains	260	562
Interest income	7,270	3,325
	7,530	3,887

Finance expense	1 January- 31 December 2020	1 January- 31 December 2019
Interest expenses	38,266	69,064
Foreign exchange losses	242	435
Interest cost on employment termination benefits	319	263
	38,827	69,762

NOTE 21 – INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

	1 January - 31 December 2020	1 January - 31 December 2019
Current tax provision (-)	-	-
Deferred tax income/expense	(1,810)	3,243
Total tax expense (net)	(1,810)	3,243

Reconciliation between current year tax expense and profit is as follows:

	2020	2019
Profit / loss before tax	3,725	(17,916)
Tax rate	22%	22%
Calculated tax expense	819	(3,941)
Discounts and additions	991	698
Tax income / (expense)	1,810	(3,243)

	31 December 2020	31 December 2019
Current income tax liabilities	-	-
Less: Prepaid corporate tax	14,283	9,957
Current income tax (liabilities)/receivables, net	14,283	9,957

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 21 – INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Continued)

Deferred Tax:

	Total temporary differences		Deferred taxation	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Provision for employment termination benefits	(17,788)	(16,143)	(3,558)	(3,551)
Promotional materials	9,726	8,558	1,945	1,883
Discount	1,256	1,135	251	249
Deferred financial loss	441	15,979	88	3,515
R&D discount	5,414	-	1,083	-
Investment incentive	3,762	-	752	-
Provision for doubtful receivables	2,256	1,841	451	405
Provision for unused vacation	673	402	135	89
Provision for impairment on inventory	4,689	4,873	938	1,072
Provision for litigation	2,577	2,153	515	474
Promotional materials	1,925	1,524	385	335
Derivative financial instruments	4,592	(1,369)	918	(301)
Other	311	2,188	63	481
Deferred tax asset/(liability), net	19,834	21,141	3,966	4,651

	2020	2019
1 January	4,651	4,135
Deferred tax expense / (income)	(1,810)	3,243
Effect of remeasurement differences of employment termination benefit recognized under equity	(84)	39
Effect of derivative financial instruments	1,209	(2,766)
31 December	3,966	4,651

NOTE 22 - EARNINGS / (LOSS) PER SHARE

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

	1 January - 31 December 2020	1 January - 31 December 2019
Profit / (loss) for the period	1,915	(14,673)
Average number of shares (weighted average number of ordinary shares with nominal value TL 1 each)	23,625,000	23,625,000
Earnings / (loss) per share (Total TL)	0.0811	(0.6211)

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 23 – RELATED PARTY DISCLOSURES

a) Related party balances

	Receivables from Related Parties	
	31 December 2020	31 December 2019
Migros Ticaret A.Ş. (3)	10,553	9,050
LLC Faber-Castell Anadolu (2)	294	237
A.W.Faber-Castell Vertrieb GmbH (3)	911	1,115
Other	2,432	2,964
	14,190	13,366
Less: Rediscount of receivables/payables (-)	(606)	(316)
	13,584	13,050

	Payables to Related Parties	
	31 December 2020	31 December 2019
AG Anadolu Grubu Holding A.Ş. (1)	22	574
Efestur Turizm İşletmeleri A.Ş. (3)	58	120
Anadolu Sigorta Acentalığı A.Ş. (3)	154	168
Migros Ticaret A.Ş. (3)	55	137
A.W.Faber-Castell(Guangzhou)	1,656	-
Other	61	90
	2,006	1,089
Less: Rediscount of receivables/payables (-)	(316)	(17)
	1,690	1,072

- 1) Shareholders
- 2) Joint venture
- 3) Other companies controlled by the shareholders

(*)At the Ordinary General Assembly meeting held on 8 April 2020, dividend amounting to TL 15,001,875 from the net profit of 2019 was decided to be distributed however, and the dividend payment was deferred in line with the Presidential Decision published in the Official Gazette dated 18 September 2020 and the amendment of the relevant Communiqué of the Ministry of Trade published in the Official Gazette dated 28/10/2020.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 23 – RELATED PARTY DISCLOSURES (Continued)

