

**Arzum Elektrikli Ev Aletleri
Sanayi ve Ticaret Anonim Şirketi and
Its Subsidiaries**

*(Convenience Translation into English of Consolidated
Financial Statements -Originally Issued in Turkish)*

Consolidated Financial Statements
As at and for the Year Ended
31 December 2022
With Independent Auditor's
Report

28 February 2023

This report includes 5 pages of independent auditors' report and 68 pages of consolidated financial statements together with their explanatory notes



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CONVENIENCE TRANSLATION OF THE INDEPENDENT AUDITOR'S REPORT ORIGINALLY PREPARED AND ISSUED IN TURKISH TO ENGLISH

To the Shareholders of Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi

A) Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries (together will be referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of profit or loss and other 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 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

Basis for Opinion

We conducted our audit in accordance with standards on auditing issued by Capital Markets Board of Turkey ("CMB") and Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") ("Standards on Auditing issued by 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 declare that we are independent of the Group in accordance with the Code of Ethics for Auditors issued by POA (*including Independence Standards*) ("POA's Code of Ethics") and the ethical requirements in the regulations issued by POA that are relevant to audit of consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with the POA's Code of Ethics and regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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.

Revenue recognition

Refer to Note 2.6 to the consolidated financial statements for summary of significant accounting policies and significant accounting estimates and assumptions for revenue recognition.

<u>The key audit matter</u>	<u>How the matter was addressed in our audit</u>
<p>The main revenue item of the Group consists of sales of electronic household appliances.</p> <p>The revenue is recognized in the consolidated financial statements when the Group fulfills (or fulfills) its performance obligation by transferring control of the products traded by the Group to the customer.</p> <p>Since sales contracts can be complex, the recognition of revenue in the relevant period depends on the correct assessment of the sales conditions specific to each case. For this reason, there is a risk that the revenue will not be recognized in the correct period or amount for those that may be returned from the delivered products and those whose invoice has not yet been issued to the customer, and those whose invoice has been issued but the control has not yet been transferred to the customer.</p> <p>Due to the nature of the Group's activities and the size of its operations, the recognition of revenue has been determined as a key audit matter, since the accurate determination of the revenue amount and its recognition in the consolidated financial statements in the relevant reporting period require significant management judgment.</p>	<p>-Our audit procedures in this area include the following.</p> <ul style="list-style-type: none">- Evaluation of the effectiveness of the design, implementation and operation of internal controls for revenue recognition by information systems experts.- Evaluating the compliance of the accounting policies applied in terms of revenue generated sales with TFRS 15 by examining the selected contracts with a sample of grouped sales contracts.- Evaluating the compliance of the revenue recognition with the Group's accounting policies and the recognition of the revenue in the relevant reporting period by examining when the transfer of control occurred through the sales documents received for the sales transactions selected with the sample.- Checking the existence of trade receivables and the accuracy of receivable balances with external confirmations obtained directly for customers selected by the sample- Performing analytical examinations to detect the existence of discontinuous transactions.- Testing whether the returns realized after the reporting period are selected by sampling method and included in the consolidated financial statements in the relevant reporting period. <p>Evaluation of the appropriateness and adequacy of the footnote disclosures made by the Group regarding the revenue in its consolidated financial statements in accordance with TFRS 15.</p>



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.

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

Responsibilities of auditors in an audit are as follows:

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 issued by the CMB and Standards on Auditing issued by POA 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 the standards on auditing issued by the CMB and Standards on Auditing issued by POA, 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.
- 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

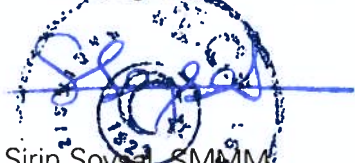
B) Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code ("TCC") numbered 6102; the Independent Auditor's Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Company on 28 February 2023.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that for the period between 1 January 2022 and 31 December 2022, the Company's bookkeeping activities and consolidated financial statements are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

3) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi



Şirin Soysal, SMMM
Partner
28 February 2023
İstanbul, Türkiye

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**ARZUM ELEKTRİKLİ EV ALETLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

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

ASSETS	Notes	Current Year	Prior Year
		Audited	Audited
		31 December 2022	31 December 2021
Current Assets			
Cash and cash equivalents	3	316.305.477	94.541.789
Trade receivables	5	608.856.370	316.405.596
- <i>Due from third parties</i>	5	608.856.370	316.405.596
Other receivables	6	1.056.378	139.584
- <i>Due from third parties</i>	6	1.056.378	139.584
Inventories	7	240.932.463	216.502.935
Prepaid expenses	8	34.518.397	31.141.438
Current tax assets	20	137.597	--
Other current assets	6	6.433.681	8.091.852
Total current assets		1.208.240.363	666.823.194
Non-Current assets:			
Trade receivables	5	5.965.000	3.803.000
- <i>Due from third parties</i>	5	5.965.000	3.803.000
Property, plant and equipment	9	57.721.856	40.197.782
Intangible assets	10	13.644.777	9.220.626
Investment properties		138.226	150.400
Right of use assets	11	4.334.807	8.007.282
Prepaid expenses	8	2.064.734	307.898
Deferred tax assets	20	33.768.069	15.440.715
Total non-current assets		117.637.469	77.127.703
Total assets		1.325.877.832	743.950.897

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

**ARZUM ELEKTRİKLİ EV ALETLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022**

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

		Current Year	Prior Year
		Audited	Audited
LIABILITIES	Notes	31 December 2022	31 December 2021
Short-term liabilities:			
Short-term borrowings	4	635.480.465	237.283.547
Shor term portion of long term borrowings	4	--	15.013.776
Trade payables	5	338.894.400	227.053.220
- <i>Due to third parties</i>	5	<i>338.894.400</i>	<i>227.053.220</i>
Liabilities for employee benefits	13	1.473.203	701.789
Other payables	6	140.296	60.790
- <i>Due to third parties</i>	6	<i>140.296</i>	<i>60.790</i>
Liabilities for customer contracts	6	83.389.124	33.521.120
Current income tax liabilities	20	--	469.163
Short-term provisions		27.838.831	13.861.129
- <i>Short-term provisions for employee benefits</i>	13	<i>19.103.665</i>	<i>8.854.114</i>
- <i>Other short-term provisions</i>	12	<i>8.735.166</i>	<i>5.007.015</i>
Deferred income	8	2.678.152	5.988.954
Derivative financial liabilities	24	1.130.867	261.848
Other short-term liabilities	6	17.810.019	3.177.138
Total short-term liabilities		1.108.835.357	537.392.474
Long term liabilities:			
Long term borrowings	4	849.927	23.927.715
Long term provisions		14.198.743	6.996.464
- <i>Long-term provisions for employee benefits</i>	13	<i>8.907.066</i>	<i>3.565.508</i>
- <i>Other long-term provisions</i>	12	<i>5.291.677</i>	<i>3.430.956</i>
Total long-term liabilities		15.048.670	30.924.179
Total liabilities		1.123.884.027	568.316.653
Equity			
Share capital	14	32.210.000	32.210.000
Adjustment to share capital differences	14	148.360	148.360
Other comprehensive income will not be reclassified to profit or loss	14	(6.192.065)	(2.369.487)
<i>Gain/(loss) arising from defined benefit plans</i>	14	<i>(6.102.065)</i>	<i>(2.369.487)</i>
Share premiums	14	18.635.298	18.635.298
Other comprehensive income will be reclassified to profit or loss	14	11.860.329	7.297.611
- <i>Foreign currency translation differences</i>	14	<i>11.860.329</i>	<i>7.297.611</i>
Restricted reserves	14	10.136.451	8.797.501
Retained earnings	14	94.576.011	60.784.842
Net profit for the year		40.619.421	50.130.119
Total equity		201.993.805	175.634.244
Total liabilities and equity		1.325.877.832	743.950.897

