

**PENTA TEKNOLOJİ ÜRÜNLERİ
DAĞITIM TİCARET A.Ş. AND
ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021
AND INDEPENDENT AUDITOR'S REPORT

(CONVENIENCE TRANSLATION INTO ENGLISH OF
THE INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH)

(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Penta Teknoloji Ürünleri Dağıtım Ticaret A.Ş.

A) Report on the Audit of the Consolidated Financial Statements

1) Opinion

We have audited the consolidated financial statements of To the Shareholders of Penta Teknoloji Ürünleri Dağıtım Ticaret A.Ş.. (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Turkish Financial Reporting Standards (TFRS).

2) Basis for Opinion

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards (InAS) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Key Audit Matters

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



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Key Audit Matters	How key audit matters are addressed in the audit
Recognition of property, plant and equipment by revaluation method	
Revenue is the most important measurement criterion in terms of evaluating the financial performance. The Group's revenues consist of the sales of products and software of the brands which the Group act as distributor. The Group recognizes revenue when the control is transferred to the customer In the framework of TFRS 15, the Group recognizes revenue from product sales when the control is transferred to the customer. Due to the nature and magnitude of the Group's operations, there is a risk that products are invoiced but not delivered and revenue is not recognized properly. Based on the above-mentioned explanations, the recognition of revenue in the correct period within the context of the matching principle, is determined as key audit matter. The accounting policy for revenue recognition and revenue amounts are disclosed in Note 2.9 and Note 17.	In our audit, the following procedures are applied to ensure the accurate and complete recognition of revenue: - The revenue process of the Group is examined. - Within the scope of audit works, product sales and unearned revenue and related accounting entries were tested on a sample basis. - By performing data analytics tools procedures related to analysis and correlation of the accounts are performed. - Compliance of explanation and disclosures in the consolidated financial statements within the framework of TFRS 15 has been evaluated.



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4) Other Matter

Management is responsible for other un-audited supplementary information presented in Annex I. Other information includes non-TFRS information.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any assurance on them.

Our responsibility for other un-audited supplementary information in Annex I is to read the other information and, in doing so, evaluate whether the other information is materially inconsistent with the consolidated financial statements or with the information obtained during the audit, or is otherwise materially misstated. If, based on our audit, we conclude that there is a material misstatement of other information, we are obliged to report it. In this context, we do not have any issues to report.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

6) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

In an independent audit, our responsibilities as the auditors are:

Our objectives are to obtain reasonable assurance about whether the consolidated 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 standards on auditing as issued by the Capital Markets Board of Turkey and InAS 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 consolidated financial statements.

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

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

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- 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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.



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B) Report on Other Legal and Regulatory Requirements

- 1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on 9 March 2022.
- 2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2021 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The name of the engagement partner who supervised and concluded this audit is Onur Ünal

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Onur Ünal, SMMM
Partner

9 March 2022
Istanbul, Turkey

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PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

		(Turkish Lira) Current Period 31 December 2021	(Turkish Lira) Prior Period 31 December 2020	(US Dollar*) Current Period 31 December 2021	(US Dollar*) Prior Period 31 December 2020
	Notes				
ASSETS					
Current Assets		2.550.272.108	1.692.991.089	191.332.591	230.637.026
Cash and Cash Equivalents	3	99.823.827	110.903.277	7.489.221	15.108.409
Financial Assets	3	13.329.000	7.340.500	1.000.000	1.000.000
Trade Receivables	4-5	1.469.214.818	977.796.682	110.226.935	133.205.733
- Trade receivables from related parties	4	4.875.842	11.660.340	365.807	1.588.494
- Trade receivables from third parties	5	1.464.338.976	966.136.342	109.861.128	131.617.239
Other Receivables	4-6	504.316	222.758.659	37.836	30.346.524
- Other receivables from related parties	4	-	220.318.244	-	30.014.065
- Other receivables from third parties	6	504.316	2.440.415	37.836	332.459
Derivative Financial Instruments	24	4.706.363	-	353.092	-
Inventories	7	909.666.117	364.670.645	68.247.139	49.679.265
Prepaid Expenses	8	1.401.891	2.241.826	105.176	305.405
Assets Related to Current Tax	23	50.791.301	6.383.049	3.810.586	869.566
Other Current Assets	15	834.475	896.451	62.606	122.124
		-	-	-	-
Non-Current Assets		82.202.209	65.167.315	6.167.170	8.877.776
Investment Properties		1.576.781	868.359	118.297	118.297
Property, Plant and Equipment	9	17.339.737	8.385.463	1.300.903	1.142.356
Right of Use Assets	10	21.501.489	15.001.355	1.613.136	2.043.642
Intangible Assets	11-12	29.825.077	16.639.600	2.237.608	2.266.821
- Goodwill	12	25.799.506	14.208.213	1.935.592	1.935.592
- Other intangible assets	11	4.025.571	2.431.387	302.016	331.229
Deferred Tax Assets	23	11.959.125	24.272.538	897.226	3.306.660
TOTAL ASSETS		2.632.474.317	1.758.158.404	197.499.761	239.514.802

(*) Refers to the amounts in US Dollars, which is the functional currency of the Group. Presentation currency is Turkish Lira. For the conversion of US Dollar and Turkish Lira, see Note 2.

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

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated)

		(Turkish Lira) Current Period 31 December 2021	(Turkish Lira) Prior Period 31 December 2020	(US Dollar*) Current Period 31 December 2021	(US Dollar*) Prior Period 31 December 2020
	Notes				
LIABILITIES					
Current Liabilities		1.643.025.204	736.732.534	123.266.952	100.365.443
Short-Term Borrowings	24	5.007.092	8.694.874	375.654	1.184.507
- Bank loans	24	-	4.906.765	-	668.451
- Lease liabilities	24	5.007.092	3.788.109	375.654	516.056
Trade Payables	4-5	1.039.770.675	628.672.196	78.008.153	85.644.329
- Trade payables to related parties	4	4.172.324	1.164.923	313.026	158.698
- Trade payables to third parties	5	1.035.598.351	627.507.273	77.695.127	85.485.631
Payables Regarding Employee Benefits	14	2.737.883	2.326.410	205.408	316.928
Other Payables	4-6	442.568.172	11.251.812	33.203.404	1.532.840
- Other payables to related parties	4	442.425.999	11.133.079	33.192.738	1.516.665
- Other payables to third parties	6	142.173	118.733	10.666	16.175
Derivative Financial Instruments	24	-	3.601.257	-	490.601
Deferred Income	8	28.782.083	25.934.595	2.159.358	3.533.083
Current Tax Liabilities	23	86.569.243	33.613.816	6.494.804	4.579.227
Current Provisions	14	7.629.623	6.410.687	572.408	873.331
- Current provisions for employee benefits	14	7.629.623	6.410.687	572.408	873.331
Other Current Liabilities	15	29.960.433	16.226.887	2.247.763	2.210.597
		-	-	-	-
Non-Current Liabilities		22.348.121	810.634.243	1.676.655	110.433.109
Long-Term Borrowings	24	6.153.879	10.285.053	461.691	1.401.138
- Lease liabilities	24	6.153.879	10.285.053	461.691	1.401.138
Other Payables	4-6	-	790.805.439	-	107.731.822
- Other payables to related parties	4-6	-	790.805.439	-	107.731.822
Non-Current Provisions	14	16.194.242	9.543.751	1.214.964	1.300.149
- Non-current provisions for employee benefits	14	12.995.282	9.543.751	974.964	1.300.149
- Other non-current provisions		3.198.960	-	240.000	-
EQUITY		967.100.992	210.791.627	72.556.154	28.716.250
Equity attributable to owners of the Company		967.100.992	210.791.627	72.556.154	28.716.250
Share Capital	16	43.724.000	31.724.000	22.739.558	21.301.898
Share Premium	16	372.000.000	-	44.567.444	-
Other Comprehensive Expense That Will Not Be Reclassified To (Loss) / Profit		507.647.281	116.159.518	(413.701)	(402.627)
- Accumulated losses on remeasurements of defined benefit plans		(1.170.003)	(1.022.413)	(413.701)	(402.627)
- Currency translation differences	16	508.817.284	117.181.931	-	-
Restricted Reserves Appropriated from Profit	16	13.880.245	13.880.245	3.629.318	3.629.318
Accumulated Gain / (Losses)		49.027.864	37.919.317	4.187.661	2.602.762
Net (Loss) / Profit for the Year		(19.178.398)	11.108.547	(2.154.126)	1.584.899
TOTAL LIABILITIES AND EQUITY		2.632.474.317	1.758.158.404	197.499.761	239.514.802

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

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated)

		(Turkish Lira) Current Period 1 January - 31 December 2021	(Turkish Lira) Prior Period 1 January - 31 December 2020	(US Dollar*) Current Period 1 January - 31 December 2021	(US Dollar*) Prior Period 1 January - 31 December 2020
	Notes				
Revenue	17	5.659.271.479	4.206.483.149	635.651.793	600.154.537
Cost of Sales (-)	17	(5.253.912.721)	(3.891.097.796)	(590.121.724)	(555.157.340)
GROSS PROFIT		405.358.758	315.385.353	45.530.069	44.997.197
General Administrative Expenses (-)	18	(39.557.595)	(33.316.994)	(4.443.126)	(4.753.459)
Marketing, Sales and Distribution Expenses (-)	18	(67.075.519)	(56.623.812)	(7.533.951)	(8.078.729)
Other Income From Operating Activities	19	3.450.477	1.721.319	387.559	245.587
Other Expenses From Operating Activities (-)	19	(131.119.798)	(86.599.028)	(14.727.432)	(12.355.403)
OPERATING PROFIT		171.056.323	140.566.838	19.213.119	20.055.193
Income From Investing Activities		1.890.867	513.577	212.383	73.274
OPERATING PROFIT BEFORE FINANCE EXPENSE		172.947.190	141.080.415	19.425.502	20.128.467
Finance Income	22	6.026.954	21.225.460	676.950	3.028.315
Finance Expenses (-)	22	(99.241.656)	(132.795.654)	(11.146.865)	(18.946.448)
PROFIT / (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		79.732.488	29.510.221	8.955.587	4.210.334
Tax Expense From Continuing Operations	23	(98.910.886)	(18.401.674)	(11.109.713)	(2.625.435)
Current tax expense	23	(77.459.436)	(33.613.816)	(8.700.277)	(4.579.227)
Deferred tax (expense) / income	23	(21.451.450)	15.212.142	(2.409.436)	1.953.792
(LOSS) / PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		(19.178.398)	11.108.547	(2.154.126)	1.584.899
(LOSS) / PROFIT FOR THE YEAR		(19.178.398)	11.108.547	(2.154.126)	1.584.899
Attributable to:					
Owners of the Company/Parent		(19.178.398)	11.108.547	(2.154.126)	1.584.899
		<u>(19.178.398)</u>	<u>11.108.547</u>	<u>(2.154.126)</u>	<u>1.584.899</u>
(Loss) / Earnings per Share (for 1 full TL share)	27	(0,49)	0,35	(0,05)	0,05
OTHER COMPREHENSIVE INCOME/ (EXPENSES)					
Items that will not be reclassified subsequently to profit or loss		391.487.763	38.569.029	(11.074)	8.688
Currency translation differences		391.635.353	38.505.262	-	-
Defined Benefit Plans Measurement (Losses) / Gains	14	(191.682)	79.711	(14.382)	10.860
Tax Income / (Expense) related to other comprehensive income items	23	44.092	(15.944)	3.308	(2.172)
Deferred Tax Income / (Expense)	23	44.092	(15.944)	3.308	(2.172)
OTHER COMPREHENSIVE INCOME/ (EXPENSE)		391.487.763	38.569.029	(11.074)	8.688
TOTAL COMPREHENSIVE INCOME/ (EXPENSE)		372.309.365	49.677.576	(2.165.200)	1.593.587
Attributable to:					
Owners of the Company/Parent		372.309.365	49.677.576	(2.165.200)	1.593.587
		<u>372.309.365</u>	<u>49.677.576</u>	<u>(2.165.200)</u>	<u>1.593.587</u>

(*) Refers to the amounts in US Dollars, which is the functional currency of the Group. Presentation currency is Turkish Lira. For the conversion of US Dollar and Turkish Lira, see Note 2.

