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 2019 - 31 DECEMBER 2019

(ORIGINALLY ISSUED IN TURKISH)

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DRT Bağımsız Denetim ve
Serbest Muhasebeci
Mali Müşavirlik A.Ş.
Maslak no1 Plaza
Eski Büyükdere Caddesi
Maslak Mahallesi No:1
Maslak, Sarıyer 34485
İstanbul, Türkiye

Tel : +90 (212) 366 6000
Fax : +90 (212) 366 6010
www.deloitte.com.tr

Mersis No: 0291001097600016
Ticari Sicil No : 304099

**(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 2019, 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 2019, 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
Sales discounts 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 2019 is a complex area and it is possible for these calculations to contain material errors and inaccuracies. The accounting policy for the discounts is explained in Note 2 and related note is presented in Note 17.	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. In order to determine whether the discounts are recognized in the correct amounts, the compliance of the procedures to the declared conditions were tested and evaluated by sampling method and accuracy and correction of the data which is base of the calculation was checked by recalculating the data. Current account reconciliations with major retailers that are part of the sales discounts are tested by external confirmation method and tests in detail. Furthermore, the adequacy of the information in the financial statements and in Note 17 has been assessed in terms of TAS.

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.

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 28 February 2020.

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 Entity’s set of accounts and financial statements prepared for the period 1 January - 31 December 2019 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, 28 February 2020

ADEL KALEMCİLİK TİCARET VE SANAYİ A.Ş.

AUDITED STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2019 AND 31 DECEMBER 2018

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

	Notes	Audited 31 December 2019	Audited 31 December 2018
Assets			
Current assets:			
Cash and cash equivalents	4	13,421	59,155
Trade receivables		82,018	77,794
- Due from related parties	23	13,050	17,540
- Due from third parties	8	68,968	60,254
Other receivables		453	1,817
- Due from third parties	9	453	1,817
Derivative financial instruments	25.1	1,369	-
Inventories	10	137,387	158,379
Prepaid expenses	15	1,310	1,127
Current tax assets	15	9,957	16,543
Other current assets	15	15,725	26,472
Total current assets		**261,640**	**341,287**
Non-current assets:			
Financial investments	5	234	234
Investments accounted for using equity method	6	-	-
Property, plant and equipment	11	105,340	111,082
Right-of-use assets		6,904	-
Intangible assets	12	8,273	6,860
Prepaid expenses	15	2,408	2,427
Deferred tax assets	21	4,651	4,135
Other non-current assets	15	71	7
Total non-currrent assets		**127,881**	**124,745**
Total assets		**389,521**	**466,032**

These financial statements for the period 1 January - 31 December 2019 and for the year ended, have been approved for issue by the Board of Directors on 28 February 2020 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.

AUDITED STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2019 AND 31 DECEMBER 2018

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

	Notes	Audited 31 December 2019	Audited 31 December 2018
Liabilities and equity			
Current liabilities:			
Short-term borrowings	7	118,687	205,390
Short-term protions of long-term borrowings		7,241	10,083
- Short-term borrowings from third parties	7	7,241	10,083
- Bank Loans	7	4,566	-
- Lease payables	7	2,675	10,083
Trade payables		22,331	24,115
- Trade payables to related parties	23	1,072	744
- Trade payables to third parties	8	21,259	23,371
Payables related to employee benefits	9	4,502	6,215
Other payables	9	915	3,419
- Other payables to related parties	9	-	-
- Other payables to third parties	9	915	3,419
Derivative financial instruments	25.1	-	11,205
Short-term provisions		2,978	3,394
- Short-term provisions for employee benefits	14	825	1,071
- Other short-term provisions	13	2,153	2,323
Other current liabilities	15	10,048	2,395
Total current liabilities		**166,702**	**266,216**
Non-current liabilities:			
Long-term borrowings		51,042	4,668
- Long-term borrowings from third parties	7	51,042	4,668
- Bank Loans	7	46,285	-
- Lease payables	7	4,757	4,668
Long-term provisions		8,558	6,367
- Long-term provisions for employee benefits	14	8,558	6,367
Total non-current liabilities		**59,600**	**11,035**
Equity:			
Share capital	16	23,625	23,625
Adjustment to share capital	16	1,584	1,584
Other comprehensive income or expenses that will not be reclassified subsequently to profit or loss		(1,009)	(870)
- Gains / (losses) on revaluation and remeasurement		(1,009)	(870)
Accumulated other comprehensive income or expenses that will be reclassified subsequently to profit or loss		(61)	(9,321)
- Foreign currency translation reserves		(1,129)	(581)
- Gains/(losses) on hedge accounting		1,068	(8,740)
Restricted reserves appropriated from profit	16	68,293	66,410
Prior years' profit	16	85,460	93,523
Net profit / (loss) for the period		(14,673)	13,830
Total equity		**163,219**	**188,781**
Total liabilities and equity		**389,521**	**466,032**

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

AUDITED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 31 DECEMBER 2018

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

		Audited	
Profit or loss	**Notes**	**1 January - 31 December 2019**	**1 January - 31 December 2018**
Revenue	17	347,114	385,115
Cost of sales (-)	17	(195,290)	(210,841)
Gross profit		**151,824**	**174,274**
Research development expenses (-)	18	(1,492)	-
General administrative expenses (-)	18	(32,191)	(29,799)
Marketing expenses (-)	18	(64,314)	(72,721)
Other income from operating activities	19	5,216	4,721
Other expenses from operating activities (-)	19	(8,163)	(9,904)
Operating profit		**50,880**	**66,571**
Income from investing activities	19	3,164	416
Expenses from investing activities (-)	19	(4)	(52)
Share of profit/(loss) investments accounted for using the equity method	19	(6,081)	(753)
Operating profit before finance income/(expense)		**47,959**	**66,182**
Finance income	20	3,887	4,494
Finance expenses (-)	20	(69,762)	(49,319)
Profit / (loss) before tax from continuing operations		**(17,916)**	**21,357**
Continuing operating tax expense		**3,243**	**(7,527)**
- Current tax expense	21	-	(8,747)
- Deferred tax income	21	3,243	1,220
Profit / (loss) for the period		**(14,673)**	**13,830**
Earnings/(loss) per share (total TL)	22	**(0.6211)**	**0.5854**

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

AUDITED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE PERIODS ENDED 31 DECEMBER 2019 AND 31 DECEMBER 2018

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

		Audited	
	Notes	**1 January - 31 December 2019**	**1 January - 31 December 2018**
Net profit / (loss) for the period		**(14,673)**	**13,830**
Other comprehensive income/expenses			
Items that will not be reclassified subsequently profit or loss		(139)	206
- Gains/(losses) on remeasurement of defined benefits plans	14	(178)	264
- Taxes related to other comprehensive income that will not be reclassified in profit or loss		39	(58)
-Deferred tax (expense) income		39	(58)
Items that will be reclassified to profit or loss		9,260	(8,654)
- Foreing currency translation differences	6	(548)	86
- Hedging gains/(losses)		12,574	(11,205)
- Taxes related to other comprehensive income that will be reclassified in profit or loss		(2,766)	2,465
-Deferred tax (expense)/income		(2,766)	2,465
Other comprehensive income/(expense)		**9,121**	**(8,448)**
Total comprehensive income/(expense)		**(5,552)**	**5,382**