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

**ARZUM ELEKTRİKLİ EV ALETLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2022

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

		Current Year	Prior Year
		Audited	Audited
		1 January- 31 December 2022	1 January- 31 December 2021
	Notes		
Revenue	15	1.537.905.868	815.345.959
Cost of sales (-)	15	(1.044.719.044)	(552.511.256)
Gross profit		493.186.824	262.834.703
Sales, marketing and distribution expenses (-)	16	(253.418.949)	(133.697.024)
General administrative expenses (-)	16	(83.778.070)	(47.228.477)
Other operating income	18	14.480.382	16.186.529
Other operating expenses (-)	18	(11.930.695)	(3.972.390)
Operating profit		158.539.492	94.123.341
Operating profit before finance income		158.539.492	94.123.341
Finance income	19	22.224.589	7.894.833
Finance expenses	19	(126.151.727)	(39.841.057)
Profit before tax		54.612.354	62.177.117
Tax expense		(13.992.933)	(12.046.998)
- Current year tax expense	20	(31.481.185)	(17.564.997)
- Deferred tax income	20	17.488.252	5.517.999
Profit for the year		40.619.421	50.130.119
Distribution of profit for the year			
Equity holders of the parent		40.619.421	50.130.119
Earning per share (nominal equivalent of TL 1) (Note 21)	21	1,2611	1.5564
Other comprehensive income		740.140	5.497.191
Not be reclassified to profit or loss		(3.822.578)	(413.526)
Gain/(loss) arising from defined benefit plans	13	(4.661.680)	(516.908)
Deferred tax (expenses) / income on other comprehensive income items that will not be reclassified in profit or loss	20	839.102	103.382
Reclassified to profit or loss		4.562.718	5.910.717
Foreign currency translation differences		4.562.718	5.910.717
Other comprehensive income/(expense) (after tax)		740.140	5.497.191
Total comprehensive income		41.359.561	55.627.310

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

ARZUM ELEKTRİKLI EV ALETLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

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

	Notes	Share capital	Adjustment to share capital differences	Other comprehensive income will not be reclassified to profit or loss	Other comprehensive income will be reclassified to profit or loss	Share premiums	Restricted reserves	Retained earnings		Total
				Gain/(loss) arising from defined benefit plans	Foreign currency translation differences			Profit for the year	Retained earnings	
Balances as of January 1, 2021	14	32.210.000	148.360	(1.955.961)	1.386.894	18.635.298	6.401.154	36.467.200	38.483.735	131.776.680
Profit for the year		--	--	--	--	--	--	50.130.119	--	50.130.119
Other comprehensive income		--	--	(413.526)	5.910.717	--	--	--	--	5.497.191
Total comprehensive income /(expense)		--	--	(413.526)	5.910.717	--	--	50.130.119	--	55.627.310
Transfers		--	--	--	--	--	2.396.347	(36.467.200)	34.070.853	--
Dividend payment		--	--	--	--	--	--	--	(11.769.746)	(11.769.746)
31 December 2021	14	32.210.000	148.360	(2.369.487)	7.297.611	18.635.298	8.797.501	50.130.119	60.784.842	175.634.244
Balances as of January 1, 2022	14	32.210.000	148.360	(2.369.487)	7.297.611	18.635.298	8.797.501	50.130.119	60.784.842	175.634.244
Profit for the year		--	--	--	--	--	--	40.619.421	--	40.619.421
Other comprehensive income		--	--	(3.822.578)	4.562.718	--	--	--	--	740.140
Total comprehensive income /(expense)		--	--	(3.822.578)	4.562.718	--	--	40.619.421	--	41.359.561
Transfers		--	--	--	--	--	1.338.950	(50.130.119)	48.791.169	--
Dividend payment	14	--	--	--	--	--	--	--	(15.000.000)	(15.000.000)
31 December 2022	14	32.210.000	148.360	(6.192.065)	11.860.329	18.635.298	10.136.451	40.619.421	94.576.011	201.993.805

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

ARZUM ELEKTRİKLİ EV ALETLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

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

	Notes	Audited 1 January- 31 December 2022	Audited 1 January- 31 December 2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		40.619.421	50.130.119
Adjustments to depreciation expense and amortization	9,10,11	15.002.126	10.332.944
Adjustments related to tax expense	20	13.992.933	12.046.998
Adjustments related to provision expenses		13.537.568	8.093.360
Adjustments to inventory impairment	7	2.061.234	421.649
Adjustments to rediscount expense/income	5	8.918.006	(759.892)
Adjustments to interest expense/income, net	19	91.079.809	32.138.681
Adjustments to doubtful trade receivables, net	5	2.653.922	2.695.323
Adjustments for loss/gain from disposal of fixed assets		1.208.901	(859.318)
Currency differences arising from derivative transactions, (net)	23	(1.130.868)	(261.848)
Adjustments to severance pay provision	13	1.675.117	804.805
Before changes in working capital		189.618.169	114.782.821
Changes in;			
Trade receivables		(303.122.917)	(30.459.132)
Inventories		(26.490.762)	(82.216.541)
Other increases / decreases related to activities		18.040.464	(18.512.694)
Trade payables		111.841.179	10.773.741
Contracts liabilities		49.868.004	1.459.453
After changes in working capital		39.754.137	(4.172.352)
Taxes paid	20	(35.704.884)	(13.310.872)
Severance payments paid	13	(628.788)	(261.977)
Premiums paid	13	(6.488.754)	(9.974.095)
A. Net cash from operating activities (used)		(3.068.289)	(27.719.296)
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Purchases of tangible and intangible assets and investment properties	9,10	(33.075.335)	(22.607.707)
Proceeds from sales of tangible and intangible assets and investment properties		285.000	1.821.430
Interest received	19	11.335.139	1.175.883
B. Net cash used in investment activities		(21.455.196)	(19.610.394)
CASH FLOWS USED FROM FINANCING ACTIVITIES			
Proceeds from from borrowing	4	548.231.918	334.877.336
Proceeds from repayments of borrowings	4	(464.750.780)	(185.624.973)
Bonds issued	4	250.000.000	--
Interest paid		(69.431.537)	(23.327.218)
Payments for lease liabilities	4	(6.250.731)	(3.835.714)
Interest payments on leasing transactions	4	(1.074.4159)	(1.329.839)
Dividends paid	14	(15.000.000)	(11.769.746)
Cash (outflows) / inflows arising from derivative transactions, net		--	(2.764.930)
C. Net cash from financing activities		241.724.455	106.224.916
NET INCREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF FOREIGN CURRENCY TRANSLATION DIFFERENCES (A+B+C)		217.200.970	58.895.226
D. CURRENCY TRANSLATION DIFFERENCES		4.562.718	5.910.717
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		221.763.688	64.805.943
E. CASH AND CASH EQUIVALENTS AT THE BEGGINNING OF THE YEAR	3	94.541.789	29.735.846
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D+E)	3	316.305.477	94.541.789

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

ARZUM ELEKTRİKLİ EV ALETLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022

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

1. GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi (“the Company”) was founded in 1977 in the name of Güney İthalat Anonim Şirketi by Kazım Kolbaşı, Kemal Kolbaşı and İbrahim Kolbaşı. In 1993 and 2005, Arzum Dış Ticaret Anonim Şirketi (“Arzum Dış”) and Felix Elektrikli Ev Aletleri Anonim Şirketi (“Felix”) were established to sell the products of the Company, respectively. All companies were under the common control of Kolbaşı family. On 31 December 2007, the Company acquired the shares of both Arzum Dış and Felix. On 29 December 2008, the Company and its two subsidiaries were merged under one legal entity in the name of Arzum Elektrikli Ev Aletleri AŞ. On 14 April 2008 and 4 March 2009, 38% and 11% of the Company’s shares were sold to Turkish Household Appliances BV (“Turkish Household”), respectively. On 9 December 2013, 49% of the Company held by Turkish Household Appliances BV (“Turkish Household”) was sold to SDA International S.a.r.l (SDA International). In 2020, 47,51% share of SDA International was offered to the public.