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

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated)

	Notes	Share Capital	Share Premium	Accumulated Other Comprehensive Income or Expenses That Will Not Be Reclassified Subsequently to Profit or Loss		Retained Earnings			Total Equity
				Accumulated Gain / (Loss) on Remeasurement of Defined Benefit Plans	Currency Translation Differences	Restricted Reserves	Prior Years' Profits or Losses	Net Profit or Loss	
Balances as of 1 January 2020		31.724.000	-	(1.086.180)	78.676.669	13.880.245	2.390.094	35.529.223	161.114.051
Transfers		-	-	-	-	-	35.529.223	(35.529.223)	-
Net income		-	-	-	-	-	-	11.108.547	11.108.547
Other comprehensive income		-	-	63.767	38.505.262	-	-	-	38.569.029
Total comprehensive income		-	-	63.767	38.505.262	-	-	11.108.547	49.677.576
Balances as of 31 December 2020	16	31.724.000	-	(1.022.413)	117.181.931	13.880.245	37.919.317	11.108.547	210.791.627
Balances as of 1 January 2021		31.724.000	-	(1.022.413)	117.181.931	13.880.245	37.919.317	11.108.547	210.791.627
Transfers		-	-	-	-	-	11.108.547	(11.108.547)	-
Capital Increase		12.000.000	372.000.000	-	-	-	-	-	384.000.000
Net income		-	-	-	-	-	-	(19.178.398)	(19.178.398)
Other comprehensive income		-	-	(147.590)	391.635.353	-	-	-	391.487.763
Total comprehensive income		-	-	(147.590)	391.635.353	-	-	(19.178.398)	372.309.365
Balances as of 31 December 2021	16	43.724.000	372.000.000	(1.170.003)	508.817.284	13.880.245	49.027.864	(19.178.398)	967.100.992

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

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated)

		Current Period	Prior Period
		1 January -	1 January -
	Notes	31 December 2021	31 December 2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		(19.178.398)	11.108.547
Adjustments for:			
IPO commissions and expenses		10.353.940	-
Depreciation and amortisation expenses	9-10-11	7.500.948	8.632.459
Provisions for employee termination benefits	14	5.097.739	2.919.937
Allowance for doubtful receivables	5	1.538.384	57.519.499
Losses / (gain) and on sale of tangible assets	9	27.932	4.795
Unused vacation provision	14	(71.652)	(70.770)
Bonus provision	14	3.875.973	4.895.072
Trade receivables and trade payables discounts, net		459.177	(1.103.679)
Allowance for inventories	7	3.760.153	(5.478.389)
Income tax expense	23	98.910.886	18.401.674
Interest income	20	(1.890.867)	(513.577)
Interest and commissions expense	22	79.354.933	85.413.735
Derivative (income) / expense	24	(8.307.620)	3.601.257
Net foreign exchange (income) / loss		26.787.105	55.863.534
Movement in working capital		208.218.633	241.194.094
Changes in trade receivables		156.495.050	(121.151.350)
Changes in inventories		(169.071.792)	(26.308.232)
Changes in other receivables and other assets		4.935.612	(2.304.342)
Changes in trade payables		(67.985.639)	189.737.955
Changes in other payables		(10.804.691)	(42.081.791)
Net cash generated from operations		121.787.173	239.086.334
Income taxes returns (paid)	23	(78.022.068)	(12.262.362)
Collections from doubtful receivables	5	895.376	1.130.566
Employee termination and unused vacation benefits paid	14	(2.091.935)	(1.218.988)
Bonus paid	14	(5.126.591)	(3.513.052)
Net cash generated from operating activities		37.441.955	223.222.498

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

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated)

		Current Period 1 January - 31 December 2021	Prior Period 1 January - 31 December 2020
	Notes		
CASH FLOWS FROM INVESTING ACTIVITIES		(5.985.989)	(3.530.664)
Interest received		1.890.867	513.577
Purchases of tangible and intangible assets	9-11	(7.876.856)	(4.044.241)
CASH FLOWS FROM FINANCING ACTIVITIES		(124.878.400)	(175.646.962)
Capital increase		384.000.000	-
Interest and commissions paid		(87.255.010)	(83.745.179)
Changes in other receivables from related parties		267.218.222	(122.231.801)
Changes in other payables to related parties		(677.131.943)	38.673.728
Proceeds from borrowings		-	4.685.173
Repayment of borrowings		(5.951.286)	-
Payments due to lease contracts	24	(5.758.383)	(6.019.883)
Change in financial assets		-	(7.009.000)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS BEFORE FOREIGN CURRENCY TRANSLATION EFFECTS		(93.422.434)	44.044.872
		82.342.984	14.439.918
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(11.079.450)	58.484.790
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	3	110.903.277	52.418.487
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3	99.823.827	110.903.277

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

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Penta Teknoloji Ürünleri Dağıtım Ticaret A.Ş. (“Penta” or the “Company”) and its subsidiaries (all together referred as the “Group”), comprise the parent Penta Teknoloji Ürünleri Dağıtım Ticaret A.Ş. and two subsidiaries in which the Company owns the 100% share of the capital or has controlling interest.

Penta Teknoloji Ürünleri Dağıtım Ticaret A.Ş. (“Penta” or the “Company”) was established in 2003 and incorporated in Istanbul, Turkey. The registered addresses of its office and principal place of business are Organize Sanayi Bölgesi, 4. Cadde No: 1 34775, Yukarı Dudullu, Ümraniye / Istanbul.

Principal activities of the Company are distribution of computer, hardware and software goods. The Company purchases the trade goods from domestic and foreign suppliers and distributes them mostly to its domestic customers via its sales network. It executes the distributorship of the brands like Acer, Adobe, Asus, Autodesk, Corsair, Dell-EMC, HP, Exper, Huawei, IBM, Intel, Lenovo, Logitech, Microsoft, MSI, OKI, Sandisk, Seagate, TP-Link, Viewsonic, Wacom, WD and Zyxel.

The Company’s shares are publicly traded on Borsa İstanbul (“BIST”) as of 17 May 2021. The free float ratio of the shares is 15,77% as of 31.12.2021.

The Company acquired 100% shares of Commonwealth Finance Investment Ltd. (“Commonwealth”) for a consideration of TL 3.277 on 1 December 2013. Commonwealth’s principal activity is the sale of imported goods from the vendors to Penta.

On 3 January 2014, the Company acquired 100% shares of Ekip Elektronik Sistemler ve Malzemeleri Ticaret A.Ş. (“Ekip”) and Beyaz İletişim Sistemleri Dış Ticaret ve Sanayi Ltd. Şti. (“Beyaz İletişim”). On 4 March 2014, Ekip and Beyaz İletişim have been merged under Penta.

The Company acquired 100% shares of Sayısal Grafik Sanayi ve Ticaret A.Ş. (“Sayısal”) for a consideration of TL 11.892.295 on 18 June 2015. After the acquisition, on 30 July 2015 Sayısal has been merged under Penta.

The Company acquired 100% shares of Exper Bilgisayar Sistemleri Sanayi ve Ticaret A.Ş. (“Exper”) for a consideration of TL 85.400.000 on 22 June 2017. After the acquisition, on 28 June 2017 Exper has been merged under Penta.

The company acquired 100% shares of Arlington Investments B.V. for 20.000 Euros which was a non-operational company as of acquisition date. The company was established in the Netherlands and the commercial title of the company changed as Penta International B.V. (“Penta BV”).

Total number of the Group’s employees is 353 as of 31 December 2021 (31 December 2020: 342).

Approval of Consolidated Financial Statements:

The consolidated financial statements have been approved by Board of Directors and authorized on the date of 9 March 2022 for publishing. General Assembly has the authority to amend / modify consolidated financial statements.

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of the Presentation

The consolidated financial statements of the Group are in accordance with the provisions of the Capital Markets Board's ("CMB") Communiqué Serial II, No. 14.1 on "Principles Regarding Financial Reporting in the Capital Markets" ("Communiqué") published in the Official Gazette dated 13 June 2013 and numbered 28676. as has been prepared, pursuant to Article 5 of the Communiqué Public Oversight Accounting and Auditing Standards Authority ("POA") that have been put into force by Turkish Accounting Standards ("TAS") are considered. TAS contains Turkish Accounting Standards, Turkish Financial Reporting Standards ("TFRS") and the related addendum and interpretations. The consolidated financial statements and accompanying notes have been presented in accordance with the TAS taxonomy published by the POA on 15 April 2019.

The Company complies with the principles and conditions issued by the CMB, the Turkish Commercial Code ("TCC"), the tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance in keeping accounting records and preparing its statutory financial statements. Subsidiaries operating in foreign countries have prepared their statutory financial statements in accordance with the laws and regulations applicable in the countries in which they operate. Consolidated financial statements have been prepared on the basis of historical cost, except for derivative instruments shown at fair value.

2.2 Correction of Financial Statements in High Inflation Periods

In accordance with the CMB's decision dated 17 March 2005 and numbered 11/367, for companies operating in Turkey and preparing financial statements in accordance with Turkish Financial Reporting Standards, the application of inflation accounting has been terminated as of 1 January 2005. Accordingly, as of 1 January 2005, the Standard No. 29 "Financial Reporting in Hyperinflationary Economies" ("TAS 29") has not been applied.

As per the announcement published by the Public Oversight, Accounting and Auditing Standards Authority on 20 January 2022, since the cumulative change in the general purchasing power of the last three years has been 74,41% according to the Consumer Price Index ("CPI") rates, it has been stated that entities applying the Turkish Financial Reporting Standards are not required to make any restatements in their financial statements for 2021 within the scope of TAS 29 "Financial Reporting in High Inflation Economies".

2.3 Functional Currency

The financial statements of each enterprise of the Group are presented in the currency (functional currency) valid in the basic economic environment in which they operate. The company mainly uses USD in its operations (trading). The US dollar also reflects the economic basis of situations and events that are important to the Company. The company's purchase and sales prices are largely based on US Dollars. The Company, by evaluating the economic environment and its activities, has determined the functional currency as USD in accordance with TAS 21 (Effects of Changes in Exchange Rates). Although the functional currency of the Group is US Dollars, the presentation currency is expressed in TL.

If the legal records are kept in a currency other than the functional currency, the financial statements are first converted to the functional currency and then back to TL, which is the Group's presentation currency. For companies in Turkey, the functional currency of the statutory records, which are made from TL is held within the framework conversion into US dollars as described below;

- Monetary assets and liabilities accounts, T.C. The Central Bank ("CBRT") is converted to the functional currency with the foreign exchange buying rate.
- Non-monetary items are converted into functional currency with the CBRT buying rates valid on the date of the transaction.
- Income statement accounts have been converted to the functional currency using the exchange rates on the transaction date, excluding depreciation charges..
- Capital has been tracked according to historical costs.

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.3 Functional Currency (cont'd)

The translation differences resulting from the above conversions are recorded in the profit or loss statement, in the foreign exchange income / expense accounts included in the financial income and expenses item.

The exchange rates and methods used in converting from functional currency to presentation currency are listed below:

Items in the consolidated statement of financial position are translated into Turkish Lira with the year-end exchange rates announced by the Central Bank of the Republic of Türkiye ("CBRT"). Equity items are shown with their historical values. Income and expenses and cash flows are translated at the annual average exchange rate for the relevant period. Translation gain/loss arising from this conversion has been included in the "foreign currency translation differences" account under equity and accounted as a separate component of the other comprehensive income.

Average USD / TRY exchange rates for each period as of December 31, 2021 and 2020 are as follows:

	2021	2020
USD / TRY – as of reporting date	13,3290	7,3405
USD / TRY – average for the period	8,9031	7,0090

The USD ("USD") amounts shown in the accompanying consolidated financial statements are the financial statements prepared in accordance with the functional currency of the Group and are not part of the accompanying consolidated financial statements.

2.4 Going Concern

The consolidated financial statements of the Group are prepared on a going concern basis, which presumes the realization of assets and settlement of liabilities in the normal course of operations and in the foreseeable future.

The Covid-19 epidemic, which has affected the world, has brought together issues such as distance education and remote work. Therefore it has increased the technology infrastructure needs of both educational institutions, companies and households. Accordingly, the negative effects of the epidemic for the Group and the technology sector have been limited.

2.5 Changes in Accounting Policies

Important changes on the accounting policies are accounted retrospectively and prior period's financial statements are restated. The Group did not apply any changes in its accounting policies for current period.

2.6 Changes and Errors in Accounting Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, in the period of the change and future periods, if the change affects both. The Group does not have any important changes in the accounting estimates in the current year. Significant accounting errors are corrected retrospectively, by restating the prior period consolidated financial statements.

To enable the determination of financial status and performance trends, the Group's consolidated financial statements for the current period are prepared in comparison with the previous period. Comparative information is reclassified, where necessary, to conform to the presentation of the current period consolidated financial statements. The Group did not have any reclassifications for the current period.

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.7 Basis of Consolidation

The details of subsidiaries are as follows:

Name of subsidiaries	Principal activity	Place of incorporation	Proportion of ownership interest and voting power held by the Group (%)	
			31 December 2021	31 December 2020
Commonwealth Finance Investment Ltd.	International Trade of IT Products	British Virgin Islands	100%	100%
Penta International B.V.	International Trade of IT Products	Netherlands	100%	100%

Functional currencies of these subsidiaries are US Dollar.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than the majority of the voting rights of an investee, it has still power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company’s voting rights in an investee are sufficient to give it power, including:

- the size of the Company’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.7 Basis of Consolidation (cont’d)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.8 Application of New and Revised International Financial Reporting Standards(IFRSs)

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2021 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRS interpretations effective as of January 1, 2021 and thereafter. The effects of these standards and interpretations on the the Group’s financial position and performance have been disclosed in the related paragraphs.

a) The new standards, amendments and interpretations which are effective as at January 1, 2021

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

In December 2020, the POA issued Interest Rate Benchmark Reform – Phase 2, Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 to provide temporary reliefs which address the financial reporting effects when an interbank offering rate (IBOR) is replaced with an alternative nearly risk-free rate (RFR, amending the followings. The amendments are effective for periods beginning on or after 1 January 2021. Earlier application is permitted and must be disclosed.

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows.

The practical expedient is required for entities applying TFRS 4 Insurance Contracts that are using the exemption from TFRS 9 Financial Instruments (and, therefore, apply TAS 39 Financial Instruments: Classification and Measurement) and for TFRS 16 Leases, to lease modifications required by IBOR reform.

Relief from discontinuing hedging relationships

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.
- For the TAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.
- The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.
- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

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(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.8 Application of New and Revised International Financial Reporting Standards(IFRSs) (cont’d)

a) The new standards, amendments and interpretations which are effective as at January 1, 2021 (cont’d)

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Additional disclosures

Amendments need additional TFRS 7 Financial Instruments disclosures such as; How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and If IBOR reform has given rise to changes in the entity’s risk management strategy, a description of these changes.

The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

The amendments did not have a significant impact on the financial position or performance of the Group.

Amendments to IFRS 16 - Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021

In June 2020, the POA issued amendments to TFRS 16 Leases to provide relief to lessees from applying TFRS 16 guidance on lease modifications to rent concessions arising a direct consequence of the Covid-19 pandemic. In April 7, 2021, POA extended the exemption to include concessions that cause a decrease in lease payments whose maturity expired on or before June 30, 2022.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 April 2021. Early application of the amendments is permitted.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

b) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

Amendments to TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Group will wait until the final amendment to assess the impacts of the changes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.8 Application of New and Revised International Financial Reporting Standards(IFRSs) (cont’d)

b) Standards issued but not yet effective and not early adopted (cont’d)

Amendments to TFRS 3 – Reference to the Conceptual Framework

In July 2020, the POA issued amendments to TFRS 3 Business combinations. The amendments are intended to replace to a reference to a previous version of the Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing requirements of TFRS 3. At the same time, the amendments add a new paragraph to TFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments issued to TFRS 3 which are effective for periods beginning on or after 1 January 2022 and must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in TFRS standards (2018 Version).