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

AUDITED STATEMENTS CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019 AND 31 DECEMBER 2018

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

			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		Retained earning		
	Share capital	Capital adjustment differences	Foreign currency translation differences	Hedging gains (losses)	Gains/(losses) on remeasurement of defined benefit plans	Restricted reserves appropriated from profit	Prior years' profit	Net profit / (loss) for the period	Total equity
Balances as of 1 January 2018	**23,625**	**1,584**	**(667)**	**-**	**(1,076)**	**85,913**	**69,150**	**26,870**	**205,399**
Transfers	-	-	-	-	-	(19,503)	46,373	(26,870)	-
Dividends	-	-	-	-	-	-	(22,000)	-	(22,000)
Total comprehensive income / (expense)	-	-	86	(8,740)	206	-	-	13,830	5,382
Balances as of 31 December 2018	**23,625**	**1,584**	**(581)**	**(8,740)**	**(870)**	**66,410**	**93,523**	**13,830**	**188,781**
Balances as of 1 January 2019	**23,625**	**1,584**	**(581)**	**(8,740)**	**(870)**	**66,410**	**93,523**	**13,830**	**188,781**
Transfers	-	-	-	-	-	1,883	11,947	(13,830)	-
Dividends	-	-	-	-	-	-	(20,010)	-	(20,010)
Total comprehensive income / (expense)	-	-	(548)	9,808	(139)	-	-	(14,673)	(5,552)
Balances as of 31 December 2019	**23,625**	**1,584**	**(1,129)**	**1,068**	**(1,009)**	**68,293**	**85,460**	**(14,673)**	**163,219**

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 2019 AND 31 DECEMBER 2018

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

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		**105,210**	**7,683**
Profit/(loss) for the year		**(14,673)**	**13,830**
Adjustments related to reconcile profit (loss):		**84,456**	**80,055**
Adjustments related to depreciation and amortisation expense	11,12,2.3a	15,701	13,305
Adjustments related to impairment loss (reversal of impairment loss)		*1,376*	4,791
- Adjustments related to impairment loss (reversal) of receivables	*8*	*(116)*	*1,956*
- Adjustments related to impairment loss (reversal) of inventories	*10*	*1,492*	*2,835*
Adjustments related to provisions		2,792	5,149
- Adjustments related to (reversal of) provisions related with employee benefits		*2,962*	*3,570*
- Adjustments related to (reversal of) lawsuit and/or penalty provisions		*(170)*	*1,579*
Adjustments related to Dividend (Income) Expense	19	*(283)*	-
Adjustments related to interest (income) and expenses		64,909	48,894
- Adjustments related to interest income	*20*	*(3,325)*	*(520)*
- Adjustments related to interest expense	*20*	*69,064*	*47,603*
- Deferred Finance Expenses from Deferred Settlement Purchases	19	175	2,020
- Unearned Finance Income from Deferred Settlement Sales	19	*(1,005)*	*(209)*
Adjustments related to undistributed losses of investments accounted through equity method	19	*6,081*	753
Adjustments related to tax (income) expense	21	*(3,243)*	7,527
Adjustments related to (gains)/losses arised from disposal of non-current assets	19	(2,877)	(364)
Changes in working capital		**29,752**	**(66,822)**
Adjustments related to decrease (increase) in trade receivables		(4,283)	(6,659)
Adjustments related to decrease (increase) in other receivables related to operations		1,364	(501)
Adjustments related to decrease (increase) in inventories		19,500	(48,101)
Adjustments related to decrease (increase) in prepaid expenses		(164)	(1,775)
Adjustments related to increase (decrease) in trade payables		(779)	(1,886)
Increase (decrease) in payables related to employee benefits		(1,713)	1,647
Adjustments related to increase (decrease) in other payables related to operations		(2,504)	(205)
Other adjustments related to increase (decrease) in working capital		18,331	(9,342)
- Decrease (increase) in other assets related with operations		*10,682*	*(5,547)*
- Increase (decrease) in other liabilities related with operations		*7,649*	*(3,795)*
Cash flows from/(used in) operations		**99,535**	**27,063**
Dividend received		283	-
Payments related with provisions for employee benefits	14	(1,195)	(3,652)
Income taxes refund (paid)		6,587	(15,728)
CASH FLOWS FROM INVESTING ACTIVITIES		**(10,834)**	**(17,679)**
Proceeds from sale of property, plant and equipment and intangible assets		2,935	599
Purchase of property, plant and equipment and intangible assets	11,12	(10,465)	(18,785)
Participation in capital increase of investments valued by equity method	6	(6,629)	-
Interest received		3,325	507
CASH FLOWS FROM FINANCING ACTIVITIES		**(140,110)**	**48,823**
Proceeds from borrowings		490,200	1,122,323
Repayments of borrowings		(536,999)	(1,010,147)
Cash Outflows Related to Debt Payments Arising from Lease Agreements		(898)	-
Dividend paid	16	(20,010)	(22,000)
Interest paid		(72,403)	(41,353)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(45,734)**	**38,827**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**4**	**59,155**	**20,328**
CASH AND CASH EQUIVALENS AT THE END OF THE YEAR	**4**	**13,421**	**59,155**

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

(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, 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 2019, 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 2019 and 2018, the average number of employees of the Company is 344 (31 December 2018: 438).

As of 31 December 2019, 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 31 December 2019, the activities of LLC Faber-Castell Anatolia were ceased and our Company continues its activities in the Russian market by exporting.

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 ("TAS/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 2019 were approved by the Company's Board of Directors on 28 February 2020. 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 book keeping and preparation of the statutory financial statements. Investment accounted through equity method operating in another county 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 valus. 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.

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.

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

2.1.4 Investments in associates and joint ventures (continued)

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

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.

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

2.2 Significant accounting policies (continued)

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.

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

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 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 TFRS 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 2019.

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:

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.

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 2019, 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.

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.

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.

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.

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

2.2 Significant accounting policies (continued)

2.2.8 Financial instruments (continued)

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.

(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.

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

2.2 Significant accounting policies (continued)

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.

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 reportingperiod 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.

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.

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 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.

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 (tangible and intangible assets and financial assets). 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.

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 2019 has been presented with the comparative statement of financial position as at 31 December 2018; 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 2019 have been presented with the related comparative financial statements for the period 1 January - 31 December 2018.