b) Transactions with related parties

	1 January - 31 December 2020	1 January - 31 December 2019
Purchases of goods		
A.W.Faber-Castell Vertrieb GmbH (3)	32,846	10,704
A.W. Faber-Castell (Guangzhou) Stationery Co. Ltd. (3)	17,446	13,123
A.W.Faber Castell (M) Sdn.Bhd. (3)	22,959	9,651
Other	1,223	185
	74,474	33,663
Sales of goods		
Migros Ticaret A.Ş. (3)	12,935	10,942
A.W.Faber-Castell Vertrieb GmbH (3)	5,542	4,222
Other	1,217	1,747
	19,694	16,911
Purchases of service		
Efestur Turizm İşletmeleri A.Ş. (3)	3,174	2,746
Anadolu Bilişim Hizmetleri A.Ş. (3)	22	533
AG Anadolu Grubu Holding A.Ş. (1)	390	4,638
Çelik Motor Tic.A.Ş. (3)	3	2,343
Migros Ticaret A.Ş. (3)	4,137	4,521
Other	139	156
	7,865	14,937
Services given		
A.W.Faber-Castell Vertrieb GmbH (3)	1,088	753
AEP Anadolu Etap Penkon Gıda ve Tarım Ürün San ve Tic A.Ş (3)	1,219	-
Anadolu Restoran İşletmeleri Ltd. Şti. (3)	-	756
Other	785	759
	3,092	2,268

- 1) Shareholders
- 2) Joint venture
- 3) Other companies controlled by the shareholders

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(Amounts expressed in thousand Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 23 - RELATED PARTY DISCLOSURES (Continued)

c) Key management compensation

Key management consists of the Head of Tarım, Enerji ve Sanayi Group, the General Manager and other management reporting directly to General Manager. Key management compensation is as follows:

	2020	2019
Salaries and other short-term employee benefits	9,829	12,206
Employment termination benefits	329	295
	10,158	12,501

NOTE 24 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximizing its profit and market value through the optimization of the debt and equity balance.

The Company’s capital structure comprises of borrowings -including loans- , cash and cash equivalents and equity items.

Risks, associated with each capital class, and the top management evaluates the capital cost. It is aimed that the capital structure will be set in balance by means of new borrowings or repaying the existing debts as well as dividend payments and new share issuances based on the top management evaluations.

The Company monitors capital by using debt to total capital ratio. This ratio is calculated by dividing the net debt by total capital. The net debt is calculated by excluding the cash and cash equivalent amounts from the total debt amount (including borrowings, leasing and trade payables as indicated in the balance sheet). Total capital is calculated by adding net debt to shareholders’ equity as indicated in the balance sheet.

General strategy of the Company based on shareholders’ equity is not different from previous periods.

The Company does not conduct hedging contracts (including derivative financial instruments) and does not have any activities related to the purchase-sell of such instruments.

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NOTE 24 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

(a) Capital risk management (continued)

As of 31 December 2020 and 31 December 2019 net debt/(equity+net debt) ratio is as follows:

	31 December 2020	31 December 2019
Total borrowings (*)	426,550	191,966
Less: Cash and cash equivalents	(279,347)	(13,421)
Net debt	147,203	178,545
Equity	145,389	163,219
Equity+net debt	292,592	341,764
Net debt/(Equity+net debt) ratio	50%	52%

(*) Within the total borrowings, the right-of-use assets under the scope of TFRS 16 are not included in the financial lease liabilities.

(b) The Company’s exposure to risks

The Company is exposed to foreign exchange rate and other risks due to its activities. The Company also has the risk that the counterparty will be unable to meet the requirements of the agreement due to the possession of financial instruments.

Market risks encountered at the Company level are measured based on sensitivity analysis. In the current year, there has been no change in the Company's exposure to market risk or the manner in which it is dealt with or how it measures it, when compared with the prior period.

(c) Foreign currency risk and management

Certain transactions denominated in foreign currencies results in foreign currency risk.

The Company is exposed to currency risk as the mismatch between foreign currency denominated assets and liabilities. Currency risk arises from the forward trade transactions and the difference between assets and liabilities recognised.

TL equivalents of the Company’s assets and liabilities denominated in foreign currencies are as follows:

	31 December 2020	31 December 2019
Assets	35,428	14,299
Liabilities	(5,931)	(2,853)
Net balance foreign currency position	29,497	11,446

The Company is mainly exposed to foreign currency risk in USD and Euro.