The the Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Amendments to TAS 16 – Proceeds before intended use

In July 2020, the POA issued amendments to TAS 16 Property, plant and equipment. The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items, in profit or loss. The amendments issued to TAS 16 which are effective for periods beginning on or after 1 January 2022. Amendments must be applied retrospectively only to items of PP&E made available for use on or after beginning of the earliest period presented when the entity first applies the amendment. There is no transition relief for the first time adopters.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Amendments to TAS 37 – Onerous contracts – Costs of Fulfilling a Contract

In July 2020, the POA issued amendments to TAS 37 Provisions, Contingent Liabilities and Contingent assets. The amendments issued to TAS 37 which are effective for periods beginning on or after 1 January 2022, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making and also apply a “directly related cost approach”. Amendments must be applied prospectively to contracts for which an entity has not fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

TFRS 17 - The new Standard for insurance contracts

The POA issued TFRS 17 in February 2019, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. TFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. TFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted.

The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.8 Application of New and Revised International Financial Reporting Standards(IFRSs) (cont’d)

b) Standards issued but not yet effective and not early adopted (cont’d)

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

On January 15, 2021, the POA issued amendments to TAS 1 Presentation of Financial Statements. The amendments issued to TAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Amendments to TAS 8 - Definition of Accounting Estimates

In August 2021, the POA issued amendments to TAS 8, in which it introduces a new definition of ‘accounting estimates’. The amendments issued to TAS 8 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the POA. The amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. Earlier application is permitted.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to TAS 1 - Disclosure of Accounting Policies

In August 2021, the POA issued amendments to TAS 1, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments issued to TAS 1 are effective for annual periods beginning on or after 1 January 2023. In the absence of a definition of the term ‘significant’ in TFRS, the POA decided to replace it with ‘material’ in the context of disclosing accounting policy information. ‘Material’ is a defined term in TFRS and is widely understood by the users of financial statements, according to the POA. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

Overall, the Group expects no significant impact on its balance sheet and equity.

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In August 2021, the POA issued amendments to TAS 12, which narrow the scope of the initial recognition exception under TAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments issued to TAS 12 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

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(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.8 Application of New and Revised International Financial Reporting Standards(IFRSs) (cont’d)

b) Standards issued but not yet effective and not early adopted (cont’d)

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (cont’d)

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations should be recognized.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Annual Improvements – 2018–2020 Cycle

In July 2020, the POA issued Annual Improvements to TFRS Standards 2018–2020 Cycle, amending the followings:

- TFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by the parent. The amendment is also applied to an associate or joint venture.
- TFRS 9 Financial Instruments – Fees in the “10 per cent test” for derecognition of financial liabilities: The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other’s behalf.
- TAS 41 Agriculture – Taxation in fair value measurements: The amendment removes the requirement in paragraph 22 of TAS 41 that entities exclude cash flows for taxation when measuring fair value of assets within the scope of TAS 41.

Improvements are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted for all.

The Group is in the process of assessing the impact of the amendments / improvements on financial position or performance of the Group.

2.9 Significant Accounting Policies

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 family member of that person 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.

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES

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(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Related Parties (cont’d)

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. If a person defined in subparagraph (i) of article (a) has a significant influence on the entity or is a member of the key management personnel of the entity (or the parent company of this entity).

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

Revenue

The Group recognizes revenue in line with the following 5 fundamental principles:

- a) Identify contracts with customers,
- b) Identify the performance obligations in the contracts,
- c) Determine the transaction price,
- d) Allocate the transaction price to the performance obligations in the contracts,
- e) Recognize revenue when each performance obligation is satisfied.

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

- a) The parties to the contract have approved the contract (in writing, verbally or in accordance with other commercial practices) and are committed to fulfilling their own performance obligations,
- b) The rights of each party related to the goods or services to be transferred can be defined,
- c) Payment terms for goods or services to be transferred can be defined,
- d) The contract is inherently commercial in nature,
- e) It is probable that the Group will collect a price for goods or services to be transferred to the customer. While evaluating whether a price is likely to be collected, the Group takes into account only the customer's ability to pay this price on due date and its intention.

Revenue related to performance obligations in the form of goods or service transfer commitments are recognized when the control of the goods or services is taken over by the customers. While evaluating the transfer of control of the goods or services sold to the customer, the Group takes into account;

- a) Ownership of the Group's right to collection regarding goods or services,
- b) The customer's ownership of the legal ownership of the goods or services,
- c) Transfer of possession of goods or services,
- d) The customer's possession of significant risks and rewards arising from owning the property or service,
- e) The conditions of acceptance of the goods or services by the customer.

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(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Revenue (cont’d)

Revenue is recognized in the financial statements at the transaction price. Transaction price is the amount that the Group expects to deserve in return for the transfer of the committed goods or services to the customer, excluding the amounts collected on behalf of third parties. When control of goods or services is transferred to customers, the Group reflects the related amount as revenue in the Consolidated Financial Statements. Net sales represent the invoiced value of goods shipped less sales returns and discounts. Turnover premiums and discounts received from sellers are recognized on an accrual basis during the period in which the sellers benefit from the services and deducted from the cost of the goods sold.

Sale of goods:

The sale of the products completes when the order from the customers is prepared and delivered to the requested point or by delivery from the warehouse. After delivery of the products, the Group has no other obligations except for the replacement of defective products. As soon as the control of the products is transferred to the customer, the related sales are reflected as revenue in the Group's consolidated financial statements. Sales revenue for estimated customer returns, discounts and other similar allowances is reduced. Discounts, sales discounts, stock protection and other similar allowances from suppliers are deducted from the cost of goods sold.

Interest Income:

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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 exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a weighted average basis. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. 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.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Property, Plant and Equipment (cont’d)

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Leasehold Improvements

Leasehold improvements consists of permanent improvements made to rented buildings of the Group for expected benefits. The Group accounts leasehold improvements based on deduction of accumulated depreciation and impairments (if any) from cost as of improvement day.

Intangible Assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets

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.

Impairment of Tangible and Intangible Assets Other than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Impairment of Tangible and Intangible Assets Other than Goodwill (cont’d)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Leases

The Group has applied TFRS 16 standard starting from January 1, 2019. Accounting policies applied before January 1, 2019 are explained in detail in the notes to the consolidated financial statements dated December 31, 2018.

Group - as tenant,

At the inception of a contract, it evaluates whether the contract is a lease or includes a lease. In case the contract transfers the right to control the use of the defined asset for a price, this contract is in the nature of a lease or includes a lease. After these evaluations, the Group reflects a right-of-use asset and a lease liability in its financial statements at the date the lease actually commences.

Right of Use Assets

The group recognizes right-of-use assets at the commencement of the financial lease agreement (for example, as of the date the asset is available for use). Right-of-use assets are calculated by deducting accumulated depreciation and impairment losses from their cost value. In case of revaluation of financial lease debts, this figure is also corrected.

The cost of the right-of-use asset includes:

- (a) the initial measurement amount of the lease liability,
- (b) all lease payments made on or before the actual commencement date, less any lease incentives received, and
- (c) all initial direct costs incurred by the group.
- (d) the estimated costs incurred by the lessee in connection with dismantling and moving the underlying asset, restoring the area on which it is placed, or restoring the underlying asset to the condition required by the terms and conditions of the lease (except where those costs are incurred for stock production).

Unless the transfer of ownership of the underlying asset to the Group at the end of the lease term is reasonably certain, the Group depreciates the right of use asset from the actual commencement of the lease to the end of the useful life of the underlying asset.

Right-of-use assets are subject to impairment assessment.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Lease Liabilities

The Group measures the lease liability at the present value of the unpaid lease payments at the start of the lease.

The lease payments included in the measurement of the lease liability at the date of actual commencement consist of the following payments to be made for the right to use the underlying asset during the lease term and not paid at the time the lease actually commences:

- (a) fixed payments,
- (b) variable lease payments based on an index or rate, initially measured using an index or rate at the date the lease actually commences;
- (c) Amounts expected to be paid by the Group under residual value commitments
- (d) If the Group is reasonably sure that it will use the option, the exercise of this option price and
- (e) If the lease term indicates that the Group will use an option to terminate the lease, penalty payments regarding the termination of the lease.

Variable lease payments that are not dependent on an index or rate are recorded as an expense in the period in which the event or condition triggering the payment occurs.

The Group uses the revised discount rate for the remaining part of the lease term, if the implied interest rate in the lease can be easily determined, as this rate; If it cannot be determined easily, the Group determines it as the alternative borrowing interest rate on the date of re-evaluation.

The group measures the lease liability as follows, after the date the lease actually commences:

- (a) increase the carrying value to reflect the interest on the lease liability, and
- (b) It reduces the book value to reflect the lease payments made.
- (c) Re-measure the book value to reflect reassessments and reconstructions, if any.

The Group reflects the remeasurement amount of the lease liability as an adjustment to the right-of-use asset in its financial statements.

In addition, in the event of a change in the lease term, a change in essentially fixed lease payments, or a change in the assessment of the option to purchase the underlying asset, the value of the lease obligations is remeasured.

Short-term leases and leases where the underlying asset is of low value

The Group applies the short-term lease registration exemption to short-term machinery and equipment lease contracts (i.e. assets with a lease term of 12 months or less from the start date and without a call option). It also applies the exemption from accounting for low value assets to office equipment whose rental is considered to be of low value. Short-term lease contracts and lease contracts of low value assets are recorded as expense according to the linear method during the lease term.

Financial Instruments

Financial assets and financial liabilities are recognised in the Group’s consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Financial Instruments (cont’d)

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

The Group 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 consolidated financial statements.

Classification of financial assets

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (“FVTOCI”):

- 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
- 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.

By default, all other financial assets are measured subsequently at fair value through profit or loss (“FVTPL”).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset; the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met.

Amortised cost and effective interest method

Interest income on financial assets carried at amortized cost is calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Financial Instruments (cont’d)

Amortised cost and effective interest method (cont’d)

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 Group 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 Group applies the effective interest rate to the amortized cost of the asset in the subsequent reporting periods.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. Interest income is recognised in consolidated profit or loss statement. Interest income is recognized as income from investments if it is based on deposits. Interest income from in-group borrowings are shown as finance income.

Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria to be measured at amortized cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value at the end of each period and all fair value changes are accounted for in profit or loss unless the related financial assets are part of the hedging transactions (see hedge accounting policy).

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the ‘other gains and losses’ line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the ‘other gains and losses’ line item. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the ‘other gains and losses’ line item; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.9 Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Impairment of financial assets (cont'd)

The Group utilizes a simplified approach for non-significant trade receivables, contract assets and lease receivables and calculates the allowance for impairment against the lifetime expected credit losses ("ECL") of the related financial assets.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Derecognition of financial assets

The Group derecognises 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 entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Trade receivables

Trade receivables arising from the provision of products or services to the buyer are recognized over the amortized value of the receivables to be recorded in the following periods from the original invoice value, using the effective interest method. Short-term receivables with no determined interest rate are shown from the invoice amount, if the effect of the original effective interest rate is not too great.

The "simplified approach" is applied for the impairment calculations of trade receivables that are accounted at amortized cost in the financial statements and do not contain a significant financing component (with a maturity of less than 1 year). With this approach, in cases where the trade receivables are not impaired for certain reasons (except for the realized impairment losses), the loss allowance for trade receivables is measured at an amount equal to "lifetime expected credit losses". Following the allocation of a provision for impairment, if all or a portion of the impaired receivable is collected, the collected amount is deducted from the provision for impairment and recorded in other operating income.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Financial Instruments (cont’d)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The Group classifies the blocked deposits held in banks from cash and cash equivalents and follows them in the 'Financial Assets (Restricted Bank Balances)' account in the statement of financial position.

Financial liabilities

Financial liabilities are classified as at FVTPL on initial recognition. On initial recognition of liabilities other than those that are recognised at FVTPL, transaction costs directly attributable to the acquisition or issuance thereof are also recognised in the fair value.

A financial liability is subsequently classified at amortized cost except:

- Financial liabilities at FVTPL: These liabilities including derivative instruments are subsequently measured at fair value.
- 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 Group 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.
- A contingent consideration recognized in the financial statements by the entity acquired in a business combination where IFRS 3 is applied: After initial recognition, the related contingent consideration is measured as at FVTPL.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Financial liabilities

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies applied for the debt and equity instruments are stated below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Financial Instruments (cont’d)

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Trade payables

Trade payables refer to the payments to be made for goods and services provided from suppliers in ordinary activities. Trade payables are first measured from their fair value and amortized cost calculated using the effective interest method in the following periods.

Loans

Loans are first recorded at their fair value after deducting the transaction costs incurred. Borrowings are measured at amortized cost later.

Derivative Instruments

Derivative instruments are first recorded at their acquisition cost reflecting their fair value at the contract date, and are valued at fair value in the following periods. The derivative instruments of the Group consist of forward foreign exchange purchase and sale contracts. Although these derivatives provide effective protection against risks for the Group economically, if they do not meet the necessary conditions for risk accounting, they are accounted as trading derivatives in the consolidated financial statements and the fair value changes related to them are reflected in the statement of profit or loss.

Offsetting

In the existence of legal right or power of sanction for offsetting the financial assets and liabilities included in the consolidated financial statements and in the case of collection/payment or simultaneous finalization of aforementioned financial assets and liabilities, the net amounts are stated.

Business Combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Business Combinations (cont’d)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-Based Payments at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Business Combinations (cont’d)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Effects of Changes in Foreign Exchange Rates

Foreign Currency Transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The results and financial position of each entity are expressed in USD, which is the functional currency of the Company, and presented in Turkish Lira which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than USD (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Effects of Changes in Foreign Exchange Rates (cont’d)

Financial Statements of Subsidiaries that Operates in Foreign Country

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into USD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

Events after the Reporting Period

It refers to events that occur in favor or against the company between the reporting date and the date of authorization for the publication of financial statements. Events after the reporting date are divided into two:

- there is new evidence that relevant events existed as of the reporting date, and
- there is evidence that relevant events occurred after the reporting date (events that did not require correction after the reporting date).