(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

New and amended Turkish Financial Reporting Standards that are mandatorily effective from 2019

TFRS 16	*Leases*
Amendments to TAS 28	*Long-term Interests in Associates and Joint Ventures*
TFRS Interpretation 23	*Uncertainty over Income Tax Treatments*
Amendments to TAS 19	*Amendments to Employee Benefits*
Annual Improvements to TFRS Standards 2015–2017 Cycle	*Amendments to TFRS 3, TFRS 11, TAS 12 and TAS 23*

TFRS 16 *Leases*

General impact of application of TFRS 16 Leases

TFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. TFRS 16 will supersede the current lease guidance including TAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of TFRS 16 for the Company will be 1 January 2019.

In contrast to lessee accounting, TFRS 16 substantially carries forward the lessor accounting requirements in TAS 17.

Impact of the new definition of a lease

The Company will make use of the practical expedient available on transition to TFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with TAS 17 and TFRS Interpretation 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. TFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Company will apply the definition of a lease and related guidance set out in TFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

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

2.3 New and Revised Turkish Financial Reporting Standards (Continued)

Impact on Lessee Accounting

Operating leases

TFRS 16 will change how the Company accounts for leases previously classified as operating leases under TAS 17, which were off-balance sheet.

On initial application of TFRS 16, for all leases (except as noted below), the Company will:

a) Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company opted to recognise a lease expense on a straight-line basis as permitted by TFRS 16.

As of 1 January 2019, the impact of TFRS 16 on the financial statements of the Company is disclosed in "the effects of accounting policy amendments" note.

Financial leases

The main differences between TFRS 16 and TAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. TFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by TAS 17. On initial application, the Company did not make any changes in the presentation of the equipment that is included in property, plant and equipment and subject to lease and the lease liability shown within borrowings. On initial application, the Company presented the equipment previously included in property, plant and equipment and the lease liability, previously presented within borrowing, in a separate line.

Amendments to TAS 28 *Long-term Interests in Associates and Joint Ventures*

This amendment clarifies that an entity applies TFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

(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)

TFRS Interpretation 23 *Uncertainty over Income Tax Treatments*

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under TAS 12.

Amendments to TAS 19 *Employee Benefits*

The Amendments to TAS 19 *Employee Benefits* address the impact of the changes in defined benefit plans (one of the two benefits provided after employment relationship is ended defined benefit plans and defined contribution plans) to the recognition of the defined benefit plans, and TAS 19 has been amended.

Annual Improvements to TFRS Standards 2015–2017 Cycle

Annual Improvements to TFRS Standards 2015–2017 Cycle include amendments to TFRS 3 *Business Combinations* and TFRS 11 *Joint Arrangements* in when a party that participates in, but does not have joint control of, TAS 12 *Income Taxes*; income tax consequences of dividends in profit or loss, and TAS 23 *Borrowing Costs* in capitalized borrowing costs.

Other than TFRS 16, these standards, amendments and improvements have no impact on the financial position and performance of the Company.

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	*Insurance Contracts*
Amendments to TFRS 3	*Definition of a Business*
Amendments to TAS 1	*Presentation of Financial Statements*
Amendments to TAS 8	*Accounting Policies Changes and Errors in Accounting Estimates*

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.

(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 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 standart 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 *Presentation of Financial Statements* and TAS 8 *Accounting Policies Changes and Errors in Accounting Estimates*

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.

Effects of Changing Accounting Policies

The effects of the application of TFRS 16 Leases on the Company's financial statements and the new accounting policies that the Company started to implement as of 1 January 2019, unlike the prior periods, are stated below.

a) Effects of Changing Accounting Policies on the Financial Statements of the Company

As of 1 January 2019, as a result of the implementation of TFRS 16, some changes have occurred in the accounting policies and some adjustments have been made to the financial statements. In accordance with the transitional provisions of TFRS 16, the prior year's financial statements have not been restated. As of 1 January and 31 December 2019, the effects of these changes are as follows: Disposals of the right-of-use assets include the effect of the change of contract periods. The right-of-use assets recognized in the financial statements consist of 82 motor vehicles and the average lease term is 3 years.

Right-of-use Assets	**Amount**
Balance as of 1 January	4,155
Additions	7,869
Disposals	(4,155)
Depreciation expense for the period	(965)
Closing balance as of 31 December	**6,904**

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

2.3 New and revised Turkish Financial Reporting Standards (Continued)

a) Effects of Changing Accounting Policies on the Financial Statements of the Company (continued)

On adoption of TFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of TAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of use-asset and the lease liability at the date of initial application. The measurement principles of TFRS 16 are only applied after that date.

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.

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

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.

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

<u>Fair value of derivatives and other financial instruments</u>

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.

<u>Doubtful Trade Receivables</u>

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.

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

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 2019	31 December 2018
Demand deposits	905	506
Time deposits	4,010	42,728
Checks received	8,402	15,621
Other cash equivalents	104	300
	13,421	**59,155**

The Company does not have any blocked deposits as of 31 December 2019 (31 December 2018: None).

NOTE 5 - FINANCIAL INVESTMENTS

	31 December 2019		31 December 2018	
	%	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 2019 and 31 December 2018 is as follows:

	31 December 2019	Pay (%)	31 December 2018	Pay (%)
LLC Faber-Castell Anadolu	-	50.00	-	50.00
	-		-	

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

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

Movement in jointly controlled entity during year:

	2019	2018
Beginning of the period	**-**	**667**
Shareholder capital increase subject to common control	6,629	-
Share of profit/(loss) of the investments accounted for using the equity method (Note 19)	(6,081)	(753)
Effect of currency translation differences	(548)	86
End of the period	**-**	**-**

(*) 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 2018.

Assets, liabilities, net sales and loss of the joint venture as of 31 December 2019 and 31 December 2018 are as follows:

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

31 December 2018	Assets	Liabilities	Net sales	Profit/(loss)
Faber-Castell Anadolu LLC	16,874	17,990	24,814	(2,620)

NOTE 7 - BORROWINGS

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 short-term TL borrowings was classified in relevant short-term bank loans.

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

(*) As of 31 December 2019, interest accruals calculated for short-term portions of long-term borrowings is classified in short-term portions of the related long-term borrowings.

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

NOTE 7 - BORROWINGS (Continued)

31 December 2019	**Interest rate %**	**Amount**
Long-term borrowings		
TL loans	0.00	46,285
Long-term financial lease payables	12.60	97
Lease payables of long-term right-of-use assets	14.00	4,660
		51,042

31 December 2018	**Interest rate %**	**Amount**
Short-term borrowings		
TL loans	15.00 - 31.00	205,390
		205,390

(*) As of 31 December 2018, interest accruals calculated for TL borrowings was allocated in short-term bank borrowings.