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NOTE 24 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

(c) Foreign currency risk and management (continued)

Profit/(loss) 31 December 2020	Foreign currency appreciates	Foreign currency depreciates
Change in USD against TL by +/- 10%:		
1- USD net asset/liabilities	2,765	(2,765)
2- USD net hedged amount (-) (*)	-	-
3- USD net effect (1+2)	2,765	(2,765)
Change in EUR against TL by +/- 10%:		
4- Euro net asset/liabilities	182	(182)
5- Euro net hedged amount (-)	-	-
6- Euro net effect (4+5)	182	(182)
Change in other foreign currencies against TL by +/- 10%:		
7- Other foreign currency net asset/liabilities	3	(3)
8- Other foreign currency net hedged amount (-)	-	-
9- Other foreign currency net effect (7+8)	3	(3)
	2,950	(2,950)
<hr/>		
Profit/(loss) 31 December 2019	Foreign currency appreciates	Foreign currency depreciates
Change in USD against TL by +/- 10%:		
1- USD net asset/liabilities	1,069	(1,069)
2- USD net hedged amount (-) (*)	-	-
3- USD net effect (1+2)	1,069	(1,069)
Change in EUR against TL by +/- 10%:		
4- Euro net asset/liabilities	73	(73)
5- Euro net hedged amount (-)	-	-
6- Euro net effect (4+5)	73	(73)
Change in other foreign currencies against TL by +/- 10%:		
7- Other foreign currency net asset/liabilities	2	(2)
8- Other foreign currency net hedged amount (-)	-	-
9- Other foreign currency net effect (7+8)	2	(2)
	1,144	(1,144)

(*) The effect of derivative instruments for hedging purposes has not been considered.

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NOTE 24 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

(c) Foreign currency risk and management (continued)

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

	31 December 2020					31 December 2019				
	TL Equivalent	USD	Euro	GBP	Other	TL Equivalent	USD	Euro	GBP	Other
1. Trade Receivables	5,580	464	241	-	-	6,095	857	151	-	-
2a. Monetary Financial Assets	22,632	3,083	-	-	-	4,038	676	4	-	-
2b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
3. Other	7,216	828	122	2	-	4,166	554	127	2	-
4. Total Current Assets (1+2+3)	35,428	4,375	363	2	-	14,299	2,087	282	2	-
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)	35,428	4,375	363	2	-	14,299	2,087	282	2	-
10. Trade Payables	4,993	485	159	-	6	2,642	257	168	-	8
11. Financial Liabilities	-	-	-	-	-	-	-	-	-	-
12a. Other Monetary Liabilities	938	125	2	-	-	211	30	5	-	-
12b. Other Non-Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
13. Total Current Liabilities (10+11+12)	5,931	610	161	-	6	2,853	287	173	-	8
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)	5,931	610	161	-	6	2,853	287	173	-	8
19. Net Asset/ (Liability) Position of Off-Balance Sheet Derivatives (19a-19b)	36,703	5,000	-	-	-	54,537	9,181	-	-	-
19a. Total Amount of Hedged Assets	36,703	5,000	-	-	-	54,537	9,181	-	-	-
19b. Total Amount of Hedged Liabilities	-	-	-	-	-	-	-	-	-	-
20. Net Foreign Currency Asset / (Liability) Position (9-18+19)	66,200	8,765	202	2	(6)	65,983	10,981	109	2	(8)
21. Monetary Items Net Foreign Currency Asset / (Liability) Position (1+2a+3+5+6a-10-11-12a-14-15-16a)	29,497	3,765	202	2	(6)	11,446	1,800	109	2	(8)
22. Total Fair Value of Hedge Funds of Foreign Currency Instruments	-	-	-	-	-	1,369	230	-	-	-
23. Hedged Amount of Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-
24. Hedged Amount of Foreign Currency Liabilities	-	-	-	-	-	-	-	-	-	-
23. Export	23,656	2,162	1,054	-	-	21,463	2,474	1,271	-	-
24. Import	128,979	13,261	5,071	49	27,018	80,027	11,434	2,361	35	20,815

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**NOTE 24 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(Continued)**

(d) Interest rate risk and management

As of 31 December 2020, the Company does not have borrowings with variable interest rate (31 December 2019: None).

(e) Credit risk management

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. Collection risk of the Company mainly derives from trade receivables. Trade receivables are netted in balance sheet after provisions for doubtful receivables which are in line with the Company policies and procedures.