The company performs trading activities of electrical household appliances through wholesale, retailer, chain stores and through e-commerce.

On 1 June 2009, Arzum Asia Pacific (“Arzum Asia Pacific”), 100% of which shares owned by the Company, was established to make purchases on behalf of the Company in Hong Kong.

On 11 July 2011, Arzum Europe GMBH (“Arzum Europe”), 50% of which shares owned by the Company and 50% of shares owned by Arzum Asia Pacific, was established to make sales on behalf of the Company in Europe. 100% of shares of Arzum Europe is owned by the Company as of 31 December 2013.

On 15 June 2012, Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi İstanbul Endüstri ve Ticaret Serbest Bölge Şubesi (“Serbest Bölge”), 100% of which shares owned by the Company, was established to operate in free trade zone.

The company opened the Ömer Halisdemir Üniversitesi Teknopark Branch on 31 January 2019.

The accompanying consolidated financial statements as of and for the year ended 31 December 2022 are comprised of the Company and its subsidiaries (together referred to as the “Group”).

The address of the Company’s registered office is Otakçılar Cad. No:78 Kat:1 B Blok No: B1b Eyüp / İstanbul. The head office of the Company is located in Eyüp, İstanbul. The Company has 2 warehouses which are located in Gebze (for regional or domestic sales distribution) and in Bayrampaşa.

As of 31 December 2022, the number of employees of the Group is 170 (31 December 2021:160).

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2 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

(a) Statement of Compliance to Turkish Financial Reporting Standards (“TFRS”s)

The accompanying consolidated financial statements are prepared in accordance with Turkish Financial Reporting Standards (“TFRS”) published by Public Oversight Accounting and Auditing Standards Authority (“POA”) as set out in the Communiqué numbered II-14.1 “Communiqué on Principles of Financial Reporting in Capital Markets” published in the Official Gazette numbered 28676 on 13 June 2013. TFRSs consist of standards and interpretations which are published as Turkish Accounting Standards (“TAS”), Turkish Financial Reporting Standards, interpretations of TAS and interpretations of TFRS.

The consolidated financial statements are presented in accordance with the TFRS Taxonomy developed based on the Illustrative Financial Statements and User Guide published in the Official Gazette numbered 28676 on 7 June 2019.

Approval of the financial statements:

The consolidated financial statements are approved by the Company’s Board of Directors on 28 February 2023. The General Assembly of the Company has the right to amend and relevant regulatory bodies have the right to request the amendment of these consolidated financial statements.

(b) Basis of Measurement

Consolidated financial statements have been prepared on the basis of historical cost, except for derivative instruments that are shown with their fair value.

(c) Functional and reporting currency

The results and financial position of each entity consolidated are expressed in Turkish Lira (TRY), which is the functional of the Company and the presentation currency of the Group. Functional currency of the Company's subsidiaries Arzum Asia Pacific and Arzum Europe are USD and EUR, respectively.

(d) Preparation of financial statements in hyperinflationary periods

According to the announcement made by POA on January 20, 2022, since the cumulative change in the general purchasing power of the last three years according to the Consumer Price Index (“CPI”) is 74.41%, in the financial statements of the companies applying TFRS for 2021, TAS 29 High It was stated that they would not need to make any adjustments within the scope of the Financial Reporting Standard in Inflationary Economies. For this reason, no inflation adjustment was made in accordance with TAS 29 while preparing the consolidated financial statements as of 31 December 2021.

Since POA has not made a new announcement regarding the application of inflation accounting, no inflation adjustment was made in accordance with TAS 29 while preparing the consolidated financial statements as of 31 December 2022.

With the decision taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their consolidated financial statements in accordance with the financial reporting standards accepted by the CMB (“CMB Financial Reporting Standards”). Accordingly, Turkish Accounting Standards 29, “Financial Reporting in Hyperinflationary Economies”, issued by the POA, has not been applied in the consolidated financial statements for the accounting year commencing 1 January 2005.

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2 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation (continued)

(e) Principles of Consolidation

Consolidated financial statements include the financial statements of the Company and the subsidiary controlled by the Company. When necessary, adjustments and reclases are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls the asset if it is entitled to, or is subject to, variable returns on account of its involvement in the asset, and it may affect it with control over the asset. The financial statements of the subsidiaries are included in the financial statements of the Group from the beginning of the control power to the date when the control power ceases.

The accounting policies of the subsidiaries have been changed when deemed necessary in order to comply with the policies accepted by the Group. The net profit / (loss) of the subsidiaries that are not directly and / or indirectly controlled by the parent company is classified under the Non-controlling interest "in the consolidated statement of comprehensive income.

The table below shows the Group's share rate and its subsidiary as of 31 December 2022 and 2021:

	Arzum and its subsidiaries' direct and indirect control shares	
	(%)	
	31 December 2022	31 December 2021
Arzum Asia Pasific	100	100
Arzum Europe	100	100
Arzum Serbest Bölge (*)	100	100
Arzum USA (**)	100	--

(*) Although it does not have a separate legal entity, Arzum Serbest Bölge is also accepted as a subsidiary subject to consolidation in the attached consolidated financial statements. This branch is a free zone branch pursuant to the circular titled Evaluation of Operating License Applications, Branch, Branch Addressed Company, in which the regulations for free zone branches of the Ministry of Commerce and no 1998/, it is a branch of the main company but it has its own capital and book keeping of the branch is maintained separately. Although it does not have a legally separate legal personality, it is subject to consolidation due to its own capital.

(**) In order to increase the volume of operations of the Group in America, Arzum USA has been established in the state of Delaware, and bank account opening process continues for capital payment.

ii. Changes in the control power of the Group's current subsidiary

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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2 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation (continued)

(f) Principles of Consolidation

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TFRSs).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

iii. Elimination processes in consolidation

Process of the preparation of the consolidated financial statements, intra-group transactions, inter-group balances and unrealized income and expenses arising from intra-group transactions are eliminated mutually. The profits and losses resulting from the transactions between the affiliate, the parent company and the consolidated subsidiaries of the parent company and jointly controlled partnerships have been netted off in proportion to the parent partnership's share in the associate. Unrealized losses are derecognized as unrealized gains, unless there is evidence of impairment.

2.2 Changes in Accounting Policies, Comparative Information and Restatement of Prior Period Consolidated Financial Statements

The current period consolidated financial statements of the Group are prepared comparatively with the previous period in order to enable the determination of financial position and performance trends, the consolidated statement of profit or loss and other comprehensive income, and the consolidated statement of cash flows. The Group has consolidated its balance sheet as of 31 December 2022 with its consolidated balance sheet prepared as of 31 December 2021; The profit or loss and other comprehensive income statement for the year ended 31 December 2022, the consolidated statement of changes in shareholders' equity and the consolidated cash flow statement have been prepared in comparison with the relevant consolidated financial statements for the year ended 31 December 2021. In order to comply with the presentation of the current period consolidated financial statements, comparative information is reclassified when deemed necessary and significant differences are disclosed.

2.3 Netting /Offset

Financial assets and liabilities are shown with their net values in the balance sheet if there is a legal right to set off and they are expected to be paid and/or collected on a net basis, or when the asset will be realized and the obligation will be settled at the same time.

2.4 Changes in the accounting policies

With the exception of following the accounting policies applied in the consolidated financial statements as of and for the year ended 31 December 2021 are the same as those applied in the last annual financial statements as of and for the year ended 31 December 2022.