In the event that there is new evidence regarding the existence of the mentioned events as of the reporting date or the related events occur after the reporting date and these events require the financial statements to be corrected, the Group revises its consolidated financial statements in accordance with the new situation. If the events in question do not require correction of the consolidated financial statements, the Group explains the related issues in the related footnotes.

Provisions, Contingent Assets and Liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, 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.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognized.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Investment Properties (cont’d)

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property that is measured at fair value to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property that is measured at fair value, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

As of December 31, 2021, the investment properties item consists of the building in Adana Reşatbey; and its value is 1.576.781 TL (31 December 2020: 868.359 TL).

Income Taxes

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the consolidated 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 Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Income Taxes (cont’d)

Deferred tax (cont’d)

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

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The management reviewed the Group’s investment property portfolios and concluded that none of the Group’s investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the management has determined that the ‘sale’ presumption set out in the amendments to IAS 12 is not rebutted. As a result, since the gain on sale of investment properties is subject to tax at the rate of 10%, a deferred tax liability at the rate of 10% is recognized from the difference between the fair value of investment properties and their tax value.

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Employee Benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per IAS 19 (Revised) Employee Benefits (“IAS 19”).

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

Statement of Cash Flows

In statement of cash flows, cash flows are classified according to operating, investing and financing activities.

Cash flows from operating activities reflect cash flows generated from sales of the Group.

Cash flows from investing activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Group.

Cash flows from financing activities express sources of financial activities and payment schedules of the Group.

Share Capital and Dividends

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

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.9 Significant Accounting Policies (cont’d)

Earnings Per Share

Earnings per share stated in the consolidated statement of profit or loss are determined by dividing the consolidated net profit of the parent company by the weighted average number of shares available during the year.

2.10 Segment Reporting

The Group applied IFRS 8 and its operating segments are identified based on the information provided to and analyzed by the senior executives, which represents the chief operating decision makers (CODM), making decisions regarding the allocation of resources and assessing performance. For the purposes of IFRS 8, the Group also considers the operating segments that present management reporting have similar economic characteristics and considers the operating segments offer similar financial performance in the long term. In addition the Group reports these operating segments as a single operating segment to have similar nature of products and services, customer type and class, product distribution and service delivery and additionally subject to similar legal regulations. Therefore, the Group is considered as one single operating segment.

2.11 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgments in applying the Group’s accounting policies

In the process of applying the Group’s accounting policies, which are described in Note 2.9, the Group Management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements:

Useful life of property, plant and equipment and intangible assets

The Company has calculated the depreciation and amortization amounts regarding the useful lives specified in Notes 9 and 11.

Duration of Leasing Liabilities

The Group's leasing liabilities within the scope of TFRS 16 are related to vehicle and building leasing contracts. The lifetime of the leasing agreements for vehicles are determined on the basis of the relevant lease agreement. The lifetime of the lease contracts for buildings are determined based on the best estimate of the period in which the management plans to use the asset in lease contracts and auto-renewal contracts.

Doubtful receivables provision

A credit risk provision for trade receivables is established 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. As of 31 December 2021, the provision amount is 94.792.782 TL (31 December 2020: 88.936.162 TL).

Severance benefits

Under Turkish Law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per IAS 19 (Revised) *Employee Benefits* (“IAS 19”).

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont’d)

2.11 Critical Accounting Judgments and Key Sources of Estimation Uncertainty (cont’d)

Severance benefits (cont’d)

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

The estimations used in calculation of employee benefits are explained in Note 14.

Inventory impairment provision

When the net realizable value of inventories is less than their cost, the inventories are reduced to their net realizable value and are reflected to profit and loss as loss. According to the expectations of the Group, as the net realizable value of the inventories are below of their cost value, for some part of the inventories the Group has allocated provision and reduced to their net realizable value. The Group has allowance for impairment on inventory amounting to 36.282.164 TL as of 31 December 2021 (31 December 2020: 16.880.985 TL).

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3. DISCLOSURES RELATED TO STATEMENT OF CASH FLOWS

	31 December 2021	31 December 2020
Cash on banks	97.734.799	108.172.640
Demand deposits	97.734.799	104.114.007
Time deposits	-	4.058.633
Credit card receivables	2.089.028	2.730.637
	<u>99.823.827</u>	<u>110.903.277</u>

The average maturity of credit card receivables is 1 day as of 31 December 2021 (31 December 2020: 1 day).

The Group subtracts the blocked deposits held in banks (31 December 2021: 13.329.000 TL, 31 December 2020: 7.340.500 TL) from cash and cash equivalents and presents them under Financial Assets (Restricted Bank Deposits) in the consolidated statement of financial position.

Currency Type	Maturity	Interest Rate	2020
TL	4 January 2021	17,90% - 19,00%	4.058.633
			<u>4.058.633</u>

Explanations related to nature and level of risks in cash and cash equivalents are explained in Note 25.

4. RELATED PARTY DISCLOSURES

Transactions between the Company and its subsidiaries have been eliminated on consolidation and therefore are not disclosed in this note.

The trade receivables from related parties arise mainly from sales transactions whereas non-trade receivables arise from financial transactions. Trade receivables from related companies have 2 months of maturities on average. These receivables are by nature not secured and bear no interest. Interest applies to the financial receivables from related parties and for the year 2021 the average interest rate for USD denominated receivables is 17,65% while for TRY denominated receivables it is 5,07% (2020: 11,06% and 4,94% respectively). Payables to related parties arise mainly from purchase transactions and financial transactions. Trade payables to related companies have 2 months of maturities on average. Non-trade payables are comprised of short term financial liabilities and long-term financial debts in the scope of the parent company's (Yıldız Holding) syndication loan agreement. Interest rates within the scope of the syndication loan agreement is fixed at 6,80% for USD denominated liabilities (2020: 8,00% for TRY denominated liabilities and 6,80% for USD denominated liabilities).

Details of transactions between the Group and other related parties are disclosed below.

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4. RELATED PARTY DISCLOSURES (cont'd)

a) The detail of trade and non-trade receivables and payables as of 31 December 2021 and 31 December 2020 is as follows:

Balances with Related Parties	31 December 2021				
	Receivables		Payables		
	Current		Current		Non-Current
	Trade	Non-Trade	Trade	Non-Trade	Non-Trade
Yıldız Holding A.Ş. (*)	152.524	-	2.244.950	420.127.087	-
Şok Marketler Tic. A.Ş.	915.076	-	732.455	-	-
Most Bilgi Sistemleri Ticaret A.Ş.	1.033.891	-	835.502	-	-
Future Teknoloji Ticaret A.Ş.	647.110	-	9.384	-	-
Bizim Toptan Satış Mağazaları A.Ş.	800.033	-	64.126	-	-
Shareholders	-	-	-	22.441.085	-
Other	1.327.208	-	285.907	-	-
	<u>4.875.842</u>	<u>-</u>	<u>4.172.324</u>	<u>442.568.172</u>	<u>-</u>
Balances with Related Parties	31 December 2020				
	Receivables		Payables		
	Current		Current		Non-Current
	Trade	Non-Trade	Trade	Non-Trade	Non-Trade
Yıldız Holding A.Ş. (*)	-	220.318.244	103.909	-	790.805.439
Natura Gıda San. Ve Tic. A.Ş.	8.839.722	-	128.330	-	-
Şok Marketler Tic. A.Ş.	583.012	-	9.390	-	-
Unmaş Unlu Mamülleri San. Ve Tic.	824.959	-	375.368	-	-
Gözde Girişim Ser. Yat. Ort. A.Ş.	566.864	-	284.123	-	-
Shareholders	-	-	-	11.133.079	-
Other	845.783	-	263.803	-	-
	<u>11.660.340</u>	<u>220.318.244</u>	<u>1.164.923</u>	<u>11.133.079</u>	<u>790.805.439</u>

(*) The Company netted off its TL based financial receivables from its TL and USD based financial debts to Yıldız Holding on February 8, 2021. As a result of this transaction, the balance of other receivables from related parties, amounting to 220.318.244 TL in the balance sheet of the Group as of 31 December 2021 was converted into US Dollar as 31,1 million USD at the CBRT's buying rate on 5 February 2021 (USD/TRY of 7.0789) and offset from other payables to related parties. The Company has no non-trade receivables from Yıldız Holding A.Ş. as of 31 December 2021. The Company has given 3 promissory notes with a maturity of 1 June 2021, 31 December 2021 and 30 June 2022, amounting to USD 35.000.000, USD 20.339.685 and USD 20.982.815, including interest accruals, with the agreement reached on March 11, 2021 regarding the financial debts of the Company to Yıldız Holding within the scope of the syndication loan. A payment of USD 44.687.249 was made from the proceeds of the public offering on May 18, 2021, and it was deducted from the first two bills with the closest maturity.

(**) Shareholders: Mustafa Ergün, Mürsel Özçelik, Sinan Güçlü, Bülent Koray Aksoy. The trade receivables from Bimeks Bilgi İşlem ve Dış Ticaret A.Ş. ("Bimeks") arising from transactions in 2017 and before have become doubtful as a result of the difficulty of this company to pay. With an assignment of claim agreement signed in 2017, these trade receivables were transferred to the Company's shareholders Mustafa Ergün, Bülent Koray Aksoy, Sinan Güçlü and Mürsel Özçelik and İsmet Ambalaj Yatırımları A.Ş. ('İsmet Ambalaj'). With a new assignment of claim agreement signed in 2020, these receivables were transferred to the Company and a provision for doubtful receivables was provided for the related receivables (Note 19). The ongoing lawsuits related to these receivables have been taken over by the Company, and the Company has initiated an execution proceeding for the part that has not been sued before. The Company has paid all of its debts arising from the transfer of these receivables to İsmet Ambalaj in 2020, and the balance amounting to 11.133.079 TL as of 31 December 2021 consists of portion of the debts to individual shareholders. As of 31 December 2021, 22.441.085 TL non-trade payables to shareholders consists of financial debt.

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4. RELATED PARTY DISCLOSURES (cont’d)

Other companies in the list are related parties of Yıldız Holding. Trade receivables arise from sales of commercial goods, trade payables arise from purchases of products and services.

b) The details of transactions between related parties for the years 2021 and 2020 are presented below:

Transactions with related parties	1 January - 31 December 2021			
	Sales	Purchases	Interest Income	Interest Expense
Yıldız Holding A.Ş.	5.522.790	16.176.930	6.026.954	34.593.529
Şok Marketler Tic.A.Ş.	1.488.220	54.171	-	-
Future Teknoloji Ticaret A.Ş.	696.614	-	-	-
Most Bilgi Sistemleri Ticaret A.Ş.	657.848	467.331	-	-
Gözde Girişim Ser.Yat.Ort.A.Ş.	266.515	55.325	-	-
Kerevitaş Gıda San. Ve Tic. A.Ş.	672.025	-	-	-
Ülker Bisküvi San. A.Ş.	467.554	-	-	-
Sağlam İnş.Taah.Tic. A.Ş.	418.018	-	-	-
Other	3.413.599	702.348	-	-
	<u>13.603.183</u>	<u>17.456.105</u>	<u>6.026.954</u>	<u>34.593.529</u>

Transactions with related parties	1 January - 31 December 2020			
	Sales	Purchases	Interest Income	Interest Expense
Yıldız Holding A.Ş.	2.370.882	6.291.531	21.225.460	53.678.822
Bizim Toptan Satış Mağazaları A.Ş.	2.655.918	222.992	-	-
Ufuk Yatırım Yönetim Ve Gayrimenkul A.Ş.	5.849	2.594.426	-	-
Şok Marketler Tic.A.Ş.	1.183.325	400.276	-	-
Azmüsebat Çelik Sanayi Ve Tic.A.Ş.	1.419.020	13.383	-	-
Horizon Hızlı Tüketim Ür. Paz. A.Ş.	939.642	-	-	-
Most Teknoloji Çözümleri A.Ş.	680.179	818.975	-	-
Future Teknoloji Ticaret A.Ş.	772.855	6.866	-	-
Other	3.600.799	375.044	-	-
	<u>13.628.469</u>	<u>10.723.493</u>	<u>21.225.460</u>	<u>53.678.822</u>

The companies in the list consist of Yıldız Holding and its related parties. Purchases from Yıldız Holding mainly consist of service purchases. Ufuk Yatırım Yönetim ve Gayrimenkul A.Ş. purchases consist of rent payments. Trade receivables from other companies arise from sales of commercial goods, trade payables from other companies arise from purchases of products and services.

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4. RELATED PARTY DISCLOSURES (cont'd)

Compensation of key management personnel:

The key management personnel of the Group consists of board members, the general manager and the directors. The benefits provided to key management comprise benefits such as salary and premiums. The remuneration of top management during the year were as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Salaries and other current benefits	4.971.513	3.905.032
	<u>4.971.513</u>	<u>3.905.032</u>

5. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables

The details of the Group's trade receivables are as follows:

	31 December 2021	31 December 2020
Short term trade receivables		
Trade receivables	1.322.768.974	869.243.930
Notes receivables	141.570.002	95.347.303
Due from related parties (Not 4)	4.875.842	11.660.340
Revenue accruals	-	1.545.109
Doubtful receivables	94.792.782	88.936.162
Provision for doubtful receivables (-)	(94.792.782)	(88.936.162)
	<u>1.469.214.818</u>	<u>977.796.682</u>

The average maturity of trade receivables is 70 days (2020: 76 days)

Allowances for doubtful receivables are recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty. Movements of provision for doubtful trade receivables are as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Movement of provision for doubtful receivables		
Balance at beginning of the year	88.936.162	35.483.108
One-off expenses (*)	-	56.560.149
Charge for the year (Note 19)	1.538.384	959.350
Collections (Note 19)	(895.376)	(1.130.566)
Translation difference	5.213.612	(2.935.879)
Closing balance	<u>94.792.782</u>	<u>88.936.162</u>

(*) "One-off expenses" in 2020 consist of non-collectible receivables from Bimeks related to previous years, the details of which are explained in Note 4.