The majority of the Company’s sales are made in domestic market through distributors and wholesalers. Approximately 50% of total sales are produced products. Trade goods are foreign originated. Therefore, trade goods costs of the Company bear foreign exchange rate risk. Raw material costs are dependent to general price movements in the country. 94% of the total sales of the Company are made in domestic market and price level is determined by taking into consideration the fluctuations in foreign exchange rates.

The Company performs collection mainly from distributors by checks and also uses direct borrowing system (DBS). Since the drawers of these checks are generally distributors, the risk is distributed. As a result of these procedures, the Company did not incur any significant risk for receivables collection.

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NOTE 24 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2020	Trade receivables		Other receivables		Deposit at banks	Other Financial Assets
	Related parties	Other	Related parties	Other		
Maximum exposure to credit risk as of reporting date	13,584	45,912	-	560	-	-
- <i>Maximum credit risk covered by guarantees</i>	-	26,449	-	-	-	-
A. Net book value of financial assets neither overdue nor impaired	13,584	45,912	-	560	-	-
B. Carrying amount of financial assets whose term has been renegotiated, otherwise past due or impaired	-	-	-	-	-	-
C. Past due but not impaired financial assets	-	-	-	-	-	-
- <i>Under guarantee</i>	-	-	-	-	-	-
D. Net carrying amount of financial assets impaired	-	-	-	-	-	-
- Overdue (Gross carrying value)	-	4,688	-	-	-	-
- Impaired (-)	-	(4,688)	-	-	-	-
- Net carrying amount of financial assets under guarantee	-	-	-	-	-	-
- Not overdue (gross carrying value)	-	-	-	-	-	-
- Impaired (-)	-	-	-	-	-	-
- Net carrying amount of financial assets under guarantee	-	-	-	-	-	-
E. Off- balance sheet items which include credit risk	-	-	-	-	-	-

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NOTE 24 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2019	Trade receivables		Other receivables		Deposit at banks	Other Financial Assets
	Related parties	Other	Related parties	Other		
Maximum exposure to credit risk as of reporting date	13,050	68,968	-	453		
<i>- Maximum credit risk covered by guarantees</i>	<i>-</i>	<i>65,888</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
A. Net book value of financial assets neither overdue nor impaired	13,050	68,968	-	453		
B. Carrying amount of financial assets whose term has been renegotiated, otherwise past due or impaired	-	-	-	-	-	-
C. Past due but not impaired financial assets	-	-	-	-	-	-
<i>- Under guarantee</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
D. Net carrying amount of financial assets impaired	-	-	-	-	-	-
- Overdue (Gross carrying value)	-	4,272	-	-	-	-
- Impaired (-)	-	(4,272)	-	-	-	-
- Net carrying amount of financial assets under guarantee	-	-	-	-	-	-
- Not overdue (gross carrying value)	-	-	-	-	-	-
- Impaired (-)	-	-	-	-	-	-
- Net carrying amount of financial assets under guarantee	-	-	-	-	-	-
E. Off- balance sheet items which include credit risk	-	-	-	-	-	-

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NOTE 24 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Details of mortgage and collaterals received for the receivables are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Mortgages	5,935	12,700
Pledge agreements	78	78
Letter of guarantees	27,336	58,596
	33,349	71,374

(f) Liquidity risk and management

The Company manages its liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities through a constant monitoring forecast and actual cash flows and matching the maturity profile of the financial assets and liabilities.

Liquidity risk tables

Conservative liquidity risk management requires maintaining adequate reserves in addition to having the ability to utilize adequate level of credit lines and funds as well as closing market positions.

Funding risk attributable to the current and future potential borrowing needs is managed by providing continuous access to adequate number of creditors with high quality.

The maturity distribution of the Company's derivative and non-derivative financial liabilities on TL basis is as follows:

31 December 2020	Carrying Value	Total Cash Outflow	Less than 3 months	3-12 months	1-5 years	More than 5 years
Financial payables	390,637	420,356	95,062	240,618	84,676	-
Trade Payables	36,646	37,202	37,202	-	-	-
Other Payables	23,921	15,321	10,075	2,777	2,469	-

31 December 2019	Carrying Value	Total Cash Outflow	Less than 3 months	3-12 months	1-5 years	More than 5 years
Financial payables	174,295	197,350	6,756	134,590	56,004	-
Trade Payables	21,259	21,494	21,494	-	-	-
Other Payables	5,417	5,417	5,417	-	-	-

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NOTE 25 - FINANCIAL INSTRUMENTS