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2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.5 Standards issued but not yet effective and not early adopted

A number of new standards, interpretations of and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows.

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

On 23 January 2020, IASB issued “Classification of Liabilities as Current or Non-Current” which amends IAS 1 Presentation of Financial Statements to clarify its requirements for the presentation of liabilities in the statement of financial position which are issued by POA on 12 March 2020 as amendments to TAS 1.

The amendments clarify one of the criteria in TAS 1 for classifying a liability as non-current—that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

After reconsidering certain aspects of the 2020 amendments; IASB has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. Related amendment was published by POA as “TFRS 2023” on 3 January 2023.

This right may be subject to a company complying with conditions (covenants) specified in a loan arrangement. Additional disclosure is also required for non-current liabilities subject to future covenants. The amendments also clarify how an entity classifies a liability that can be settled in its own shares.

The Group shall apply retrospectively these amendments for annual periods beginning on or after 1 January 2024 with earlier application permitted. It also specifies the transition requirements for companies that may have early-adopted the previously issued but not yet effective 2020 amendments

The Group does not expect that application of these amendments to TAS 1 will have significant impact on its consolidated financial statements.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to TAS 12 Income Taxes

In May 2021 IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amended IAS 12 Income Taxes. Related changes were published by POA as Amendments to TAS 12 on 27 August 2021.

The amendments to TAS 12 Income Taxes clarify how companies should account for deferred tax on certain transactions – e.g. leases and decommissioning provisions.

The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

The amendments clarify that the exemption does not apply to transactions such as leases and decommissioning obligations. These transactions give rise to equal and offsetting temporary differences.

For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. If a company previously accounted for deferred tax on leases and decommissioning liabilities under the net approach, then the impact on transition is likely to be limited to the separate presentation of the deferred tax asset and the deferred tax liability.

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

2.5 Standards issued but not yet effective and not early adopted *(continued)*

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to TAS 12 Income Taxes *(continued)*

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

The Group does not expect that application of these amendments to Amendments to TAS 12 will have significant impact on its consolidated financial statements.

Definition of Accounting Estimates (Amendments to TAS 8)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty which is issued by IASB on 12 February 2021. Related changes were published by POA as Amendments to TAS 8 on 11 August 2021.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both:

- selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 Financial Instruments; and
- choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying TAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remains unchanged.

The amendments are effective for periods beginning on or after 1 January 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the company applies the amendments.

The Group does not expect that application of these amendments to Amendments to TAS 8) will have significant impact on its consolidated financial statements.

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

2.5 Standards issued but not yet effective and not early adopted *(continued)*

Disclosure of Accounting Policies (Amendments to TAS 1)

IASB has issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement 2 Making Materiality Judgements to help companies provide useful accounting policy disclosures on 12 February 2021. Among these amendments, the ones related to TAS 1 were published by POA as Amendments to TAS 1 on 11 August 2021.

The key amendments to TAS 1 include:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments are effective from 1 January 2023, but companies can apply it earlier.

The Group does not expect that application of these amendments to Amendments to TAS 1) will have significant impact on its consolidated financial statements.

Lease Liability in a Sale and Leaseback – Amendments to TFRS 16 Leases

In September 2022, IASB issued Lease Liability in a Sale and Leaseback, which amends IFRS 16 Leases. Related amendment was published by POA as "TFRS 2023" on 3 January 2023. Amendments to TFRS 16 *Leases* impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

The amendments confirm the following:

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.
- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

Under TAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, a seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into or after the date of initial application of TFRS 16. This means that it will need to identify and re-examine sale-and-leaseback transactions entered into since implementation of TFRS 16 in 2019, and potentially restate those that included variable lease payments.

The Group does not expect that application of these amendments to Amendments to TFRS 16 Leases will have significant impact on its consolidated financial statements.

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

2.5 Standards issued but not yet effective and not early adopted *(continued)*

Amendments are effective on 1 January 2022

Changes that have become effective and have been adopted for annual periods beginning on or after 1 January 2022:

- 1- Annual Improvements to TFRS Standards 2018–2020 -Amendment to TFRS 1 First-time Adoption of International Financial Reporting Standards, TFRS 9 Financial Instruments, TAS 41 Agriculture
- 2- Reference to the Conceptual Framework – Amendments to TFRS 3 Business Combinations
- 3- Property, Plant and Equipment – Proceeds before Intended Use: Amendments to TAS 16 Property, Plant and Equipment
- 4- Onerous Contracts – Cost of Fulfilling a Contract: Amendments to TAS 37 Provisions, Contingent Liabilities and Contingent Assets

These newly adopted amendments to standards have not been a significant impact on the consolidated financial statements of the Group.

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

2.6 Summary of significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are summarized below:

Revenue

The Group transfers the revenue to a customer and records the revenue in its consolidated financial statements as it fulfills or fulfills the performance obligation. When an asset is checked (or passed) by the customer, the asset is transferred.

The Group records the proceeds in its financial statements in accordance with the following basic principles:

- Determination of contracts with customers,
- Determination of performance obligations in the contract,
- Determination of the transaction price in the contract,
- Dividing the transaction price into the contractual performance obligations,
- Revenue recognition when each performance obligation is met.

In the event that all of the following conditions are met, the Group recognizes a contract with its customer as revenue:

- The parties to the Convention have ratified the contract (in accordance with written, oral or other commercial practices) and undertakes to carry out their own actions,
- The group may define the rights related to the goods or services to be transferred by each party,
- The Group may define payment conditions for goods or services to be transferred,
- The contract is essentially commercial,
- It is probable that the Group will be charged for the goods or services to be transferred to the customer. When evaluating whether the collectability of a price is probable, the entity shall consider only the customer's ability to pay the price at the due date and its intent.

At the beginning of the contract, the Group evaluates the goods or services committed in the contract with the customer and defines each commitment made to transfer it to the customer as a separate performance obligation. The group also determines whether it fulfills each performance obligation over time or at a certain point in time at the inception of the contract.

The Group makes endorsement and incentive bonus payments to its customers in line with its performance results. The amounts calculated for these payments as of the balance sheet date are recorded in the liabilities account arising from customer contracts in the balance sheet, and in the revenue account as sales discounts in the profit or loss statement.

When another party is involved in the provision of goods or services to the customer, the Group determines that the nature of its commitment is a performance obligation to provide the specified goods or services in person (principal) or to mediate (agent) those goods or services provided by the other party. The group is principal if it controls the specified goods or services before transferring those goods or services to the customer. In this case, when it fulfills (or fulfills) its performance obligation, it recognizes the revenue equal to the gross amount of the price it expects to deserve in return for the transferred goods or services. If the Group acts as an intermediary for the provision of goods or services with determined performance obligations by another party, it acts as an agent and does not reflect the revenue to the financial statements for the said performance obligation.

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

2.6 Summary of significant accounting policies (continued)

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost factors include all purchasing costs and all costs incurred in bringing the inventories to their current state and location. Average cost method is used in calculating the cost of inventories. Net realizable value is the amount obtained by deducting the estimated completion cost and the estimated marketing, sales and distribution expenses required to realize the sale from the estimated selling price in the ordinary commercial activity.

Tangible assets

Tangible fixed assets are shown over the amount after the accumulated depreciation and accumulated impairment losses, if any, are deducted from their cost values.

Cost amounts of tangible fixed assets are subjected to depreciation using the linear depreciation method according to their expected useful lives. The expected useful life, residual value and depreciation method are reviewed each year for the possible effects of changes in estimates and if there is a change in estimates, they are accounted for prospectively.

The gain or loss resulting from disposal of tangible fixed assets or decommissioning a tangible fixed asset is determined as the difference between the sales revenue and the asset's book value and is included in the year profit or loss. Amounts spent for the repair, maintenance and repair of tangible fixed assets are recorded as expense.