Explanations about the nature and level of risks related to trade receivables are provided in Note 25.

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5. TRADE RECEIVABLES AND PAYABLES (cont'd)

b) Trade Payables

The details of the Group's trade payables are as follows:

	31 December 2021	31 December 2020
Short term trade payables		
Trade payables	859.017.768	536.807.843
Due to related parties (Note 4)	4.172.324	1.164.923
Expense accruals (*)	176.580.583	90.699.430
	<u>1.039.770.675</u>	<u>628.672.196</u>

(*) Mainly consist of cost accruals such as price protection and marketing support to be provided to the Group's customers within the framework of the operational activities and preferences of the Group's suppliers.

As of 31 December 2021, the average maturity of trade payables is 51 days (2020: 47 days). Explanations about the nature and level of risks related to trade payables are provided in Note 25.

6. OTHER RECEIVABLES AND PAYABLES

a) Other Receivables

	31 December 2021	31 December 2020
Short Term Other Receivables		
Other current receivables from related parties (Note 4)	-	220.318.244
Other current receivables (*)	504.316	2.440.415
	<u>504.316</u>	<u>222.758.659</u>

(*) Other current receivables consist of receivables from personnel and other miscellaneous receivables.

b) Other Payables

	31 December 2021	31 December 2020
Short Term Other Payables		
Non-trade payables to related parties (Note 4)	419.984.908	-
Other payables	142.173	118.733
Payables to shareholders (Note 4)	22.441.091	11.133.079
	<u>442.568.172</u>	<u>11.251.812</u>
Long Term Other Payables		
Non-trade payables to related parties (Note 4)	-	790.805.439
	<u>-</u>	<u>790.805.439</u>

Movement table of other payables to related parties is given in Note 24, and maturity breakdowns are given in Note 26.

PENTA TEKNOLOJİ ÜRÜNLERİ DAĞITIM TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. INVENTORIES

	31 December 2021	31 December 2020
Raw materials	5.414.920	4.429.772
Finished goods	480.244	200.609
Trade goods	897.890.571	357.130.945
Consignment goods	41.736.511	19.570.243
Other inventory	426.035	220.061
Allowance for impairment on inventory (-)	(36.282.164)	(16.880.985)
	<u>909.666.117</u>	<u>364.670.645</u>
	1 January - 31 December 2021	1 January - 31 December 2020
Movement of allowance for impairment on inventory		
Opening balance	(16.880.985)	(18.303.699)
Charge for the year / cancel of allowance, net	(3.760.153)	5.478.389
Translation gain / loss	(15.641.026)	(4.055.675)
Closing balance	<u>(36.282.164)</u>	<u>(16.880.985)</u>

8. PREPAID EXPENSES AND CONTRACT LIABILITIES

	31 December 2021	31 December 2020
Short term prepaid expenses		
Prepaid expenses	1.401.891	2.241.642
Advances paid for trade goods	-	184
	<u>1.401.891</u>	<u>2.241.826</u>
	31 December 2021	31 December 2020
Short term deferred income		
Short term deferred income (*)	21.915.675	21.983.498
Provision for revenue premiums (*)	6.866.408	3.951.097
	<u>28.782.083</u>	<u>25.934.595</u>

(*) Deferred income related to products which are not delivered yet as of the year end but invoiced in current period. All deferred income as at 31 December 2020 was recognized as revenue in 2021.

(**) Provision of revenue premiums consists of estimated after sales cost provisions that may given to the customers.

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9. PROPERTY, PLANT AND EQUIPMENT

	Machinery and Equipment	Vehicles	Furniture and Fixture	Leasehold Improvements	Total
<u>Cost</u>					
Opening balance as of 1 January 2021	1.281.019	695.046	24.521.127	31.642.421	58.139.613
Foreign currency translation differences	1.045.082	567.027	19.967.239	25.814.405	47.393.753
Additions	690.410	-	2.051.767	3.857.136	6.599.313
Disposals	-	-	(84.119)	-	(84.119)
Closing balance as of 31 December 2021	3.016.511	1.262.073	46.456.014	61.313.962	112.048.560
<u>Accumulated Depreciation</u>					
Opening balance as of 1 January 2021	(809.694)	(582.899)	(19.580.811)	(28.780.746)	(49.754.150)
Foreign currency translation differences	(750.584)	(543.152)	(16.660.398)	(24.060.272)	(42.014.406)
Charge for the year	(181.089)	(136.022)	(1.511.675)	(1.167.668)	(2.996.454)
Disposals	-	-	56.187	-	56.187
Closing balance as of 31 December 2021	(1.741.367)	(1.262.073)	(37.696.697)	(54.008.686)	(94.708.823)
Carrying value as of 31 December 2021	1.275.144	-	8.759.317	7.305.276	17.339.737

Depreciation expenses are included in general administrative expenses (1 January - 31 December 2020 depreciation expenses are included in general administrative expenses).

There is no pledges and mortgages on the property, plant and equipment (31 December 2020: None).

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9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Machinery and Equipment	Vehicles	Furniture and Fixture	Leasehold Improvements	Total
<u>Cost</u>					
Opening balance as of 1 January 2020	716.869	562.457	17.791.050	25.354.840	44.425.216
Foreign currency translation differences	168.989	132.589	4.183.099	5.976.968	10.461.645
Additions	395.161	-	2.601.004	310.613	3.306.778
Disposals	-	-	(54.026)	-	(54.026)
Closing balance as of 31 December 2020	<u>1.281.019</u>	<u>695.046</u>	<u>24.521.127</u>	<u>31.642.421</u>	<u>58.139.613</u>
<u>Accumulated Depreciation</u>					
Opening balance as of 1 January 2020	(592.500)	(364.002)	(14.851.924)	(22.676.454)	(38.484.880)
Foreign currency translation differences	(143.172)	(91.817)	(3.546.188)	(5.379.849)	(9.161.026)
Charge for the year	(74.022)	(127.080)	(1.231.930)	(724.443)	(2.157.475)
Disposals	-	-	49.231	-	49.231
Closing balance as of 31 December 2020	<u>(809.694)</u>	<u>(582.899)</u>	<u>(19.580.811)</u>	<u>(28.780.746)</u>	<u>(49.754.150)</u>
Carrying value as of 31 December 2020	<u>471.325</u>	<u>112.147</u>	<u>4.940.316</u>	<u>2.861.675</u>	<u>8.385.463</u>

The following useful lives are used in the calculation of depreciation:

	Useful lives
Plant, machinery and equipment	3-10 years
Vehicles	5 years
Furniture and fixture	3-15 years
Leasehold improvements	2-15 years

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10. RIGHT-OF-USE ASSETS

	Vehicles	Buildings	Total
<u>Cost</u>			
Opening balance as of 1 January 2021	5.030.349	20.143.675	25.174.024
Foreign currency translation differences	4.103.841	16.433.540	20.537.381
Disposals	(527.282)	(134.090)	(661.372)
Closing balance as of 31 December 2021	8.606.908	36.443.125	45.050.033

<u>Accumulated Amortization</u>			
Opening balance as of 1 January 2021	(2.622.210)	(7.550.459)	(10.172.669)
Foreign currency translation differences	(2.591.848)	(7.392.951)	(9.984.799)
Charge for the year	(910.458)	(2.480.618)	(3.391.076)
Closing balance as of 31 December 2021	(6.124.516)	(17.424.028)	(23.548.544)
Carrying value as of 31 December 2021	2.482.392	19.019.097	21.501.489

	Vehicles	Buildings	Total
<u>Cost</u>			
Opening balance as of 1 January 2020	1.777.611	9.962.054	11.739.665
Foreign currency translation differences	419.041	2.348.383	2.767.424
Additions	2.833.697	7.833.238	10.666.935
Closing balance as of 31 December 2020	5.030.349	20.143.675	25.174.024

<u>Accumulated Amortization</u>			
Opening balance as of 1 January 2020	(1.234.973)	(2.708.940)	(3.943.913)
Foreign currency translation differences	(340.625)	(828.390)	(1.169.015)
Charge for the year	(1.046.612)	(4.013.129)	(5.059.741)
Closing balance as of 31 December 2020	(2.622.210)	(7.550.459)	(10.172.669)
Carrying value as of 31 December 2020	2.408.139	12.593.216	15.001.355

	Useful lives
Buildings	1-4 years
Vehicles	1-3 years

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11. INTANGIBLE ASSETS

Cost	Rights & Licences	Other Intangible Assets	Total
Opening balance as of 1 January 2021	2.108.250	15.126.021	17.234.271
Foreign currency translation differences	1.719.945	12.340.059	14.060.004
Additions	418.341	859.202	1.277.543
Closing balance as of 31 December 2021	4.246.536	28.325.282	32.571.818
Accumulated Amortization			
Opening balance as of 1 January 2021	(1.820.029)	(12.982.855)	(14.802.884)
Foreign currency translation differences	(1.512.153)	(11.117.792)	(12.629.945)
Charge for the year	(54.997)	(1.058.421)	(1.113.418)
Closing balance as of 31 December 2021	(3.387.179)	(25.159.068)	(28.546.247)
Carrying value as of 31 December 2021	859.357	3.166.214	4.025.571
Cost	Rights & Licences	Other Intangible Assets	Total
Opening balance as of 1 January 2020	1.646.920	11.702.897	13.349.817
Foreign currency translation differences	388.233	2.758.758	3.146.991
Additions	73.097	664.366	737.463
Closing balance as of 31 December 2020	2.108.250	15.126.021	17.234.271
Accumulated Amortization			
Opening balance as of 1 January 2020	(1.375.598)	(9.404.001)	(10.779.599)
Foreign currency translation differences	(329.701)	(2.278.341)	(2.608.042)
Charge for the year	(114.730)	(1.300.513)	(1.415.243)
Closing balance as of 31 December 2020	(1.820.029)	(12.982.855)	(14.802.884)
Carrying value as of 31 December 2020	288.221	2.143.166	2.431.387

All amortisation cost has been included to general administrative expenses (1 January – 31 December 2020: amortisation cost has been included to general administrative expense).

The following useful lives are used in the calculation of amortization:

	Useful lives
Rights & Licences	3-15 years
Other intangible assets	3-15 years

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12. GOODWILL

The Group acquired 100% shares (with nominal value of TL 100.000) of Sayısal Grafik Sanayi ve Ticaret A.Ş. for a consideration of 11.890.667 TL on 18 June 2015. After the acquisition, on 30 July 2015 Sayısal has been merged under Penta Teknoloji pursuant to articles 18-20 of Corporate Tax Law and other related articles of Turkish Commercial Law, the merger shall be based on the financial statements dated 18 June 2015. The merger was announced on 5 August 2015 in the Trade Registry Gazette No: 8877. The Group assesses goodwill associated with cash-generating units once a year for impairment testing as described in Note 2. Discounted cash flow method is used for the impairment tests of goodwill allocated to cash generating unit which were arisen due acquiring Sayısal Grafik Sanayi ve Ticaret A.Ş.. 5 year business plan is prepared by the Group Management for the discounted cash flow method, discount rate of 11,35% and growth rate of 1% are used in the valuation (2020: 10% discount rate and 1% growth rate). Through the impairment tests which are detailed above and are applied on the basis of cash generating unit, no impairment is determined for the goodwill allocated as of 31 December 2021 (31 December 2020: None).

Cost Value	1 January - 31 December 2021	1 January - 31 December 2020
Opening balance	14.208.213	11.497.804
Translation gain/loss	11.591.293	2.710.409
Closing balance	25.799.506	14.208.213

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13. COMMITMENTS

Collaterals-Pledge-Mortgage (“CPM”)

The Group’s collaterals/pledge/mortgage position as at 31 December 2021 and 31 December 2020 is as follows;

31 December 2021	TL Equivalent	USD	TL	Euro
A. CPM given on behalf of its own legal entity				
-Collateral	776.183.083	57.505.443	5.921.365	250.000
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation				
-Collateral	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations				
-Collateral	-	-	-	-
D. Total amounts of other CPM given				
i. Total amount of CPM given on behalf of parent company				
-Collateral	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies that are not included group B and C				
-Collateral	833.954.970	35.329.310	363.050.597	-
iii. Total amount of CPM given on behalf of third parties that are not included group C				
-Collateral	-	-	-	-
Total	1.610.138.053	92.834.753	368.971.962	250.000

The ratio of other CPM’s that is given by the Group to equity is 86% as of 31 December 2021 (31 December 2020: 357%).

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13. COMMITMENTS (cont'd)

Collaterals-Pledge-Mortgage ("CPM") (cont'd)

31 December 2020	TL Equivalent	USD	TL	Euro
A. CPM given on behalf of its own legal entity				
-Collateral	443.683.683	59.005.443	9.653.443	100.000
B. Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation				
-Collateral	-	-	-	-
C. Total amounts of CPM given in order to guarantee third parties debts for routine trade operations				
-Collateral	-	-	-	-
D. Total amounts of other CPM given				
i. Total amount of CPM given on behalf of parent company				
-Collateral	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies that are not included group B and C				
-Collateral	752.641.658	49.678.155	387.979.161	-
iii. Total amount of CPM given on behalf of third parties that are not included group C				
-Collateral	-	-	-	-
Total	1.196.325.341	108.683.598	397.632.604	100.000

With the syndication loan agreement signed with various Turkish banks in 2018, Yıldız Holding A.Ş. and its group companies' short term debts are combined under the roof of Yıldız Holding A.Ş. In this context, the loans that were previously payable to banks were consolidated in the "other long term payables to Yıldız Holding A.Ş." account on 8 June 2018, in accordance with this syndication loan agreement.

As of 8 June 2018, the Company's cash loans amounting to 399,7 million TL and non-cash bank loans amounting to 206,4 million TL transferred to Yıldız Holding A.Ş. There has been no increase in the Company's total debt amount due to syndicated loan. As of the date of loan used, the Company became the guarantor of Yıldız Holding A.Ş., limited to the total bank loan risk exposure.