25.1 Fair Value

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

Fair value measurements

Level 1: Valuation techniques using quoted (unadjusted) market prices for the identified financial instruments

Level 2: Other valuation techniques including indirect or direct observable data

Level 3: Valuation techniques that do not include observable market data

	31 December 2020	Level 1	Level 2	Level 3
Derivative financial payables	4,641	-	4,641	-
	31 December 2019	Level 1	Level 2	Level 3
Derivative financial payables	-	-	-	-
	31 December 2020	Level 1	Level 2	Level 3
Derivative financial assets	-	0	-	-
	31 December 2019	Level 1	Level 2	Level 3
Derivative financial assets	1,369	-	1,369	-

25.2 Derivative Financial Instruments and Hedges

The Company started to apply cash flow hedge accounting as of 1 October 2018.

As of 31 December 2020, the Company has participatory forward transactions amounting to USD 5,000,000 with a nominal value of TL 30,702 (31 December 2019: the Company has participatory forward transactions amounting to USD 9,181,000 with a nominal value of TL 54,537).

As of 31 December 2020, the Company reserved TL 10,277 equivalent of USD 1.400.000 from its bank balances for forward raw material and trade product purchases.

The Company documents the relationship between the hedging instrument and the hedged item at the beginning of the hedging process, as well as its strategy for fulfilling risk management objectives and various hedging transactions. The Company also documents the assessment of whether the hedging instruments used both at the beginning of the hedging process and at regular intervals are highly effective in offsetting changes in the value of hedged items.

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

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NOTE 25 - FINANCIAL INSTRUMENTS (Continued)

25.2 Derivative Financial Instruments and Hedges (Continued)

	Contract amount	2020		Contract amount	2019	
		Asset	Liability		Asset	Liability
For hedging purposes:						
Participated forward transaction	-	-	-	54,537	1,369	-
Forward transactions	36,703	-	4,641	-	-	-
	36,703	-	4,641	54,537	1,369	-
Short-term	36,703	-	4,641	54,537	1,369	-
	36,703	-	4,641	54,537	1,369	-

Objectives in financial risk management:

The Company's finance department is responsible for ensuring access to financial markets on a regular basis and for monitoring and managing financial risk related to the Company's operations. These risks are; market risk (including exchange rate risk, fair interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Company does not have any speculative financial instruments (including derivative financial instruments) and has no activity related to the purchase and sale of such instruments.

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NOTE 25 - FINANCIAL INSTRUMENTS (Continued)

25.2 Derivative Financial Instruments and Hedges (continued)

31 December 2020	Notes	FVTOCI	Financial assets at amortized cost	Financial liabilities at amortized cost	Carrying value	Fair value
Financial assets						
Cash and cash equivalents	4	-	279,347	-	279,347	279,347
Trade receivables	8	-	45,912	-	45,912	45,912
Receivables from related parties	23	-	13,584	-	13,584	13,584
Other financial assets	5, 9	-	794	-	794	794
Financial liabilities						
Financial payables	7	-	-	388,035	388,035	388,035
Lease payables	-	-	-	6,219	6,219	6,219
Trade payables	8	-	-	36,646	36,646	36,646
Payables to related parties	23	-	-	1,690	1,690	1,690
Derivative instruments	25	4,641	-	-	4,641	4,641
Other financial liabilities	9	-	-	17,407	17,407	17,407
31 December 2019						
Financial assets						
Cash and cash equivalents	4	-	13,421	-	13,421	13,421
Trade receivables	8	-	68,968	-	68,968	68,968
Receivables from related parties	23	-	13,050	-	13,050	13,050
Derivative instruments	25	1,369	-	-	1,369	1,369
Other financial assets	5, 9	-	687	-	687	687
Financial liabilities						
Financial payables	-	-	-	176,970	176,970	176,970
Lease payables	7	-	-	11,998	11,998	11,998
Trade payables	7	-	-	21,259	21,259	21,259
Payables to related parties	8	-	-	1,072	1,072	1,072

NOTE 26 – EVENTS AFTER THE REPORTING PERIOD

At the Ordinary General Assembly meeting held on 8 April 2020, TL 15.001.875 from the net profit of 2019 was decided to be distributed and the dividend payment which had been deferred in line with the Presidential Decision published in the Official Gazette dated 18 September 2020 and the amendment of the relevant Communiqué of the Ministry of Trade published in the Official Gazette dated 28/10/2020, was exercised on 5 January 2021.