31 December 2018	**Interest rate %**	**Amount**
Short-term portion of long-term borrowings		
Short-term portion of long-term financial lease payables (*)	12.60	10,083
		10,083

(*) As of 31 December 2018, 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 2018	**Interest rate %**	**Amount**
Long-term bank loans		
Long-term financial lease payables	12.60	4,668
		4,668

31 December 2019	**Minimum lease payment**	**Interest**	**Total liabilities**
Less than one year			
2019-2020	7,382	(141)	7,241
More than one year			
2020-2021	4,762	(5)	4,757
	12,144	**(146)**	**11,998**

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

NOTE 7 - BORROWINGS (Continued)

31 December 2018	Minimum lease payment	Interest	Total liabilities
Less than one year			
2018	11,363	(1,280)	10,083
More than one year			
2018 - 2019	4,814	(146)	4,668
	16,177	**(1,426)**	**14,751**

31 December 2019

	1 January 2019	Financing cash flow	Interest Accruals	31 December 2019
Bank loans	205,390	(36,715)	(3,703)	164,972
Liabilities from financial leasing transactions	14,751	(10,088)	-	4,663
	220,141	**(46,803)**	**(3,703)**	**169,635**

	1 January 2018	Financing cash flow	Interest Accruals	31 December 2018
Bank loans	77,939	121,212	6,239	205,390
Liabilities from financial leasing transactions	23,787	(9,036)	-	14,751
	101,726	**112,176**	**6,239**	**220,141**

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables	31 December 2019	31 December 2018
Notes receivables	22,531	26,970
Trade receivables	52,632	40,397
Less: Discounts	(1,923)	(2,725)
Less: Allowance for doubtful trade receivables	(4,272)	(4,388)
	68,968	**60,254**

Movements of the allowance for doubtful trade receivables in 31 December 2019 and 2018 are as follows:

	2019	2018
1 January	**4,388**	**2,432**
Provision reserved during the period	326	1,956
Provision for impairment released	(442)	-
31 December	**4,272**	**4,388**

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

Trade payables	31 December 2019	31 December 2018
Sellers	21,175	23,760
Other trade payables	318	56
Less: Discount	(234)	(445)
	21,259	**23,371**

NOTE 9 - OTHER RECEIVABLES AND PAYABLES

Other receivables from third parties	31 December 2019	31 December 2018
Deposits and guarantees given	186	1,396
Receivables from personnel	118	179
Other miscellaneous receivables	149	242
	453	**1,817**

Payables related to employee benefits	31 December 2019	31 December 2018
Payables to personnel	1,354	2,178
SSI premiums payable	1,145	1,276
Taxes, fees and deductions payable	2,003	2,761
	4,502	**6,215**

Other payables to third parties	31 December 2019	31 December 2018
Taxes, fees and deductions payable	883	3,350
Other	32	69
	915	**3,419**

NOTE 10 - INVENTORIES

	31 December 2019	31 December 2018
Raw material	42,812	36,098
Work in process	10,962	8,240
Finished goods	36,257	54,379
Trade goods	51,013	62,059
Other inventories	1,216	984
Less: Provision for impairment of inventories	(4,873)	(3,381)
	137,387	**158,379**

Movements of provision for impairment on inventories as of 31 December 2019 and 2018 are as follows:

	2019	2018
1 January	**3,381**	**545**
Provision for impairment released	(2,308)	-
Provision reserved during the period (-)	3,800	2,835
31 December	**4,873**	**3,380**

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

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 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	-	-	(2,547)	(993)
Depreciation (*)	-	(240)	(1,387)	(5,963)	(154)	(3,291)	-	(11,036)
End of the period	**1,856**	**1,179**	**56,430**	**35,434**	**111**	**9,346**	**985**	**105,340**
As of 31 December 2019								
Cost	1,856	2,166	62,905	72,935	1,337	31,050	985	173,234
Accumulated depreciation	-	(987)	(6,475)	(37,501)	(1,226)	(21,704)	-	(67,894)
Net book value	**1,856**	**1,179**	**56,430**	**35,434**	**111**	**9,346**	**985**	**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).

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land	Land improvements	Buildings	Machinery and equipments (**)	Vehicles (**)	Furniture and fixtures (**)	Construction in progress	Total
As of 1 January 2018								
Cost	1.900	2.150	65.510	73.358	1.548	26.332	2.992	173.790
Accumulated depreciation	-	(775)	(6.801)	(39.995)	(1.015)	(15.629)	-	(64.215)
Net book value	**1.900**	**1.375**	**58.709**	**33.363**	**533**	**10.703**	**2.992**	**109.575**
Beginning of the period	**1.900**	**1.375**	**58.709**	**33.363**	**533**	**10.703**	**2.992**	**109.575**
Additions	-	263	468	8.081	-	4.437	2.091	15.340
Cost value of disposals	-	-	-	(13.255)	(196)	(743)	-	(14.194)
Accumulated depreciation of disposals	-	-	-	13.227	196	536	-	13.959
Transfers	-	-	-	28	-	2	(2.972)	(2.942)
Depreciation (*)	-	(225)	(1.371)	(5.096)	(268)	(3.696)	-	(10.656)
End of the period	**1.900**	**1.413**	**57.806**	**36.348**	**265**	**11.239**	**2.111**	**111.082**
As of 31 December 2018								
Cost	1.900	2.413	65.978	68.212	1.352	30.028	2.111	171.994
Accumulated depreciation	-	(1.000)	(8.172)	(31.864)	(1.087)	(18.789)	-	(60.912)
Net book value	**1.900**	**1.413**	**57.806**	**36.348**	**265**	**11.239**	**2.111**	**111.082**

(*) TL 6,381 of the depreciation expense is included in the cost of goods sold, TL 715 is included in general administrative expenses and TL 3,560 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 24,360 (Note 7).

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

NOTE 12 - INTANGIBLE ASSETS

	2019	2018
As of 1 January		
Cost	15,982	9,595
Accumulated amortization	(9,122)	(6,473)
Net book value	**6,860**	**3,122**
Net book value at the begining of the period	**6,860**	**3,122**
Additions	4,120	3,445
Transfers	993	2,942
Disposals	-	-
Amortization (*)	(3,700)	(2,649)
Net book value at the end of the period	**8,273**	**6,860**
As of 31 December		
Cost	21,095	15,982
Accumulated amortization	(12,822)	(9,122)
Net book value	**8,273**	**6,860**

(*) TL 1,064 of amortisation expense was allocated to cost of sales, TL 734 of amortisation expense was allocated to general administrative expenses, TL 1,902 of amortisation expense was allocated to marketing, selling and distribution expenses (31 December 2018: TL 785 to cost of sales, TL 365 to general administrative expenses and TL 1,499 to marketing, selling and distribution expenses).

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

	31 December 2019	31 December 2018
Provision for legal cases	2,153	2,323
	2,153	**2,323**

36 employees of the Company filed 36 separate lawsuits against the Company for the cancellation of the employment contract, reinstatement claim and other claims for damages, and provision for lawsuit amounting to TL 2,153 was made for the lawsuits upon the evaluations made by the lawyers.