The depreciation years reflecting the average useful lives of tangible fixed assets in the current and comparative year are as follows:

	Useful Life
Vehicles	5 years
Furniture and fixtures	3-15 years
Leasehold improvements	5-10 years

Leasehold improvements are subject to depreciation on a straight-line method over the shorter of the lease term or the useful life of the leasehold improvement.

Intangible assets

Purchased intangible fixed assets are shown at cost less accumulated amortization and, if any, accumulated impairment losses. These assets are amortized using the straight-line method according to their expected useful lives. Expected useful life and amortization method are reviewed every year to determine the possible effects of changes in estimates and changes in estimates are accounted for prospectively. Average amortization years of intangible fixed assets mostly vary between 3-5 years.

An intangible fixed asset is derecognised when it is disposed of or if no future economic benefits are expected from its use or sale. Profit or loss resulting from the exclusion of an intangible fixed asset from the statement of financial position, if any, is calculated as the difference between the net collections from disposal of the assets and their book values. This difference is recognized in profit or loss when the relevant asset is taken out of the statement of financial position.

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

2.6 Summary of significant accounting policies *(continued)*

Development costs

Project costs within the scope of research expenditures are recognized in profit or loss when actualized. Development expenditures are incurred only if such costs can be measured reliably, product or usage costs are technically and commercially feasible, consumption is likely to yield economic benefits, and the Group's development expenditures to sell or use the asset are spent and sufficient resources are available. Otherwise, the actuals are recognized in profit or loss. Upon initial recognition, development costs are calculated by subtracting accumulated amortization and, if any, accumulated impairment losses. In the current period, the amortization periods, which determine the average useful life of the development periods, are 3-5 years. (2021: 3-5 years)

Investment properties

Investment properties are real estates held to earn rent and / or capital gain, and lands and buildings held for this purpose are classified as "investment properties". Investment properties are shown by deducting the depreciation (useful life of 50 years) and the impairment, if any, from the cost value.

Investment properties are examined in order to detect a possible impairment, and if the registered value of investment properties is higher than their recoverable value at the end of this examination, they are reduced to their recoverable value by making provision. The recoverable value is accepted as the higher of the net cash flows that will come from the current use of the relevant investment property and its fair value less sales cost.

Leases

At the inception of the contract, the Group evaluates whether the contract is or contains a lease. If the contract transfers the right to control the use of the identified asset for a specified period of time, the contract is or includes a lease. To assess whether a contract provides the right to control the use of an identified asset, the Group uses the definition of a lease in TFRS 16.

(i) As a lessee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in TFRS 16.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The c recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

2.6 Summary of significant accounting policies *(continued)*

Leases *(continued)*

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

Leases (continued)

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

In general, the accounting policies applied to the Group as a lessor in the comparative period are not different from TFRS 16, except for the classification of a sublease entered in the current reporting period resulting in a finance lease classification.

Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through the Statement of Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

Financial instruments (continued)

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value Through the statement of Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets- Assessment of the business model

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management; how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

For the purposes of this assessment, the principal is the fair value of the financial asset at initial recognition in the consolidated financial statements. Interest consists of the time value of money, the credit risk of the principal balance for a given time period, other key lending risks and costs (for example, liquidity risk and management costs), and the profit margin.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

h) Financial Instruments (Continued)

ii) Classification and subsequent measurement (Continued)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

Additionally, (i) for a financial asset acquired at a discount or premium to its contractual par amount, (ii) a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest and (iii) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses

Financial Assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial Assets at Amortised Cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities - Classification, subsequent measurement, gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

h) Financial Instruments (Continued)

ii) Classification and subsequent measurement (Continued)

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting the financial assets and liabilities

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

(v) Derivative financial instruments and hedging

As of 31 December 2022 and 2021, the Group has derivative financial instruments for hedging purposes.

Derivative instruments are initially recognized at their fair value. Since derivative instruments do not meet specific hedge accounting criteria, changes in their valuation after initial recognition are accounted for in consolidated profit or loss.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

Financial Instruments (Continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash balances and deposit accounts with a maturity of three months or less on the day of receipt, with little risk of change in their fair value, and are used by the Group to finance short-term liabilities. Cash and cash equivalents include cash, bank deposits and other cash and cash equivalents.

Non derivative financial liabilities

All financial liabilities, other than debt securities and subordinated liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities consist of financial liabilities, lease payables, current accounts with banks, trade and other payables and payables to related parties.

If a financial instrument causes an outflow of cash, any asset or another financial instrument on a part of the Group, this financial instrument is classified as a financial liability. Financial instrument can be defined as a capital instrument only if it includes the following conditions:

- a) It does not have a contractual obligation to provide cash or another financial asset to another entity, or if the entity does not have a contractual obligation to exchange financial instruments with another entity to the disadvantage of the entity,
- b) The financial instrument is a derivative financial instrument that does not fall within the definition of derivative financial instrument requiring various number of capital transfers to the Group, or includes the Group's fixed amount of cash change or the exchange of a fixed amount of capital instrument, if it is realized or will be realized with the Group's capital instruments in the case of.

Capital

Ordinary shares are classified as equity. Additional costs that can be directly associated with the issue of ordinary shares are recognized as a decrease in equity after deducting the tax effect.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

Related parties

Related parties are individuals or entities that are related to the entity that is preparing its financial statements (reporting entity).

a) An individual or a close family member is considered related party of the reporting entity when the following criteria are met: If a certain individual,

i) Has control or joint control over the reporting entity,

ii) Has significant influence over the reporting entity,

iii) Is a key management personnel of the reporting entity or a parent company of the reporting entity.

b) An entity is considered related party of the reporting entity when the following criteria are met:

i) If the entity and the reporting entity is within the same group (meaning every parent company, subsidiary and other subsidiaries are considered related parties of others.

ii) If the reporting entity is a subsidiary or a joint venture of another entity (or of another entity that the entity is within the same group).

iii) If both of the entities are a joint venture of a third party. iv) If one of the entities are a joint venture of a third party while the other entity is a subsidiary of this third party.

v) If entity has plans of post employment benefits for employees of reporting entity or a related party of a reporting entity. If the reporting entity has its own plans, sponsor employers are also considered as related parties.

vi) If the entity is controlled or jointly controlled by an individual defined in the article (a).

vii) If an individual defined in the clause (i) of article (a) has significant influence over the reporting entity or is a key management personnel of this certain entity (or a parent company of the entity)

Related party transaction is the transfer of resources, services or liabilities regardless of whether a price is charged or not.

Impairment of assets

i) Non-derivative financial assets

The Group recognizes a loss allowance for expected credit losses for:

• financial assets measured at amortized cost;

The group measures the loss allowance at the amount equal to lifetime ECLs, as stated below:

• Debt instruments determined to have low credit risk at the reporting date, and

• Other debt instruments and bank balances for which the credit risk (ie, the risk of default over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group has chosen lifetime ECLs in calculating the impairment of its trade receivables.

In determining whether a financial asset's credit risk has increased significantly since initial recognition and in estimating its ECAs, it considers reasonable and supportable information available without undue cost or effort regarding the estimation of expected credit losses, including the effects of expected prepayments. This information includes quantitative and qualitative information and analysis based on the Group's past experience of credit losses and forward-looking information.

To determine whether a financial instrument has low credit risk, it may use other methodologies that align with a globally accepted definition of low credit risk and that take into account the type and risks of financial instruments being evaluated. The maximum period for which ECLs will be measured is the maximum contractual period for which the Group is exposed to credit risk.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

Impairment of assets (continued)

The Group assumes that the credit risk on a financial asset increases significantly when it is 30 days past due.