Due to the repayments made to syndication banks after the public offering on May 17, 2021, the amount of guarantees decreased to 363.050.597 million TL and 35.329.310 million USD as given in the first table.

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14. EMPLOYEE BENEFITS

	31 December 2021	31 December 2020
<u>Payables related to employee benefits</u>		
Salaries to be paid to personnel	1.866.580	1.584.146
Social security premiums payable	871.303	742.264
	<u>2.737.883</u>	<u>2.326.410</u>
	31 December 2021	31 December 2020
<u>Short-term provisions for employee benefits</u>		
Provisions for bonuses	5.802.790	5.126.591
Provisions for unused vacation	1.826.833	1.284.096
	<u>7.629.623</u>	<u>6.410.687</u>
	1 January - 31 December 2021	1 January - 31 December 2020
<u>Movement of provision for bonuses</u>		
Provision at 1 January	5.126.591	3.513.052
Bonuses paid	(5.126.591)	(3.513.052)
Charge for the period	3.875.973	4.895.072
Translation difference	1.926.817	231.519
Provision at 31 December	<u>5.802.790</u>	<u>5.126.591</u>
	1 January - 31 December 2021	1 January - 31 December 2020
<u>Movement of unused vacation</u>		
Provision at 1 January	1.284.096	1.192.442
Unused vacation paid	(265.562)	(110.118)
(Reverse) / Charge for the period	(71.652)	(70.770)
Translation difference	879.951	272.542
Provision at 31 December	<u>1.826.833</u>	<u>1.284.096</u>

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14. EMPLOYEE BENEFITS (cont'd)

Provision for retirement pay liability

Under labour laws effective in Turkey, it is a liability to make legal retirement pay to employees whose employment is terminated after 25 years and after completing at least 1 year of service (for women 58, for men 60 years), called for army services or deceased.

Employment termination benefit to be paid is limited to a maximum of 8.284,51 TL for each year of service at 31 December 2021 (31 December 2020: 7.117,17 TL).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. IAS 19 *Employee Benefits* stipulates the development of a 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 parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2021, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. The provisions at the respective reporting dates have been calculated with the assumption of 3,85% real discount rate calculated by using 9,03% annual inflation rate and 13,23% discount rate (31 December 2020: 3,85%). The average rate of resignation for the employees is 5,19%. Ceiling amount of 10.848,59 which is in effect since 1 January 2022 is used in the calculation of the Group's provision for retirement pay liability (1 January 2021: 7.638,96 TL).

The principal assumptions used in the calculation of retirement pay liability are discount rate and anticipated turnover rate:

- If the discount rate had been 1% higher / (lower), provision for employee termination benefits would decrease / (increase) by 1.446.711 TL.
- If the anticipated turnover rate had been 1% lower / (higher) while all other variables were held constant, provision for employee termination benefits would increase / (decrease) by 344.309 TL.

	1 January - 31 December 2021	1 January - 31 December 2020
<u>Movement of retirement pay provision</u>		
Provision at 1 January	9.543.751	7.822.778
Service cost	4.730.099	2.617.766
Interest cost	367.640	302.171
Termination benefits paid	(1.826.373)	(1.108.870)
Actuarial loss / (gain)	191.682	(79.711)
Translation difference	(11.517)	(10.383)
Provision at 31 December	<u>12.995.282</u>	<u>9.543.751</u>

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15. OTHER ASSETS AND LIABILITIES

	31 December 2021	31 December 2020
<u>Other current assets</u>		
Other VAT	767.057	746.830
Other	67.418	149.621
	<u>834.475</u>	<u>896.451</u>
	31 December 2021	31 December 2020
<u>Other current liabilities</u>		
Taxes and funds payable	29.960.433	16.226.887
	<u>29.960.433</u>	<u>16.226.887</u>

16. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

a) Share Capital

As of 31 December 2021 and 31 December 2020, the share capital held is as follows:

Shareholders	%	31 December 2021	%	31 December 2020
Gözde Girişim Serm.Yatırım Ort. A.Ş.	32,21	14.083.759	54,30	17.226.132
İstanbul Portföy Yıldız Serbest Fon	20,53	8.974.600	-	-
Mustafa Ergün	10,20	4.459.397	14,70	4.663.428
Mürsel Özçelik	7,17	3.135.347	10,33	3.277.089
Sinan Güçlü	7,07	3.091.088	10,34	3.280.262
Bülent Koray Aksoy	7,05	3.082.430	10,33	3.277.089
Open to Public	15,77	6.897.379	-	-
Nominal Capital (TL)	100,00	43.724.000	100,00	31.724.000

The capital of the Company is 43.724.000 TL (31 December 2020: 31.724.000 TL) with a par value of 1 TL per share (31 December 2020: 1 TL). 11.824.231 of the Company's shares consist of group A shares and 31.889.769 of them are group B shares. Group A shares are privileged shares; their only privilege is the privilege of nominating candidates for members of the Board of Directors.

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16. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (cont’d)

b) Restricted Reserves

	31 December 2021	31 December 2020
Legal Reserves	13.880.245	13.880.245
	<u>13.880.245</u>	<u>13.880.245</u>

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. According to the Turkish Commercial Code, if the general legal reserve not exceed half of capital or the issued capital, only the closure of loss, to ease the work of the cross in front of or unemployment to continue the business when it goes well and the results used to take suitable measures.

c) Share Premiums

	31 December 2021	31 December 2020
Share Premiums	372.000.000	-
	<u>372.000.000</u>	<u>-</u>

The Company’s shares are publicly traded on Borsa İstanbul as of 17 May 2021. The positive difference between the nominal value of the shares and the actual selling price are shown under share premiums.

d) Foreign Currency Translations

Foreign currency translation differences are the conversion differences that arise when converting the consolidated financial statements in US Dollars, which is the functional currency of the Group, to Turkish Lira, which is the reporting currency (Note 2).

e) Distributable Profit

Details of the Group’s net profit for the year as of the reporting date and other profits that may be subject to profit distribution are given below:

	31 December 2021	31 December 2020
Accumulated Gain / (Losses)	49.027.864	37.919.317
Net Profit / (Loss) for the Year	(19.178.398)	11.108.547
Total	<u>29.849.466</u>	<u>49.027.864</u>

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17. REVENUE

	1 January - 31 December 2021	1 January - 31 December 2020
<u>a) Sales</u>		
Domestic sales	5.880.437.080	4.382.872.036
Export sales	39.690.403	25.586.277
Sales returns (-)	(178.056.373)	(121.441.067)
Sales discounts (-)	(82.799.631)	(80.534.097)
	<u>5.659.271.479</u>	<u>4.206.483.149</u>

	1 January - 31 December 2021	1 January - 31 December 2020
<u>Sales Channels</u>		
Retail	1.750.487.189	1.263.071.396
Value-Added Reseller	1.443.057.552	1.159.917.366
Dealer	848.743.308	1.072.773.749
Marketplace (*)	750.824.443	-
Sub-distributor and other	866.158.987	710.720.638
	<u>5.659.271.479</u>	<u>4.206.483.149</u>

(*) The customers that made majority of their sales in marketplace platforms were followed in “Dealer” channel in the previous years, are followed in “Marketplace” channel as of 2021.

	1 January - 31 December 2021	1 January - 31 December 2020
<u>b) Cost of sales</u>		
Cost of goods sold (-)	(23.645.049)	(17.930.872)
Cost of merchandises sold (-)	(5.230.267.672)	(3.873.166.924)
	<u>(5.253.912.721)</u>	<u>(3.891.097.796)</u>

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18. GENERAL ADMINISTRATIVE EXPENSES AND SALES AND MARKETING EXPENSES

	1 January - 31 December 2021	1 January - 31 December 2020
General administrative expenses (-)	(39.557.595)	(33.316.994)
Marketing, selling and distribution expenses (-)	(67.075.519)	(56.623.812)
	<u>(106.633.114)</u>	<u>(89.940.806)</u>

a) General administrative expenses details	1 January - 31 December 2021	1 January - 31 December 2020
Employee benefit expenses	(12.064.947)	(11.718.323)
Depreciation and amortization expenses (Note 9,10,11)	(7.500.948)	(8.632.459)
Insurance expenses	(5.612.781)	(3.158.282)
Consulting expenses	(4.405.717)	(2.298.214)
IT expenses	(3.594.867)	(2.912.713)
Outsourcing expenses	(1.741.179)	(1.861.814)
Meal expenses	(1.602.175)	(713.408)
Travel expenses	(74.697)	(76.557)
Other	(2.960.284)	(1.945.224)
	<u>(39.557.595)</u>	<u>(33.316.994)</u>

b) Marketing, selling and distribution expenses details	1 January - 31 December 2021	1 January - 31 December 2020
Employee benefit expenses	(45.945.703)	(40.632.589)
Logistics expenses	(13.751.488)	(10.910.774)
Outsourcing expenses	(742.634)	(597.440)
Corporate communication expenses	(587.079)	(867.658)
Meal expenses	(534.827)	(472.792)
Vehicle expenses	(486.359)	(399.043)
Technical service expenses	(342.876)	(471.229)
Travel expenses	(168.482)	(206.403)
Other	(4.516.071)	(2.065.884)
	<u>(67.075.519)</u>	<u>(56.623.812)</u>

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19. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

The details of other income from operating activities are as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Terminated provisions (Note 5)	895.376	1.130.566
Other	2.555.101	590.753
	<u>3.450.477</u>	<u>1.721.319</u>

The details of other expenses from operating activities are as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Provision for doubtful receivables (Note 5)	(1.538.384)	(959.350)
One-off expenses (*)	(10.295.037)	(56.560.149)
Foreign exchange loss	(118.388.098)	(28.172.311)
Other	(898.279)	(907.218)
	<u>(131.119.798)</u>	<u>(86.599.028)</u>

(*) "One-off expenses" in 2021 consist of expenses related to the initial public offering of the Group such as brokerage commissions, consultancy expenses and other expenses for Borsa İstanbul, Central Securities Depository of Türkiye and Capital Markets Board of Türkiye. "One-off expenses" in 2020 consist of non-collectible receivables from Bimeks related to previous years, the details of which are explained in Note 4.

20. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

Details of revenue and expenses from investing activities are as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Income from investing activities		
Interest income	1.890.867	513.577
	<u>1.890.867</u>	<u>513.577</u>

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21. EXPENSES BY NATURE

	1 January - 31 December 2021	1 January - 31 December 2020
Employee benefit expenses	(58.010.650)	(52.350.912)
Logistics expenses	(13.751.488)	(10.910.774)
Depreciation and amortization expenses (Note 9,10,11)	(7.500.948)	(8.632.459)
Insurance expenses	(5.612.781)	(3.158.282)
Consulting expenses	(4.405.717)	(2.298.214)
IT expenses	(3.594.867)	(2.912.713)
Meal expenses	(2.137.002)	(1.186.200)
Outsourcing expenses	(2.483.813)	(2.459.254)
Corporate communication expenses	(587.079)	(867.658)
Vehicle expenses	(486.359)	(399.043)
Technical service expenses	(342.876)	(471.229)
Travel expenses	(243.179)	(282.960)
Other	(7.476.355)	(4.011.108)
	<u>(106.633.114)</u>	<u>(89.940.806)</u>

22. FINANCE INCOME AND EXPENSES

	1 January - 31 December 2021	1 January - 31 December 2020
Finance income	6.026.954	21.225.460
Total finance income	<u>6.026.954</u>	<u>21.225.460</u>
	1 January - 31 December 2021	1 January - 31 December 2020
Interest expense on bank loans	(204.255)	(577.605)
Interest expense on payables to related parties	(35.100.151)	(48.284.160)
Commission expenses on credit cards	(8.876.916)	(7.333.334)
Total interest expenses	<u>(44.181.322)</u>	<u>(56.195.099)</u>
Foreign exchange (loss) / gain	(13.859.769)	(47.381.919)
Early payment discounts	(20.690.769)	(13.185.870)
Letter of bank guarantee expenses	(12.488.743)	(8.834.852)
Other finance expenses	(8.021.053)	(7.197.914)
Total finance expenses	<u>(99.241.656)</u>	<u>(132.795.654)</u>

Finance income consists of interest income from the intragroup cash pool.

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23. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

	31 December 2021	31 December 2020
<u>(Assets related with current tax) / Current tax liability</u>		
Current corporate tax provision	77.459.436	33.613.816
Less: prepaid taxes and funds	(50.791.301)	(6.383.049)
Translation differences	9.109.807	-
	<u>35.777.942</u>	<u>27.230.767</u>

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

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 investment incentives utilized.

It is enacted that, with effect from the beginning of 2021 for the corporations whose shares are publicly traded on Borsa Istanbul for the first time with at least 20% of its shares are offered to public, the corporate tax rate will be applied with a 2-point discount for 5 accounting periods, starting from the accounting period in which the shares are offered to the public for the first time. As a result of this, the effective tax rate for the Group in 2021 is 23% (2020: 22%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2020 is 20% (2019: 20%). However, in accordance with the temporary article 10 added to the Corporate Tax Law, the corporate tax rate of 20% has been applied as 22% for the corporate income of the institutions for the 2018, 2019 and 2020 taxation periods. Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1 - 25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 - 22 July 2006 is 10% and commencing from 22 July 2006, this rate has been changed to 15% upon the Council of Minister's Resolution No: 2006/10731. In the application of the withholding rates regarding profit distributions to non-resident taxpayer institutions and real persons, the withholding rates included in the related Double Taxation Prevention Agreements are also taken into consideration. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

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23. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

Transfer pricing regulations

In Turkey, the transfer pricing provisions of the Corporate Tax Law "disguised profit distribution via transfer pricing" is stated in Article 13 entitled. The communiqué dated November 18, 2007 on disguised profit distribution through transfer pricing regulates the details regarding the implementation.

If the taxpayer buys or sells goods or services at a price or price determined against the arm's length principle with related parties, the earnings are deemed to have been distributed completely or partially through transfer pricing implicitly. Disguised profit distribution through such transfer pricing is considered as an expense not legally accepted for corporate tax.