Contingent assets and liabilities

Since the Adel Kalemcilik 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 the request was made to sell by auction real estate which was hypothecated on 7 October 2013.

The Company had an ongoing lawsuit with the general directorate of highways in relation to the expropriated 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 expropriated price and the lawsuits are ongoing.

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.

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

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

Contingent assets and liabilities (continued)

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 2019. 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 payment of TL 79 due to the current account relationship with the customers of Adel Kalemcilik Ticaret ve Sanayi A.Ş. It is separated. As of 31 December 2019, the case is 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 2019	31 December 2018
Letters of credit commitments	3,964	15,668
Letters of guarantee	19,532	1,485

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

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

Contingent assets and liabilities (continued)

The details of collaterals, pledges and mortgages ("CPM") of the Company at 31 December 2019 and 31 December 2018 are as follows:

				31 December 2019
CPM given by the Company	**TL equivalent**	**USD**	**EUR**	**TL**
A. CPM given on behalf of the Company's legal personality	19,532	-	-	19,532
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			**19,532**

				31 December 2018
CPM given by the Company	**TL equivalent**	**USD**	**EUR**	**TL**
A. CPM given on behalf of the Company's legal personality	1,485	-	-	1,485
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	-	-	-	-
	1,485			**1,485**

The ratio of other CPM to Company's equity at 31 December 2019 is 0.00% (31 December 2018: 0.00%).

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

NOTE 14 - EMPLOYEE BENEFITS

Short-term employee benefits	**31 December 2019**	**31 December 2018**
Premium accruals	422	699
Provision for unused vacation	403	372
	825	**1,071**

Long-term employee benefits	**31 December 2019**	**31 December 2018**
Provision for employment termination benefit	8,558	6,367
	8,558	**6,367**

The movements of provision for unused vacation as of 31 December 2019 and 2018 are as follows:

	2019	**2018**
1 Januaury	**372**	**563**
Provision for the period	31	(191)
31 December	**403**	**372**

Provision for employment termination benefits

In accordance with the existing social legislation, the Company is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Ceiling amount of TL 6,730 which is in effect since 1 January 2020 is used in the calculation of Company's provision for retirement pay liability (1 January 2019: TL 6,018.6). The liability is not funded, as there is no funding requirement. Provision for employment termination benefits is calculated by estimating the present value of the future probable obligation arising from the retirement of the employees of the Company. TAS 19 ("Employee Benefits") stipulates the development of company'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 2019 and 2018, provisions in the financial statements have been calculated by estimating the current value of potential future liabilities resulting from employee retirement.

	2019	**2018**
1 Januaury	**6,367**	**6,705**
Service cost	2,945	3,296
Interest cost	263	282
Employement termination benefits paid	(1,195)	(3,652)
Remeasurement differences	178	(264)
31 December	**8,558**	**6,367**

	31 December 2019	**31 December 2018**
Real Discount Rate (%)	3.72	4.13
Turnover Rate to Estimate the Probibility of Retirement (%)	94.97	95.55

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

NOTE 15 - OTHER ASSETS AND LIABILITIES

Short-term prepaid expenses	**31 December 2019**	**31 December 2018**
Prepaid expenses	1,310	1,127
	1,310	**1,127**

Other current assets	**31 December 2019**	**31 December 2018**
Deferred value added tax	11,720	19,724
Order advances given	3,858	5,917
Business advances	13	6
Other miscellaneous current assets	134	825
	15,725	**26,472**

Current tax assets	**31 December 2019**	**31 December 2018**
Prepaid taxes and funds	9,957	16,543
	9,957	**16,543**

Other non-current assets	**31 December 2019**	**31 December 2018**
Other non-current assets	71	7
	71	**7**

Long-term prepaid expenses	**31 December 2019**	**31 December 2018**
Prepaid expenses	2,408	2,427
	2,408	**2,427**

Other short-term liabilities	**31 December 2019**	**31 December 2018**
Advances received	6,343	77
Deferred income	3,705	2,318
	10,048	**2,395**

(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.

	31 December 2019		31 December 2018	
	% Rate	**Amount**	**% Rate**	**Amount**
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 adjusment differences		1,584		1,584
Total capital		**25,209**		**25,209**

Adjustment to share capital represents the effect of restating the cash equivalents to paid-in capital after the end of the year.

Total 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".

	31 December 2019	**31 December 2018**
Legel reserves	22,225	20,342
Profit from the sale of participation and properties	46,068	46,068
	68,293	**66,410**

(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 retained earnings is as follows:

	31 December 2019	31 December 2018
Extraordinary reserves	83,969	92,032
Other prior years' profit	1,491	1,491
	85,460	**93,523**

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.

Inflation adjustment difference in equity can be utilized in issuing bonus shares and in offsetting accumulated losses; the carrying amount of extraordinary reserves could have been utilized in issuing bonus shares, cash dividend distribution and offsetting accumulated losses. However, adjustment to share capital is taxable if it is 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 2019. The total amount of other resources that can be subject to profit distribution without additional tax burden in the statutory records of the Company is TL 92,831.

In the meeting of the Company's Ordinary General Assembly held on 8 April 2019, and in the meetig of the 7th Board of Directors dated 15.03.2019, from the Company's net profit in 2018 determined in accordance with the decision of CMB Serial: II No: 14.1 Communiqué on Principles Regarding Financial Reporting in Capital Markets" and Turkish Accounting / Turkish Financial Reporting Standards (TAS / TFRS) and Unconsolidated principle, it has been decided to distribute dividend of total gross amount of TL 20,010,375.00 whole, which consists of TL 12,680,007.27 whole and TL 7,330,367.73 as expected to be distributed from prior years's profit as other resource, to full taxpayer companies, at the amount of TL 0.847 whole and gross rate of 84.70% with a nominal value of 1 TL and at the amount of TL 0.71995 and gross rate of 72.00% with a nominal value of 1 TL. The distribution has begun as of 30.09.2019.