The Group considers a financial asset in default if:

- The debtor's failure to fulfill its loan obligation in full without resorting to actions such as the use of collateral (if any) by the Group, or
- The financial instrument is past due 90 days.

Lifetime ECLs are expected credit losses arising from all possible default events over the expected life of the financial instrument.

The 12-month ECLs are the portion of the expected credit losses arising from possible default events on the financial instrument within 12 months of the reporting date.

The maximum period for which ECLs will be measured is the maximum contractual period for which the Group is exposed to credit risk.

Measurement of ECLs

The ECLs are a probability-weighted estimate of credit losses over the expected life of the financial instrument. In other words, they are credit losses measured at the present value of all cash deficits (for example, the difference between the contractual cash inflows to the business and the cash flows the business expects to receive).

The cash gap is the difference between the contractual cash flows to the business and the cash flows that the business expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss is incurred even if the entity expects to receive full payment later than the contractual maturity. ECLs are discounted at the effective interest rate of the financial asset.

Credit impaired financial assets

At the end of each reporting period, the Group assesses whether financial assets measured at amortized cost and borrowing assets measured at fair value through other comprehensive income are impaired. A financial asset is credit impaired when one or more events occur that adversely affect the estimated future cash flows of a financial asset.

Evidence of a financial asset's credit impairment includes the following observable data:

- the debtor or issuer is in significant financial difficulty;
- breach of contract, such as a debtor's default or 90 days past due date of the financial instrument;
- Restructuring a loan or advance on conditions that the Group would not consider otherwise.
- the debtor is likely to go into bankruptcy or financial restructuring, or
- the disappearance of an active market for a security due to financial difficulties.

Presentation of impairment

Loss provisions for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The loss allowance for debt instruments measured at fair value through other comprehensive income is recognized in consolidated other comprehensive income instead of reducing the carrying amount of the financial asset in the statement of financial position.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

Impairment of assets (continued)

Write-off

In the absence of reasonable expectations of a partial or full recovery of a financial asset's value, an entity reduces the gross carrying amount of the financial asset directly. A write-off is a cause for derecognition.

For individual customers, the Group has a policy of write-off over the gross carrying amount of a financial asset that is past due 180 days, based on its historical experience with the recovery of similar assets. For corporate customers, the Group makes an assessment of the timing and deductions based on whether there is an individual reasonable expectation of recovery. The Group does not anticipate any significant recovery regarding the amount written off.

However, financial assets written off may still be subject to enforcement activities to comply with the Group's procedures for recovery of amounts due.

(ii) Non-financial assets

At each reporting period, the Group reviews the carrying amounts of its non-financial assets (excluding investment property, inventories and deferred tax assets) to determine if there are any signs of impairment. If such an indicator exists, the asset's recoverable amount is estimated.

For impairment testing, assets are grouped by the smallest group of assets generating cash inflows, regardless of continued use, cash inflows from other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or CGU groups that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGUs is the higher of its value in use and its fair value to be sold at a lower cost. Value in use is based on estimated future cash flows discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset or CGU.

If the recoverable amount of an asset or CGU is less than its carrying amount, the carrying amount of that asset or CGU is reduced to its recoverable amount.

Impairment losses are recognized in profit or loss. It is distributed first, which will reduce the carrying amount of any goodwill distributed to the CGU, and then reduced by the carrying amount of the other assets in the CGU.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

Transactions in foreign currency

The financial statements of the Group are presented in the currency (functional currency) valid in the basic economic environment in which the Parent Company operates. The financial situation and operating results of the Group are expressed in TL, which is the valid currency unit of the Company and the presentation unit for consolidated financial statements.

During the preparation of the consolidated financial statements of the Group, transactions in foreign currency are recorded based on the exchange rates on the transaction date. Monetary assets and liabilities in foreign currency in the statement of financial position are converted to TL using the exchange rates valid at the end of the reporting year. Among the non-monetary items monitored with their fair value, those recorded in foreign currency are converted to TL based on the exchange rates on the date when the fair value is 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 year in which they occur.

Overseas activities

Assets and liabilities in foreign operations are converted into TL at the exchange rate at the reporting date. Except for overseas activities operating in economies with high inflation, all income and expenses arising from other foreign activities are converted into TL at the annual average exchange rate. Foreign currency translation differences are recorded in other comprehensive income and are shown in reserve of foreign currency translation differences under equity.

Earnings per share

Earnings / (loss) per share presented in the statement of comprehensive income is calculated by dividing the net profit by the weighted average number of shares in the market during the year (Note 21). In Turkey, companies can increase their capital by distributing "bonus shares" to their shareholders from previous years' profits. This type of "bonus share" distributions are considered as issued shares in earnings per share calculations. Accordingly, the weighted average number of shares used in these calculations is calculated by considering the retrospective effects of the said share distributions.

Provisions, contingent assets and liabilities

A provision is made in the consolidated financial statements if there is a present obligation as a result of past events, it is probable that the obligation will be settled and the amount of the obligation can be estimated reliably.

The amount recognized as a provision is calculated by estimating the expense to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties associated with the obligation. If the provision is measured using the estimated cash flows required to settle the present obligation, the carrying amount of the provision is equal to the present value of the relevant cash flows.

Where it is expected that some or all of the economic benefits required to settle the provision will be met by third parties, the amount to be collected is recognized as an asset if it is almost certain that the amount will be collected and can be measured reliably.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

Warranty provisions

When the product or service covered by the warranty is sold, a provision is made for the relevant warranty. The reserve to be set aside date is calculated based on the warranty information and by weighting the probable probabilities of all possible consequences. Warranty expenses are accounted for in the cost of sales account.

Taxes calculated on corporate income

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax expense

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group and its Subsidiaries’ liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognised 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.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

Current tax expense (continued)

Deferred tax (continued)

Deferred tax liabilities are recognised 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 recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

If it is probable that there will be an amount of taxable income sufficient to offset them in the future for unused past year financial losses, tax advantages and deductible temporary differences, a deferred tax asset is recognized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 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.

Current tax and deferred tax expense

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income, or where they arise from the initial accounting for a business combination.

Tax risk

While determining the period tax expense and deferred tax expense amounts, the Group considers uncertain tax positions and whether there is any additional tax and interest liability to be paid. The Group believes that the tax provisions are sufficient for the periods that have not passed the tax examination, based on the tax law and past experience. This assessment may contain many professional judgments about future events and is based on estimates and assumptions. In the event that new information emerges that will change the Group's professional opinion about the adequacy of the current tax liability, this change in the tax liability will affect the tax expense for the period in which this situation is determined.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

Provisions for employee benefits

Severance pays

According to the current laws in Turkey, severance pay is paid in case of retirement or dismissal. Such payments are considered as defined retirement benefit plans in accordance with the updated TAS 19 "Employee Benefits Standard" ("TAS 19"). The severance pay liability, which is recognized in the statement of financial position, was calculated according to the net present value of the liability amounts expected to arise in the future due to the retirement of all employees and reflected in the consolidated financial statements. Calculated actuarial gains and losses are recorded in the other comprehensive income statement.

Other short-term benefits

Other short-term benefits include unused leave provisions in accordance with the current labour law in Turkey, the employer is obliged to pay for the unused leave days in case the employee deserves leave and leaves the job. Unused vacation provision is the total undiscounted liability amount corresponding to the leave days that employees deserve but have not used yet.

Bonus payments

The Group makes provisions in cases where there is a contractual obligation or a past practice that creates a constructive obligation.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Summary of significant accounting policies (continued)

Financial income and financial expense

Financial income consists of interest income from invested funds and foreign exchange income on financial assets and liabilities (other than trade receivables and payables). Interest income is recognized by accruing using the effective interest method.