Deferred Tax

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

For calculation of deferred tax asset and liabilities, the rate of 23% (2020: 20%) is used.

In Turkey, the companies cannot declare a consolidated tax return, therefore subsidiaries that have deferred tax assets position were not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

	31 December 2021	31 December 2020
<u>Deferred tax assets / (liabilities)</u>		
Property, plant and equipment and other intangible assets	(2.377.800)	(1.255.174)
Revaluation difference of investment properties	48.704	21.001
Provision for employment termination profit	2.988.922	1.908.750
Provision for unused vacation	417.944	256.822
Provision for doubtful receivables	2.155.846	1.412.195
Impairment and revaluation differences of inventory	(23.191.074)	3.815.673
Sales premium provisions	34.641.604	18.309.850
Other	(2.725.021)	(196.579)
	<u>11.959.125</u>	<u>24.272.538</u>

At the reporting date, the Group has no unused tax losses (2020: none).

Deferred tax asset of the losses is not recognized as there is no unused tax losses as of 31 December 2021 (2020: not recognized).

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23. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont’d)

Deferred Tax (cont’d)

Movement of deferred tax assets / (liabilities) for years ended 31 December 2021 and 31 December 2020 are as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
<u>Movement of deferred tax asset / (liabilities):</u>		
Opening balance as of 1 January	24.272.538	8.640.918
Charged to income statement	(21.451.450)	15.212.142
Charged to equity	44.092	(15.944)
Translation loss / (gain)	9.093.945	435.422
Closing balance as of 31 December	11.959.125	24.272.538

Reconciliation of current period tax expense and current period profit is below:

	1 January - 31 December 2021	1 January - 31 December 2020
<u>Reconciliation of taxation</u>		
Earnings before tax	79.732.488	29.510.221
Income tax rate	23%	22%
Income tax	(18.338.472)	(6.492.249)
Tax effect of:		
- non taxable income	2.084	6.576
- expenses that are not deductible in determining taxable profit	(3.928.881)	(96.137)
- translation differences and other	(76.645.617)	(11.819.864)
Income tax expense recognized in profit / loss	(98.910.886)	(18.401.674)

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24. FINANCIAL INSTRUMENTS

Financial Liabilities

The details of financial liabilities shown at amortized value are as follows:

Financial Liabilities	31 December 2021	31 December 2020
Bank Loans	-	4.906.765
Short-term other payables to related parties (Note 4, 6)	442.425.999	11.133.079
Long-term other payables to related parties (Note 4, 6)	-	790.805.439
	<u>442.425.999</u>	<u>806.845.283</u>

Leasing Liabilities:

Lease liabilities	2021	2020
Opening balance as of 1 January	14.073.162	8.407.551
Interest expense	2.394.961	1.668.556
Lease paid	(5.758.383)	(6.019.883)
Additions & Disposals, net	(441.763)	10.185.212
Translation difference	892.994	(168.274)
Closing balance as of 31 December	11.160.971	14.073.162
Short-term lease liabilities	5.007.092	3.788.109
Long-term lease liabilities	6.153.879	10.285.053
Total	11.160.971	14.073.162

The interest rates used in the leasing liability calculation are between 19,81% and 25,87% (2020: between 19,81% and 25,87%).

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24. FINANCIAL INSTRUMENTS (cont’d)

Financial Liabilities (cont’d)

Reconciliation of obligations arising from financing activities

Cash and non-cash equivalents related to the Group's financial liabilities are provided in the following table. Liabilities arising from financing activities in the Group's consolidated statement of cash flows are cash flows classified or to be classified as cash flows arising from financing activities.

	Non-cash changes					
	1 January 2021	Financing cash flows	Payment	Interest accrual	Additions	Foreign Exchange Gain / Loss
Bank loans	4.906.765	(5.951.286)	-	-	-	1.044.521
Loans from related parties	801.938.518	-	(674.948.290)	15.167.528	1.486.497	298.781.746
Lease liabilities	14.073.162	-	(5.758.383)	2.394.961	(441.763)	892.994
	820.918.445	(5.951.286)	(680.706.673)	17.562.489	1.044.734	300.719.261
						453.586.970

	Non-cash changes					
	1 January 2020	Financing cash flows	Payment	Interest accrual	Additions	Foreign Exchange Gain / Loss
Bank loans	-	4.685.173	-	-	-	221.592
Loans from related parties	616.181.478	-	-	38.673.728	-	147.083.312
Lease liabilities	8.407.551	-	(6.019.883)	1.668.556	10.185.212	(168.274)
	624.589.029	4.685.173	(6.019.883)	40.342.284	10.185.212	147.136.630
						820.918.445

Derivative Instruments

As of the reporting date, the total nominal amount of the undue forward foreign currency contracts that the Group is obliged to realize is as follows:

	31 December 2021		31 December 2020	
	Assets	Liabilities	Assets	Liabilities
Derivatives	4.706.363	-	-	3.601.257
Short term	4.706.363	-	-	3.601.257
	4.706.363	-	-	3.601.257

Contractual cash inflow and outflow details for derivative instruments are given in Note 26.

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25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in Note 25, other receivables and payables disclosed in Note 6, cash and cash equivalents disclosed in Note 3 and equity attributable to equity holders of the Company, comprising issued capital, reserves, retained earnings and net profit as disclosed in Note 16.

The Group Management considers the cost of capital and the risks associated with each class of capital. The Group Management aims to balance its overall capital structure through the payment of dividends, new share issues and the issue of new debt or the redemption of existing debt.

The Company controls its capital with the total financial debt / total capital ratio. This ratio is calculated as dividing net financial debt by total capital. Cash and cash equivalents, restricted bank deposits classified under financial assets and non-trade receivables from related parties are subtracted from total financial debt (bank loans, other payables to related parties) to calculate the net financial debt. The shareholder's equity is added to net financial debt to calculate the total capital.

Gearing ratio which is equal to total capital divided to net financial debt as of 31 December 2021 and 31 December 2020 as follows:

	31 December 2021	31 December 2020
Bank loans	-	4.906.765
Payables to related parties	442.425.999	801.938.518
Less: Cash and cash equivalents, financial assets and receivables from related parties	113.152.827	338.562.021
Net financial debt	329.273.172	468.283.262
Equity	967.100.992	210.791.627
Total capital	1.296.374.164	679.074.889
Gearing ratio	25,40%	68,96%

b) Financial risk factors

The Group's activities expose it to a variety of financial risks including interest rate risk, liquidity risk, currency risk and credit risk. The Group Management and the Board of Directors analyse and approve the policies about the management of the risks described below. Besides, the Group also considers the market value risk of all financial instruments.

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25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.1) Credit Risk Management

Credit Risk of Financial Instruments

Credit Risk of Financial Instruments	Receivables					
	Trade Receivables		Other Receivables		Deposists In Bank	Other (***)
31 December 2021	Related Party	Third Party	Related Party	Third Party		
Maximum net credit risk as of balance sheet date (*)	4.875.842	1.464.338.976	-	504.316	97.734.799	15.418.028
- The part of maximum risk under guarantee with collateral etc. (**)	-	667.496.446	-	-	-	-
A. Net book value of financial assets that are neither past due or impaired	4.875.842	1.287.545.226	-	504.316	97.734.799	15.418.028
B. Carrying value of financial assets that are past due but not impaired	-	176.793.750	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	-	94.792.782	-	-	-	-
- Impairment (-)	-	(94.792.782)	-	-	-	-
- The part of net value under guarantee with colateral etc.	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- The part of net value under guarantee with colateral etc.	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*) The factors that increase the credit reliability, such as guarantees received are not considered in the determination of the balance.

(**) Guarantees consist of receivables under insurance coverage and guarantee letters. Total coverage as of 31 December 2021 is TL 667.496.446.

(***) Other consist of credit cards receivables and restricted bank deposits.

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25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.1) Credit Risk Management (cont'd)

Credit Risk of Financial Instruments

	Receivables				Deposits In	
	Trade Receivables		Other Receivables		Bank	Other (***)
<u>31 December 2020</u>	<u>Related Party</u>	<u>Third Party</u>	<u>Related Party</u>	<u>Third Party</u>		
Maximum net credit risk as of balance sheet date (*)	11.660.340	966.136.342	220.318.244	2.440.415	108.172.640	10.071.137
- The part of maximum risk under guarantee with collateral etc. (**)	-	362.899.849	-	-	-	-
A. Net book value of financial assets that are neither past due or impaired	11.660.340	882.679.335	220.318.244	2.440.415	108.172.640	10.071.137
B. Carrying value of financial assets that are past due but not impaired	-	83.457.007	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	-	88.936.162	-	-	-	-
- Impairment (-)	-	(88.936.162)	-	-	-	-
- The part of net value under guarantee with colateral etc.	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- The part of net value under guarantee with colateral etc.	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*) The factors that increase the credit reliability, such as guarantees received are not considered in the determination of the balance.

(**) Guarantees consist of receivables under insurance coverage and guarantee letters. Total coverage as of 31 December 2020 is TL 362.899.849.

(***) Other consist of credit cards receivables.

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25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

Explanations on the credit quality of financial assets

Allowances for doubtful receivables are recognized against financial assets based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty.

The methodology of the Group for credit quality rating is as follows:

Category	Description	Expected Credit Loss Calculation Method
Not ODR	There are no overdue receivables ("ODR").	No provision.
ODR < 90	The overdue period is less than 90 days.	No provision.
ODR >=90 & <180	The overdue period is over 90 days and less than 180 days.	25% of the total credit amount is incurred as loss.
ODR >=180 & <270	The overdue period is over 180 days and less than 270 days.	50% of the total credit amount is incurred as loss.
ODR >=270+	The overdue period is 270 days or more.	100% of the total credit amount is incurred as loss.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments of the Group that will result in concentration of credit risk mainly include cash and cash equivalents and trade receivables. The Group's maximum exposure to credit risk is the same as the amounts recognized in the financial statements. The Group has no other receivables from related parties (31 December 2020: 220.318.244 TL).

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25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont’d)

b) Financial Risk Factors (cont’d)

b.1) Credit risk management (cont’d)

Explanations on the credit quality of financial assets (cont’d)

31 December 2021	Trade Receivables	Total
Past due 1-30 days	153.615.086	153.615.086
Past due 1-3 months	9.999.949	9.999.949
Past due 3-12 months	13.178.716	13.178.716
Total past due trade receivables	176.793.751	176.793.751
Non-overdue	1.292.421.067	1.292.421.067
Total trade receivables	1.469.214.818	1.469.214.818
The part under guarantee with collateral and insurance	667.496.446	667.496.446

31 December 2020	Trade Receivables	Total
Past due 1-30 days	78.386.843	78.386.843
Past due 1-3 months	3.697.953	3.697.953
Past due 3-12 months	1.372.211	1.372.211
Total past due trade receivables	83.457.007	83.457.007
Non-overdue	894.339.675	894.339.675
Total trade receivables	977.796.682	977.796.682
The part under guarantee with collateral and insurance	362.899.849	362.899.849

The Company has a credit insurance policy with Coface Sigorta A.Ş. (“Coface”) for its domestic trade receivables. The details of this insurance policy are as follows:

- The policy is valid between 1 January 2021 – 31 December 2021, and has been issued for 1 year.
- The currency of the claims subject to the policy is determined as USD.
- The collateral rate has been determined as 90% for trade receivables for which credit limit has been requested.
- As of 31 December 2021, 633.006.969 TL of the total short-term receivables amounting to 1.478.122.282 TL has been covered by insurance (2020: 215.979.742 TL of the total short-term receivables amounting to 977.796.682 TL).

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(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated)

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.2) Liquidity risk management

Liquidity risk refers to the risk that a company cannot meet its funding needs. The ultimate responsibility for liquidity risk management is established a liquidity risk management in order to meet short, mid and long-term financing and liquidity requirements of the Group. The Group manages liquidity risk by watching actual cash flows closely and by maintaining sustainability of credibility reserve and sufficient funds through matching maturities of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities and its derivative financial instruments. The tables below have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

The liquidity analysis for its derivative financial instruments has been drawn up based on the undiscounted net cash inflows / (outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date. As of 31 December 2021 the fair value of Group's derivatives is estimated as 4.706.363 TL assets (31 December 2020: 3.601.257 TL liabilities). In order to value this amount, on the reporting date, the market prices quoted for similar instruments.

Instrument with maturity are paid by their net value for the futures and realized according to the non-discounted, gross cash input and output. If the receivables and liabilities are not stable, the determined amount are identified according to the interest rate obtained from yield curve on the reporting date.

Liquidity risk table

The Group expects to achieve the terms of agreement are the same as the maturity.

31 December 2021

<u>Due date on agreement</u>	<u>Carrying Value</u>	<u>Total cash outflow according to contract (I+II+III)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years(III)</u>
Non-derivative financial liabilities					
Financial lease liabilities	11.160.971	13.319.777	1.653.809	4.961.426	6.704.542
Trade payables	1.035.598.351	1.035.598.351	1.035.598.351	-	-
Trade payables to related parties	4.172.324	4.172.324	4.172.324	-	-
Other payables	442.568.172	442.568.172	-	442.568.172	-
Total liabilities	1.493.499.818	1.495.658.624	1.041.424.484	447.529.598	6.704.542

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25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont’d)

b) Financial Risk Factors (cont’d)

b.2) Liquidity risk management (cont’d)

31 December 2021

<u>Due date on agreement</u>	<u>Carrying Value</u>	<u>Total cash outflow according to contract (I+II+III)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years(III)</u>
Derivative financial liabilities					
Derivative cash inflows	4.706.363	11.370.863	11.370.863	-	-
Derivative cash outflows	-	(6.664.500)	(6.664.500)	-	-
Total assets / (liabilities)	4.706.363	4.706.363	4.706.363	-	-

31 December 2020

<u>Due date on agreement</u>	<u>Carrying Value</u>	<u>Total cash outflow according to contract (I+II+III)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years(III)</u>
Non-derivative financial liabilities					
Bank loans	4.906.765	4.906.765	4.906.765	-	-
Financial lease liabilities	14.073.162	18.570.078	1.546.570	4.639.710	12.383.798
Trade payables	627.507.273	627.507.273	627.507.273	-	-
Trade payables to related parties	1.164.923	1.164.923	1.164.923	-	-
Other payables	802.057.251	897.890.129	24.553.855	-	873.336.274
Total liabilities	1.449.709.374	1.550.039.168	659.679.386	4.639.710	885.720.072

<u>Due date on agreement</u>	<u>Carrying Value</u>	<u>Total cash outflow according to contract (I+II+III)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years(III)</u>
Derivative financial liabilities					
Derivative cash inflows	-	78.176.325	78.176.325	-	-
Derivative cash outflows	(3.601.257)	(81.777.582)	(81.777.582)	-	-
Total assets / (liabilities)	(3.601.257)	(3.601.257)	(3.601.257)	-	-

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(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont’d)

b) Financial Risk Factors (cont’d)

b.3) Market risk management

The Group’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates (b.3.1) and interest rates (b.3.2).