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

NOTE 17 - REVENUE AND COST OF SALES

	1 January- 31 December 2019	1 January- 31 December 2018
Domestic sales	435,577	456,783
Export sales	21,463	30,872
Sales discounts (-)	(109,926)	(102,540)
Net sales	**347,114**	**385,115**
Cost of sales (-)	**(195,290)**	**(210,841)**
Gross profit	**151,824**	**174,274**

Breakdown of cost of sales during the year is as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Raw material expenses	53,835	84,042
Direct labour expenses	13,979	15,801
Overhead expenses	19,083	22,364
Depreciation expenses	8,035	7,166
Provision for impairment of inventories	1,492	2,835
Change in work-in-progress invetories	(2,723)	(2,329)
Change in finished goods inventories	16,630	(16,974)
Cost of goods sold	**110,331**	**112,905**
Cost of trade goods sold	84,959	97,936
Cost of sales	**195,290**	**210,841**

NOTE 18 - EXPENSES BY NATURE

The Company's expenses by nature is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Raw materials and trade goods	152,701	162,674
Personnel expenses	62,900	63,353
Domestic sales expense	9,516	16,041
Depreciation expenses	14,736	13,305
Outsourcing expenses	11,717	9,691
Rent expenses	9,602	8,287
Information technologies expenses	4,351	3,514
Other expenses	27,764	36,496
	293,287	**313,361**

(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 2019	1 January - 31 December 2018
Cost of sales	195,290	210,841
Research and development expenses	1,492	-
Marketing, sales and distribution expenses	64,314	72,721
General administrative expenses	32,191	29,799
	293,287	**313,361**

Allocation of personnel expenses to research and development expenses, cost of sales, marketing, sales and distribution expenses and general administrative expenses:

Personnel Expenses:	**2019**	**2018**
Research and development expenses	1,044	-
Cost of sales	23,248	26,617
Marketing, sales and distribution expenses	21,898	18,912
General administrative expenses	16,710	17,824
	62,900	**63,353**

Research and Development Expenses

	2019	**2018**
Personnel Expenses	1,044	-
Depreciation Expenses	344	-
Business and Services	55	-
Domestic Travel Expenses	32	-
Other Expenses	17	-
	1,492	**-**

Marketing, Sales and Distribution Expenses

	2019	**2018**
Personnel Expenses	21,898	18,912
Domestic Sales Expenses	9,516	16,041
Announcement and Advertisement Expens	6,388	12,031
Depreciation Expenses	5,041	5,059
License and Similar Expenses	5,031	4,746
Lease Expenses	5,477	4,798
Transport Vehicle Expenses	3,155	2,669
Business and Services	3,393	2,345
Other Expenses	4,415	6,120
	64,314	**72,721**

General Administrative Expenses

	2019	**2018**
Personnel Expenses	16,710	17,824
Depreciation Expenses	1,316	1,080
Business and Services	9,633	6,793
Other Expenses	4,532	4,102
	32,191	**29,799**

(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 2019	1 January - 31 December 2018
Income from operating activities		
Foreign exchange gains	622	2,321
Insurance compensation income	10	38
Income from discount interest	1,005	209
Income from provision released	705	29
Inventory surplus	1,104	272
Maturity differences income	258	574
Other	1,512	1,278
	5,216	**4,721**

	1 January - 31 December 2019	1 January - 31 December 2018
Other expenses from operating activities		
Expenses from discount interest	175	2,020
Foreign exchange losses	291	2,518
Donations	-	1,438
Provisions for legal case expenses	534	1,566
Allowance for doubtful receivables	326	1,956
Inventory deficiency	4,428	31
Other	2,409	375
	8,163	**9,904**

Other income from investing activities is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Income/expenses from investing activities, net		
Property sales profit (*)	2,840	-
Dividend income from associates	283	-
Profit on sales of property, plant and equipment	37	364
	3,160	**364**

(*) The Company has made a profit of TL 2,840 due to the sales of the batter plant in Giresun.

	1 January - 31 December 2019	1 January - 31 December 2018
Shares from profits (losses) of investments valued by equity method		
LLC Faber-Castell Anadolu (Note 6)	(6,081)	(753)
	(6,081)	**(753)**

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

NOTE 20 - FINANCE INCOME AND EXPENSES

Finance income	**1 January- 31 December 2019**	**1 January- 31 December 2018**
Foreign exchange gains	562	1,990
Interest income	3,325	520
Income from derivative transactions	-	1,984
	3,887	**4,494**

Finance expense	**1 January- 31 December 2019**	**1 January- 31 December 2018**
Interest expenses	69,064	47,603
Foreign exchange losses	435	1,434
Interest cost on employement termination benefits	263	282
	69,762	**49,319**

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

Corporate Tax

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Company's results for the years and periods.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and other incentives (prior year's losses if any and investment incentives used if preferred) utilized.

The effective tax rate in 2019 is 22% (2018: 22%) for the Company.

The Law numbered 7061 on Amendment of Certain Taxes and Laws and Other Acts was published on the Official Gazette dated 5 December 2017 and numbered 30261. Article 5 entitled "Exceptions" of the Corporate Tax Law has been amended in Article 89 of the Law. In accordance with (a) clause in the first paragraph of the Article, the exemption of 75% applied to gains from the sales of lands and buildings held by the entities for two full years has been reduced to rate of 50%. This regulation has been effective from 5 December 2017.

	1 January - 31 December 2019	**1 January - 31 December 2018**
Current tax provision (-) (*)	-	(8,747)
Deferred tax income/expense	3,243	1,220
Total tax expense (net)	**3,243**	**(7,527)**

(*) As of 31 December 2018, there is a tax expense payable related to prior period amounting to TL 1,620 in the statutory tax provision for the current period of 2018 as a result of the increase of the tax base within the scope of the "Law on Restructuring Tax and Certain Receivables and Amending Certain Laws" no 7143.

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

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

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

	2019	2018
Profit / loss before tax	**(17,916)**	**21,357**
Tax rate	22%	22%
Calculated tax expense	(3,941)	4,699
The effect of tax base increase under the Law numbered 7143	-	1,620
Discounts and additions	698	1,208
Tax expense	**(3,243)**	**7,527**

	31 December 2019	31 December 2018
Current income tax liabilities	-	(8,747)
Less: Prepaid corporate tax	9,957	25,290
Current income tax (liabilities)/receivables, net	**9,957**	**16,543**

Deferred Tax:

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TAS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TAS and tax purposes and they are given below.

	Total temporary differences		Deferred taxtation	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Provision for employment termination benefits	8,558	6,367	1,883	1,401
Promotional materials	1,524	1,810	335	398
Provision for impairment on inventory	4,872	3,380	1,072	744
Provision for unused vacation	402	372	89	82
Deferred financial loss	15,979	-	3,515	-
Provision for unused Adel Club points	1,260	1,569	277	345
Provision for litigation	2,153	2,323	474	511
Rediscount for checks	(180)	403	(40)	89
Provision for doubtful receivables	1,841	1,956	405	430
Accruals for premiums	-	187	-	41
Derivative financial instruments	(2,744)	11,205	(603)	2,465
Leasing transactions	432	-	95	-
Property, plant and equipment and intangible assets	(16,143)	(13,576)	(3,551)	(2,987)
Other	3,186	2,800	700	616
Deferred tax asset/(liability), net	**21,140**	**18,796**	**4,651**	**4,135**

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

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

	2019	2018
1 January	**4,135**	**508**
Deferred tax income	3,243	1,220
Effect of remeasurement differences of employment termination benefit recognized under equity	39	2,407
Effect of derivative financial instruments	(2,766)	-
31 December	**4,651**	**4,135**