Financial expenses consist of interest expenses of borrowings, foreign exchange expenses on financial assets and liabilities (other than trade receivables and payables). Foreign exchange income or expenses are shown net in financial income or financial expenses, depending on whether the foreign exchange movements are net income or net expense.

Other operating income and expenses

Other operating income consists of gains from sales of tangible fixed assets, deferred finance income, foreign exchange gains from derivative products and foreign exchange gains from monetary financial assets and liabilities, excluding debt instruments, provisions that are no longer subject and income from other operations.

Other operating expenses consist of foreign exchange differences arising from monetary financial assets and liabilities other than debt instruments, provision expenses and expenses related to other activities.

Reporting financial information according to departments

The group operates in only one area, in the sale and marketing of small home appliances. The Group does not have reportable operating segments containing the information used by the management to evaluate their performance and decide on resource allocation.

State incentives and aids

Unconditional government incentives related to group research and development are recognized under profit or loss if these incentives become receivables. Other government incentives are recorded at their fair values if there is sufficient assurance that the Group will meet the necessary conditions for the incentive and that this incentive will be received, and then they are systematically recognized under profit or loss throughout the useful life of the asset.

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2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.7 Significant Accounting evaluations, estimates and assumptions

Preparation in accordance with the consolidated financial TFRS requires the management to implement the policies and make decisions, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions underlying estimates are constantly reviewed. Updates in accounting estimates are recorded in the year of update and subsequent years affected by these updates. Information on the estimates that have a significant effect on the amounts recorded in the consolidated financial statements are explained below:

- a) Provisions for doubtful receivables reflect the amounts that the Company management believes will cover the future losses of the receivables that exist as of the balance sheet date but have the risk of not being collected under current economic conditions. While evaluating whether the receivables are impaired, the past performances of the borrowers, their credibility in the market, their performances from the balance sheet date to the date of approval of the financial statements and the re-negotiated conditions are also taken into consideration. In addition, the impairment of receivables is calculated with the "Expected Credit Loss" (ECL) model. The impairment model is applied to amortized cost financial assets and contract assets. Lifetime GAU measurement is applied when the credit risk of a financial asset increases significantly after the initial recognition at the reporting date. In all other cases where the relevant increase is not experienced, a 12-month DEB calculation has been applied. Provisions for doubtful receivables as of the relevant balance sheet date are explained in Note 5.
- b) Regarding the impairment of Inventories, the physical and historical background of the Inventories are examined, their usability is determined in line with the opinions of the technical personnel and provisions are made for items that are expected to be unusable. In addition, the data regarding the list prices of inventories after discount are used when calculating the inventory impairment. In cases where the projected net realizable value is below the cost value, an inventory impairment provision is reserved (Note 7).
- c) Company management has made important assumptions in the determination of useful economic lives of tangible and intangible assets in line with the experiences of its technical team (Notes 9 and 10).
- d) Severance pay liability is determined by actuarial calculations based on some assumptions including discount rates, future salary increases and employee turnover rates. Since these plans are long term, these assumptions contain significant uncertainties. Details regarding provisions for employee benefits are included in Note 13.
- e) Warranty expenses include the repair-maintenance costs for the goods sold under the warranty, the labor and material expenses incurred by the authorized services within the scope of the warranty without charging the customer. Warranty expenses are accounted for in the current period, taking into account the number of warranty returns and the current year warranty unit costs, which are calculated as a result of the estimates of the return and repair levels calculated from the data of past 3 years that may occur in the following years regarding the products recorded as revenue in the current period (Note 12).
- f) The Group calculates the return provision for the recognized revenue based on past experience and is accounted for in its consolidated financial statements.

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3. Cash and Cash Equivalents

As at 31 December 2022 and 2021, cash and cash equivalents are comprised of the following:

	31 December 2022	31 December 2021
Cash at banks	118.226.589	94.541.789
<i>Demand deposits</i>	55.952.981	59.541.789
<i>Time deposits</i>	62.273.608	35.000.000
Other cash and cash equivalents(*)	198.078.888	--
Total	316.305.477	94.541.789

(*) As of 31 December 2022, other cash and cash equivalents consist of B type liquid funds with a maturity of less than 3 months.

The details of time deposits as at 31 December 2022 are as follows:

Currency	Maturity Date	Interest rate (%)	31 December 2021
TL	18,50	2 January 2023	41.146.252
TL	18,00	2 January 2023	11.100.000
TL	15,00	3 January 2023	10.027.356
Total			62.273.608

The details of time deposits as at 31 December 2021 are as follows:

Currency	Maturity Date	Interest rate (%)	31 December 2021
TL	20,00	3 January 2022	20.000.000
TL	20,25	3 January 2022	15.000.000
Total			35.000.000

As of 31 December 2022 and 2021, there is no blockage or restriction on deposits in banks.

Currency, interest rate risks and sensitivity analysis for the financial assets and liabilities of the Group are explained in Note 23.

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4. Short and Long Term Borrowings

As of 31 December 2022 and 2021, the Group's financial liabilities are as follows:

	31 December 2022	31 December 2021
Short term bank borrowings	363.102.964	232.669.635
Short term portions of long-term borrowings	--	15.013.776
Short-term lease liabilities	4.109.395	4.613.912
Short-term issued bond and interest accruals(*)	268.268.106	--
Total short term borrowings	635.480.465	252.297.323
Long term bank borrowings	--	20.018.074
Long term lease liabilities	849.927	3.909.641
Total long term borrowings	849.927	23.927.715
Total borrowings	636.330.392	276.225.038

(*) The Group has issued financial bonds with fixed interest rate and single coupon payment, quoted on the Istanbul Stock Exchange, amounting to TL 116.580.000 on 12 September 2022 and amounting to TL 133.420.000 on 26 October 2022, with a total of TL 250.000.000. The redemption date of financial bonds are 10 March 2023 and 14 April 2023, respectively and the annual fixed interest rate is 30%.

Bank borrowings

As of 31 December 2022 and 2021, the details of interest rate, nominal value, maturity and currency of borrowings are as follows:

						31 December 2022
Currency	Nominal interest rate %	Maturity	Short term	Long term	Nominal	
TL loans	14,75-38,50	2023	363.102.964	--	352.796.835	
Total			363.102.964	--	352.796.835	
						31 December 2021
Currency	Nominal interest rate %	Maturity	Short term	Long term	Nominal	
TL loans	16,50-27,00	2022-2023	247.683.411	20.018.074	258.200.000	
Total			247.683.411	20.018.074	258.200.000	

As of 31 December 2022, the Group has no check guarantee on its bank loans, while there is an export commitment amounting to TL 41.000.000 (31 December 2021: TL 35.031.850 export commitment). Exchange rate, interest rate risks and sensitivity analyzes for the Group's financial assets and liabilities are disclosed in Note 23.

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4. Short and Long Term Borrowings (continued)

Movement tables of borrowings for the periods ending on 31 December 2022 and 2021 are as follows:

	1 January – 31 December 2021	1 January – 31 December 2021
Balance at 1 January	267.701.485	110.144.113
Additions	548.231.918	334.877.336
Interest accruals	11.920.341	8.305.009
Payments	(464.750.780)	(185.624.973)
Balance at 31 December	363.102.964	267.701.485

Lease Liabilities

As of 31 December 2022 and 2021, the details of lease liabilities are as follows:

	31 December 2022	31 December 2021
Short term lease liabilities		
Short-term lease liabilities from other parties	4.109.395	4.613.912
- <i>Lease liabilities</i>	<i>4.109.395</i>	<i>4.613.912</i>
Long term lease liabilities		
Long-term lease liabilities from other parties	849.927	3.909.641
- <i>Lease liabilities</i>	<i>849.927</i>	<i>3.909.641</i>

As of 31 December 2022 and 2021, the details of the lease obligations are as follows:

	31 December 2022	31 December 2021
In a year	4.451.237	5.495.055
Minus : Future financial expenses	(341.842)	(881.143)
Present value of lease liabilities	4.109.395	4.613.912
Two years and over	870.160	4.204.290
Minus : Future financial expenses	(20.233)	(294.649)
Present value of lease liabilities	849.927	3.909.641

The Group's lease liabilities represent the present value of the vehicles, buildings and future liabilities that it has leased from third parties during the useful life of the asset. Lease liabilities are discounted using alternative borrowing interest rates, 18.20% for buildings and 13.76% for vehicles.