Market risk exposures are supplemented by sensitivity analysis. During the current year, any change to either exposed risks or management and measurement methods of these risks, was not happened compared to the previous year.

b.3.1) Foreign currency risk management

Transactions denominated in foreign currencies result in foreign currency risk. The Group is exposed to foreign currency risk due to the translation of its foreign currency denominated assets and liabilities into its functional currency, US Dollar. The Group primarily focus on managing this risk naturally by having balances foreign currency based assets and liabilities. The Group Management ensures to take precautions where necessary by analysing the Group’s foreign currency position. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to TL and Euro.

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(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated)

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.3) Market Risk Management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

The Group's foreign currency denominated monetary and non-monetary assets and monetary and non-monetary liabilities at the reporting date are as follows:

	31 December 2021		
	Total TL Equivalent	TL	Euro
1. Trade receivables	392.899.079	356.339.660	2.423.288
2.a Monetary financial assets	31.914.702	17.977.654	923.797
2.b Non monetary financial assests	-	-	-
3. Other	501.540	491.009	698
4. CURRENT ASSETS	425.315.321	374.808.323	3.347.783
5. Trade receivables	-	-	-
6.a Monetary financial assets	-	-	-
6.b Non monetary financial assests	-	-	-
7. Other	-	-	-
8. NON CURRENT ASSETS	-	-	-
9. TOTAL ASSETS	425.315.321	374.808.323	3.347.783
10. Trade payables	58.256.497	29.676.992	1.894.351
11. Financial liabilities	1.802.589	1.766.140	2.416
12.a Other monetary liabilities	70.067.049	70.067.049	-
12.b Other non monetary liabilities	-	-	-
13. CURRENT LIABILITIES	130.126.135	101.510.181	1.896.767
14. Trade payables	-	-	-
15. Financial liabilities	-	-	-
16.a Other monetary liabilities	-	-	-
16.b Other non monetary liabilities	-	-	-
17. NON CURRENT LIABILITIES	-	-	-
18. TOTAL LIABILITIES	130.126.135	101.510.181	1.896.767
19. Net assets / liability possition of off-balance sheet derivatives (19a-19b)	(6.664.500)	(6.664.500)	-
19.a Off-balance sheet foreign currency derivative assets	(6.664.500)	(6.664.500)	-
19.b Off-balance sheet foreign currency derivative liabilities	-	-	-
20. Net foreign currency asset liability position	288.524.685	266.633.642	1.451.016
21. Net foreign currency asset / liability position of monetary items (1+2a+3+6a-10-11-12a-14-15-16a)	295.189.185	273.298.142	1.451.016
22. Fair value of foreign currency hedged financial assets	4.706.363	4.706.363	-
23. Hedged amount of the assets with foreign currency	-	-	-

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(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated)

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.3) Market Risk Management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

	31 December 2020		
	Total		
	TL Equivalent	TL	Euro
1. Trade receivables	239.641.307	214.153.112	2.829.538
2.a Monetary financial assets	31.719.479	30.476.245	138.016
2.b Non monetary financial assets	-	-	-
3. Other	251.294.539	251.231.673	6.979
4. CURRENT ASSETS	522.655.325	495.861.030	2.974.533
5. Trade receivables	-	-	-
6.a Monetary financial assets	-	-	-
6.b Non monetary financial assets	-	-	-
7. Other	-	-	-
8. NON CURRENT ASSETS	-	-	-
9. TOTAL ASSETS	522.655.325	495.861.030	2.974.533
10. Trade payables	27.913.709	15.920.059	1.331.459
11. Financial liabilities	6.148.806	6.148.293	57
12.a Other monetary liabilities	23.033.685	22.504.390	58.759
12.b Other non monetary liabilities	-	-	-
13. CURRENT LIABILITIES	57.096.200	44.572.742	1.390.275
14. Trade payables	-	-	-
15. Financial liabilities	19.679.558	19.679.558	-
16.a Other monetary liabilities	-	-	-
16.b Other non monetary liabilities	-	-	-
17. NON CURRENT LIABILITIES	19.679.558	19.679.558	-
18. TOTAL LIABILITIES	76.775.758	64.252.300	1.390.275
19. Net assets / liability position of off-balance sheet derivatives (19a-19b)	(78.176.325)	(78.176.325)	-
19.a Off-balance sheet foreign currency derivative assets	-	-	-
19.b Off-balance sheet foreign currency derivative liabilities	78.176.325	78.176.325	-
20. Net foreign currency asset liability position	367.703.243	353.432.405	1.584.258
21. Net foreign currency asset / liability position of monetary items	445.879.568	431.608.730	1.584.258
(1+2a+3+6a-10-11-12a-14-15-16a)			
22. Fair value of foreign currency hedged financial assets	(3.601.257)	(3.601.257)	-
23. Hedged amount of the assets with foreign currency	-	-	-

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(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont’d)

b) Financial Risk Factors (cont’d)

b.3) Market Risk Management (cont’d)

b.3.1) Foreign currency risk management (cont’d)

Foreign currency sensitivity analysis

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to TL and Euro.

The following table details the Group’s sensitivity to a 10% increase and decrease in TL and Euro against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit or equity.

31 December 2021		
	Profit / Loss	
	Valuation of	Devaluation of
	foreign currency	foreign currency
In the case of TL gaining 10% value against USD		
1 - TL net asset / liability	27.329.814	(27.329.814)
2 - Portion hedged against TL risk (-)	(666.450)	666.450
3 - TL net effect (1 +2)	26.663.364	(26.663.364)
In the case of EUR gaining 10% value against USD		
4 - EUR net asset / liability	2.189.104	(2.189.104)
5 - Portion hedged against EUR risk (-)	-	-
6 - EUR net effect (4+5)	2.189.104	(2.189.104)
TOTAL (3 + 6 +9)	28.852.468	(28.852.468)

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FOR THE YEAR ENDED 31 DECEMBER 2021**

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont’d)

b) Financial Risk Factors (cont’d)

b.3) Market Risk Management (cont’d)

b.3.1) Foreign currency risk management (cont’d)

Foreign currency sensitivity analysis (cont’d)

	31 December 2020	
	Profit / Loss	
	Valuation of foreign currency	Devaluation of foreign currency
In the case of TL gaining 10% value against USD		
1 - TL net asset / liability	43.160.873	(43.160.873)
2 - Portion hedged against TL risk (-)	(7.817.633)	7.817.633
3 - TL net effect (1 +2)	35.343.241	(35.343.241)
In the case of EUR gaining 10% value against USD		
4 - EUR net asset / liability	1.427.084	(1.427.084)
5 - Portion hedged against EUR risk (-)	-	-
6 - EUR net effect (4+5)	1.427.084	(1.427.084)
TOTAL (3 + 6 +9)	36.770.324	(36.770.324)

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(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont’d)

b) Financial Risk Factors (cont’d)

b.3) Market Risk Management (cont’d)

b.3.2) Interest rate risk management

The Group is not exposed to interest rate risk as the Group borrow funds at fixed interest rates.

Interest rate sensitivity analysis

The details of the interest-bearing financial assets of the Group are as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Fixed Interest Rate Financial Instruments		
Financial liabilities at fair value through profit or loss	-	4.906.765

The sensitivity analyzes below are determined according to the interest rate risk exposed at the reporting date and the anticipated interest rate change at the beginning of the financial year and are kept constant throughout the reporting period.

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26. FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES)

31 December 2021	Financial assets at amortized cost	Fair value through profit or loss	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>					
Cash and cash equivalents	99.823.827	-	-	99.823.827	3
Financial assets	13.329.000	-	-	13.329.000	3
Trade receivables	1.464.338.976	-	-	1.464.338.976	5
Receivables from related parties	4.875.842	-	-	4.875.842	4
Other receivables	504.316	-	-	504.316	6
Derivative Financial Instruments	-	4.706.363	-	4.706.363	24
<u>Financial liabilities</u>					
Trade payables	-	-	1.035.598.351	1.035.598.351	5
Payables to related parties	-	-	4.172.324	4.172.324	4
Other payables (including related parties)	-	-	442.568.172	442.568.172	6
31 December 2020	Loans and receivables (including cash and cash equivalents)	Fair value through profit or loss	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>					
Cash and cash equivalents	110.903.277	-	-	110.903.277	3
Financial assets	7.340.500	-	-	7.340.500	3
Trade receivables	966.136.342	-	-	966.136.342	5
Receivables from related parties	11.660.340	-	-	11.660.340	4
Other receivables	222.758.659	-	-	222.758.659	6
<u>Financial liabilities</u>					
Borrowings	-	-	4.906.765	4.906.765	24
Trade payables	-	-	627.507.273	627.507.273	5
Payables to related parties	-	-	1.164.923	1.164.923	4
Other payables (including related parties)	-	-	802.057.251	802.057.251	6
Derivative instruments	-	3.601.257	-	3.601.257	

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26. FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES) (cont’d)

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Some of the Group’s financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined.

Financial assets / Financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31 December 2021	31 December 2020				
Foreign currency forward contract	4.706.363	3.601.257	Second hierarchy	Observable price on the market	-	-

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27. EARNINGS PER SHARE

	1 January - 31 December 2021	1 January - 31 December 2020
Net (loss) / profit for the year from continuing operations	(19,178,398)	11,108,547
Average number of shares outstanding during the year	39,252,767	31,724,000
(Loss) / Profit from per share from continuing operations	<u>(0,49)</u>	<u>0,35</u>

Diluted earnings per share is equal to earnings per share from continuing operations.

28. INDEPENDENT AUDIT FEE

	1 January - 31 December 2021	1 January - 31 December 2020
Independent audit fee	176.700	187.943
	<u>176.700</u>	<u>187.943</u>

29. EVENTS AFTER THE REPORTING PERIOD

It is decided to increase the current registered capital ceiling of the Company from TL 150.000.000 to TL 750.000.000 for the years 2022-2026 with the decision of the Board of Directors dated January 14, 2022. The CMB application regarding the decision was made on 18 January 2022 and the application was approved by the CMB on 24 January 2022. On 3 February 2022, an application was made to Republic of Türkiye Ministry of Trade for the necessary changes and on 8 February 2022, Republic of Türkiye Ministry of Trade's permission was obtained for the amendment of Article 6 of the Company's Articles of Association for the purpose of increasing the Registered Capital Ceiling. The aforementioned amendment will be submitted to the approval of the shareholders at the first General Assembly meeting to be held.

Mehmet Fatih Erünsal, General Manager responsible for Sales and Marketing, was appointed as the General Manager on 31 January 2022 by management and it is decided that Mürsel Özçelik will continue his duty as the Executive Director.

The law on amending the Tax Procedure Law and the Corporate Tax Law was enacted on January 20, 2022, it has been enacted with the number 7352 and it has been decided that the financial statements will not be subject to inflations adjustment in the 2021 and 2022 accounting periods, including the temporary accounting periods, and in the provisional tax periods of the 2023 accounting period, regardless of whether the conditions for the inflation adjustment within the scope the repeated Article 298 are met. In line with the Law No. 7352, inflation adjustment will be applied to the financial statements dated 31 December 2023, and the profit/loss difference arising from the inflation adjustment will be shown in the previous years' profit/loss account and will not be taxed.

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SUPPLEMENTARY UNAUDITED INFORMATION

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated)

APPENDIX I – SUPPLEMENTARY UNAUDITED INFORMATION

The supporting information not required by IFRS is considered important for the Group's financial performance by the Group Management and the calculation of earnings before interest, tax, depreciation and amortization “EBITDA” is presented below. The Group calculates the “EBITDA” amount by subtracting income from investing activities and other income from operating activities from profit for the year in the consolidated statements of profit and loss and adding tax expense from continuing operations, finance expenses, expenses from investing activities, other expenses from operating activities and depreciation and amortization expenses.

		(Turkish Lira)	(Turkish Lira)	(US Dollar)	(US Dollar)
		1 January -	1 January -	1 January -	1 January -
	Notes	31 December 2021	31 December 2020	31 December 2021	31 December 2020
PROFIT FOR THE YEAR		(19.178.398)	11.108.547	(2.154.126)	1.584.899
(+) Tax Expense From Continuing Operations	23	98.910.886	18.401.674	11.109.713	2.625.435
(+) Finance Expenses	22	99.241.656	132.795.654	11.146.865	18.946.448
(-) Finance Income	22	(6.026.954)	(21.225.460)	(676.950)	(3.028.315)
(-) Income From Investing Activities	20	(1.890.867)	(513.577)	(212.383)	(73.274)
(+) Other Expenses From Operating Activities	19	131.119.798	86.599.028	14.727.432	12.355.403
(-) Other Income From Operating Activities	19	(3.450.477)	(1.721.319)	(387.559)	(245.587)
(+) Depreciation and Amortisation Expenses	21	7.500.948	8.632.459	842.510	1.231.625
EBITDA		306.226.592	234.077.006	34.395.502	33.396.634

(*) Refers to the amounts in US Dollars, which is the functional currency of the Group. Presentation currency is Turkish Lira. For the conversion of US Dollar and Turkish Lira, see Note 2.