NOTE 22 - EARNINGS / (LOSS) PER SHARE

Earnings per share for each class of share disclosed in the income statement is determined by dividing the net income attributable to that class of share by the weighted average number of shares of that class outstanding during the year. Earnings per share in terms of share groups are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Profit / (loss) for the period	(14,673)	13,830
Average number of shares (weighted average number of ordinary shares with nominal value 1 TL each)	23,625,000	23,625,000
Earnings / (loss) per share (Total TL)	**(0.6211)**	**0.5854**

NOTE 23 – RELATED PARTY DISCLOSURES

a) Related party balances

	Receivables from Related Parties	
	31 December 2019	**31 December 2018**
Migros Ticaret A.Ş. (3)	9,050	14,408
LLC Faber-Castell Anadolu (2)	237	1,918
A.W.Faber-Castell Vertrieb GmbH (3)	1,115	730
Other	2,964	1,041
	13,366	**18,097**
Less: Rediscount of receivables/payables (-)	(316)	(557)
	13,050	**17,540**

	Payables to Related Parties	
	31 December 2019	**31 December 2018**
AG Anadolu Grubu Holding A.Ş. (1)	574	464
Çelik Motor Tic.A.Ş. (3)	-	162
Efestur Turizm İşletmeleri A.Ş. (3)	120	105
Anadolu Sigorta Acentalığı A.Ş. (3)	168	3
Migros Ticaret A.Ş. (3)	137	-
Other	90	28
	1,089	**762**
Less: Rediscount of receivables/payables (-)	(17)	(18)
	1,072	**744**

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

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

NOTE 23 – RELATED PARTY DISCLOSURES (Continued)

b) Transactions with related parties

Purchases of goods	1 January - 31 December 2019	1 January - 31 December 2018
A.W.Faber-Castell Vertrieb GmbH (3)	10,704	24,014
A.W. Faber-Castell (Guangzhou) Stationery Co. Ltd. (3)	13,123	17,387
A.W.Faber Castell (M) Sdn.Bhd. (3)	9,651	18,419
Other	185	3,633
	33,663	**63,453**

Sales of goods	1 January - 31 December 2019	1 January - 31 December 2018
Migros Ticaret A.Ş. (3)	10,942	16,188
A.W.Faber-Castell Vertrieb GmbH (3)	4,222	5,210
Other	1,747	5,630
	16,911	**27,028**

Purchases of service	1 January - 31 December 2019	1 January - 31 December 2018
Efestur Turizm İşletmeleri A.Ş. (3)	2,746	5,578
Anadolu Bilişim Hizmetleri A.Ş. (3)	533	522
AG Anadolu Grubu Holding A.Ş. (1)	4,638	3,896
Çelik Motor Tic.A.Ş. (3)	2,343	2,903
Migros Ticaret A.Ş. (3)	4,521	3,270
Other	156	599
	14,937	**16,768**

Services given	1 January - 31 December 2019	1 January - 31 December 2018
A.W.Faber-Castell Vertrieb GmbH (3)	753	1,308
Anadolu Restoran İşletmeleri Ltd. Şti. (3)	756	1,233
Efestur Turizm İşletmeleri A.Ş. (3)	28	158
LLC Faber-Castell Anadolu (2)	206	294
Other	525	115
	2,268	**3,108**

Other Transactions	1 January - 31 December 2019	1 January - 31 December 2018
Donation and aids (*)	-	1,400
	-	**1,400**

(*) It consists of donations made to Anadolu Eğitim ve Sosyal Yardımlaşma Vakfı.

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

(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 provided or will be provided is as follows:

	2019	2018
Salaries and other short-term employee benefits	12,206	10,684
Employment termination benefits	295	298
	12,501	**10,982**

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 equity comprises of borrowings, 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) for the purpose of diversifying foreign currency fluctuation risks.

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

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

Net debt/(equity+net debt) ratio is as of 31 December 2019 and 31 December 2018 as follows:

	31 December 2019	31 December 2018
Total borrowings (*)	191,966	244,256
Less: Cash and cash equivalents	(13,421)	(59,155)
Net debt	178,545	185,101
Equity	163,219	188,781
Equity+net debt	**341,764**	**373,882**
Net debt/(Equity+net debt) ratio	**52%**	**50%**

(*) 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 previous period.

(c) Foreign currency risk and management

Certain transactions denominated in foreign currencies results in foreign currency.

The Company exposed to currency risk as the mismatch between foreign currency denominated assets and liabilities. Currency risk is due to future transactions and difference between assets and liabilities recognised.

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

	31 December 2019	31 December 2018
Assets	14,299	13,149
Liabilities	(2,853)	(3,731)
Net balance foreign currency position	**11,446**	**9,418**

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

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

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

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)**

Profit/(loss) 31 December 2018	**Foreign currency appreciates**	**Foreign currency depreciates**
Change in USD against TL by +/- 10%:		
1- USD net asset/liabilities	723	(723)
2- USD net hedged amount (-) (*)	-	-
3- USD net effect (1+2)	**723**	**(723)**
Change in EUR against TL by +/- 10%:		
4- Euro net asset/liabilities	206	(206)
5- Euro net hedged amount (-)	-	-
6- Euro net effect (4+5)	**206**	**(206)**
Change in other foreign currencies against TL by +/- 10%:		
7- Other foreign currency net asset/liabilities	13	(13)
8- Other foreign currency net hedged amount (-)	-	-
9- Other foreign currency net effect (7+8)	**13**	**(13)**
	942	**(942)**

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

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

NOTE 24 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (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 2019					31 December 2018				
	TL Equivalent	**USD**	**Euro**	**GBP**	**Other**	**TL Equivalent**	**USD**	**Euro**	**GBP**	**Other**
1. Trade Receivables	6,095	857	151	-	-	6,197	593	510	-	-
2a. Monetary Financial Assets	4,038	676	4	-	-	1,470	245	30	1	-
2b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
3. Other	4,166	554	127	2	-	5,482	821	172	17	-
4. Total Current Assets (1+2+3)	**14,299**	**2,087**	**282**	**2**	**-**	**13,149**	**1,659**	**712**	**18**	**-**
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)	**14,299**	**2,087**	**282**	**2**	**-**	**13,149**	**1,659**	**712**	**18**	**-**
10. Trade Payables	2,642	257	168	-	8	3,237	191	370	-	8
11. Financial Liabilities	-	-	-	-	-	-	-	-	-	-
12a. Other Monetary Liabilities	211	30	5	-	-	494	94	-	-	-
12b. Other Non-Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
13. Total Current Liabilities (10+11+12)	**2,853**	**287**	**173**	**-**	**8**	**3,731**	**285**	**370**	**-**	**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)	**2,853**	**287**	**173**	**-**	**8**	**3,731**	**285**	**370**	**-**	**8**
19. Net Asset/ (Liability) Position of Off-Balance Sheet Derivatives (19a-19b)	**54,537**	**9,181**	**-**	**-**	**-**	**106,270**	**20,200**	**-**	**-**	**-**
19a. Total Amount of Hedged Assets	-	-	-	-	-	-	-	-	-	-
19b. Total Amount of Hedged Liabilities	54,537	9,181	-	-	-	106,270	20,200	-	-	-
20. Net Foreign Currency Asset / (Liability) Position (9-18+19)	**65,983**	**10,981**	**109**	**2**	**(8)**	**115,688**	**21,574**	**342**	**18**	**(8)**
21. Monetary Items Net Foreign Currency Asset / (Liability) Position (1+2a+3+5+6a-10-11-12a-14-15-16a)	**11,446**	**1,800**	**109**	**2**	**(8)**	**9,418**	**1,374**	**342**	**18**	**(8)**
22. Total Fair Value of Hedge Funds of Foreign Currency Instruments	-	-	-	-	-	-	-	-	-	-
23. Hedged Amount of Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-
24. Hedged Amount of Foreign Currency Liabilities	-	-	-	-	-	-	-	-	-	-
23. Export	**21,463**	**2,474**	**1,271**	**-**	**-**	**30,872**	**3,373**	**2,287**	**-**	**-**
24. Import	**80,027**	**11,434**	**2,361**	**35**	**20,815**	**141,573**	**25,140**	**6,512**	**39**	**27,667**
10% increase	**-**	**1,069**	**73**	**2**	**-**					

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

(d) Interest rate risk and management

As of 31 December 2019, the Company does not have borrowings with variable interest rates (31 December 2018: 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 derived 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 through distributors and wholesalers. Approximately 50% of total sales are produced products. Trade goods are foreign originated. Therefore, trade goods costs of the Company are bearing foreign exchange rate risk. Raw material prices are dependent to general price movements in the counTL approximately. 94% of the total sales of the Company are made in domestic market and price level is determined by the fluctuations in foreign exchange rates.

The Company performs collection from distributors by checks. 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.

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

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

	Trade receivables		**Other receivables**		**Deposit at**	**Other Financial**
31 December 2019	**Related parties**	**Other**	**Related parties**	**Other**	**banks**	**Assets**
Maximum exposure to credit risk as of reporting date	**13,050**	**68,968**	**-**	**453**	**-**	**-**
- Credit risk covered by guarantees	**-**	**65,888**	**-**	**-**	**-**	**-**
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	-	-	-	-	-	-
- *Under guarantee*	-	-	-	-	-	-
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	-	-	-	-	-	-

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

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

	Trade receivables		**Other receivables**		**Deposit at**	**Other Financial**
31 December 2018	**Related parties**	**Other**	**Related parties**	**Other**	**banks**	**Assets**
Maximum exposure to credit risk as of reporting date	**17,540**	**60,254**	**-**	**1,817**	**43,234**	**15,922**
- Credit risk covered by guarantees	**-**	**37,169**	**-**	**-**	**-**	**-**
A. Net book value of financial assets neither overdue nor impaired	17,540	60,254	-	1,817	43,234	15,922
B. Carrying amount of financial assets whose term has been renegotiated, otherwise past due or impaired	-	-	-	-	-	-
C. Past due but not impaired financial assets	-	-	-	-	-	-
- *Under guarantee*	-	-	-	-	-	-
D. Net carrying amount of financial assets impaired	-	-	-	-	-	-
- Overdue (Gross carrying value)	-	4,388	-	-	-	-
- Impaired (-)	-	(4,388)	-	-	-	-
- 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	-	-	-	-	-	-

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

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

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

	31 December 2019	31 December 2018
Guarantee cheques	-	125
Mortgages	12,700	23,610
Pledge agreements	78	241
Letter of guarantees	58,596	50,333
	71,374	**74,309**

(f) Liquidity risk 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 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	-	-	-

31 December 2018	Carrying Value	Total Cash Outflow	Less than 3 months	3-12 months	1-5 years	More than 5 years
Financial payables	220,141	262,830	248,537	9,469	4,825	-
Trade Payables	23,371	23,816	23,816	-	-	-
Other Payables	9,634	9,634	9,634	-	-	-

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

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 2019	Level 1	Level 2	Level 3
Derivative financial payables	-	-	-	-

	31 December 2018	Level 1	Level 2	Level 3
Derivative financial payables	11,205	-	11,205	-

	31 December 2019	Level 1	Level 2	Level 3
Derivative financial assets	1,369	-	1,369	-

	31 December 2018	Level 1	Level 2	Level 3
Derivative financial assets	-	-	-	-

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 2019, the Company has participatory forward transactions amounting to USD 9,181,000 with a nominal value of TL 54,537 (31 December 2018: the Company has participatory forward transactions amounting to USD 20,200,000 with a nominal value of TL 106,270).

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.

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

NOTE 25 - FINANCIAL INSTRUMENTS (Continued)

25.2 Derivative Financial Instruments and Hedges (Continued)

	2019			2018		
		Fair values			Fair values	
	Contract amount	Asset	Liability	Contract amount	Asset	Liability
For hedging purposes:						
Participated forward transaction	-	-	-	106,270	-	11,205
Forward transactions	54,537	1,369	-	-	-	-
	54,537	**1,369**	**-**	**106,270**	**-**	**11,205**
Short-term	54,537	1,369	-	106,270	-	11,205
	54,537	**1,369**	**-**	**106,270**	**-**	**11,205**

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.

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

NOTE 25 - FINANCIAL INSTRUMENTS (Continued)

31 December 2019	**Notes**	**FVTPL**	**Financial assets at amortized cost**	**Financial liabilities at amortized cost**	**Carrying value**	**Fair value**
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 payables						
Financial payables	7	-	-	176,970	176,970	176,970
Lease payables		-	-	-	-	-
Trade payables	8	-	-	21,259	21,259	21,259
Paybles to related parties	23	-	-	1,072	1,072	1,072
Other financial liabilities	9	-	-	915	915	915

31 December 2018	**Notes**	**FVTPL**	**Financial assets at amortized cost**	**Financial liabilities at amortized cost**	**Carrying value**	**Fair value**
Financial assets						
Cash and cash equivalents	4	-	59,155	-	59,155	59,155
Trade receivables	8	-	60,254	-	60,254	60,254
Receivables from related parties	23	-	17,540	-	17,540	17,540
Other financial assets	5, 9	-	2,051	-	2,051	2,051
Financial payables						
Financial payables	7	-	-	220,141	220,141	220,141
Trade payables	8	-	-	23,371	23,371	23,371
Paybles to related parties	23	-	-	744	744	744

NOTE 26 – EVENTS AFTER THE REPORTING PERIOD

None.

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