As of 31 December 2022 and 2021, the reconciliation of the Group's liabilities arising from lease transactions is as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Balance at 1 January	8.523.553	7.097.719
Additions (Note: 11)	2.686.500	5.261.548
Rent payments	(6.250.731)	(3.835.714)
Interest expense	1.074.415	1.329.839
Interest payments	(1.074.415)	(1.329.839)
Present value of lease liabilities	4.959.322	8.523.553

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5. Trade Receivables and Payables

a) Trade Receivables

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

	31 December 2022	31 December 2021
Trade receivables	501.256.459	240.881.544
Checks received	105.578.903	70.995.257
Credit card receivables	2.021.008	3.328.795
Notes receivables	--	1.200.000
Doubtful trade receivables	19.971.406	17.317.484
Doubtful trade receivables (-)	(19.971.406)	(17.317.484)
Total	608.856.370	316.405.596

The average maturity of the Group's trade receivables is 77 days (31 December 2021: 107 days). Average maturity calculation is made by considering the balance of trade receivables at the end of the relevant year and the revenue figures realized in the last 12 months.

As of 31 December 2022, a provision amounting to TL 19.971.406 has been reserved for doubtful trade receivables of the Group (31 December 2021: TL 17.317.484).

The movement table regarding the provision for impairment for the years ended 31 December 2022 and 2021 is as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Balance at 1 January	17.317.484	14.622.161
Provision during the period (*)	2.717.517	2.812.371
Doubtful receivables provision released	(63.595)	(117.048)
Balance at 31 December	19.971.406	17.317.484

(*) The Group reviews its receivables as of the balance sheet date; It allocates provision for doubtful receivables for trade receivables that are not in legal proceedings, but whose collection ability is in doubt and that it is foreseen to be uncollectible.

The Group's long-term trade receivables from non-related parties amounting to TL 5.965.000 consist of checks received (31 December 2021: TL 3.803.000).

The Group's exposure to credit and currency risks related to trade receivables is explained in Note 23.

b) Trade Payables

As of 31 December 2022 and 2021, the Group's short-term trade payables are as follows:

	31 December 2022	31 December 2021
Trade payables	328.456.074	219.742.393
Expense accruals	10.438.326	7.310.827
Total	338.894.400	227.053.220

The Group's exposure to credit and currency risk related to trade payables is disclosed in Note 23.

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6. Other Receivables and Payables and Other Current Assets and Other Current Liabilities

a) Other Receivables

As of 31 December 2022 and 2021, the Group's other short-term receivables are as follows:

	31 December 2022	31 December 2021
Deposits and guarantees given	1.045.704	139.584
Other receivables	10.674	--
Total	1.056.378	139.584

b) Other Payables

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

	31 December 2022	31 December 2021
Other payables	140.296	60.790
Total	140.296	60.790

c) Contract Liabilities

As of 31 December 2022 and 2021, the Group's obligations arising from customer contracts are as follows:

	31 December 2022	31 December 2021
Liabilities for customer contracts (*)	83.389.124	33.521.120
Total	83.389.124	33.521.120

(*) The Group makes endorsement and incentive bonus payments to its customers in line with its performance results. Amounts calculated for these payments are recorded as liabilities arising from customer contracts in the balance sheet, and as sales discounts in the profit or loss statement.

d) Other current assets

As of 31 December 2022 and 2021, the other current assets of the Group are as follows:

	31 December 2022	31 December 2021
Work advances	5.519.070	7.679.354
Deferred VAT	573.612	199.510
Other	340.999	212.988
Total	6.433.681	8.091.852

e) Other short term liabilities

As of 31 December 2022 and 2021, the other short-term liabilities of the Group are as follows:

	31 December 2022	31 December 2021
Taxes and funds payable	17.810.019	3.177.138
Total	17.810.019	3.177.138

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7. Inventories

As of 31 December 2022 and 2021, inventories of the Group are as follows:

	31 December 2022	31 December 2021
Finished goods	244.273.571	217.750.411
Other Inventories	475	32.873
Provision for inventory impairment (-)	(3.341.583)	(1.280.349)
Total	240.932.463	216.502.935

As of 31 December 2022, the insurance amount on the inventories is TL 215.857.545, and the carried amounts are under insurance. (31 December 2021: TL 191.728.384).

Movement of the provision for inventory impairment is as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Balance at 1 January	(1.280.349)	(858.700)
Provisions during the year (*)	(2.061.234)	(421.649)
Balance at 31 December	(3.341.583)	(1.280.349)

(*) Provisions made during the period are recognized at the cost of sales.

8 Prepaid Expenses and Deferred Income

Prepaid expenses

As of 31 December 2022 and 2021, prepaid expenses of the Group are as follows:

	31 December 2022	31 December 2021
Short term		
Advances given (*)	29.934.451	27.950.994
Short term prepaid expenses	4.583.946	3.190.444
Total short term	34.518.397	31.141.438
Long term		
Long term prepaid expenses	1.942.564	241.252
Advances given (*)	122.170	66.646
Total long term	2.064.734	307.898

(*) Advances given at the end of the reporting year consist of prepayments made to suppliers.

Deferred Income

As of 31 December 2022 and 2021, deferred income of the Group are as follows:

	31 December 2022	31 December 2021
Received advances	2.678.152	5.988.954
Total deferred income	2.678.152	5.988.954

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9. Property, Plant and Equipments

The movement table of property, plant and equipments for the year ended 31 December 2022 is as follows:

Cost value	Vehicles	Furniture and Fixtures	Leasehold improvements	Ongoing investments	Total
Balance at 1 January 2022	3.016.804	47.017.474	3.505.059	6.130.292	59.669.629
Additions	2.511.251	11.005.590	2.493	11.914.988	25.434.522
Disposals	(212.011)	(19.455)	--	(868.896)	(1.100.362)
Transfers (*)	--	964.565	625.609	(2.023.207)	(433.033)
Closing balance as of 31 December 2022	5.316.244	58.968.175	4.133.161	15.153.177	83.570.757
Accumulated depreciation					
Balance at 1 January 2022	(706.340)	(15.812.468)	(2.953.039)	--	(19.471.847)
Current expense	(831.515)	(5.587.278)	(115.205)	--	(6.533.998)
Disposals	155.163	1.782	--	--	156.945
Net book value as of 31 December 2022	(1.382.693)	(21.397.964)	(3.068.244)	--	(25.848.900)
Net book value as of 1 January 2022	2.310.464	31.205.006	552.020	6.130.292	40.197.782
Net book value as of 31 December 2022	3.933.552	37.570.210	1.064.917	15.153.177	57.721.856

(*) Transferred to intangible fixed assets

For the year ended 31 December 2022, the total amounts of depreciation expenses recognized at cost of sales, marketing, selling and distribution expenses and general administrative expenses are TL 3.170.544, TL 404.616 and TL 2.958.838, respectively (31 December 2021: TL 2.066.901, TL 888.096 and TL 1.049.510).

As of 31 December 2022, the amount of insurance coverage on tangible assets is TL 7.578.068 (31 December 2021: TL 8.007.576).

As of 31 December 2022, the Group does not have any mortgage on tangible assets. (31 December 2021: None).

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9. Property, Plant and Equipments *(continued)*

The movement table of property, plant and equipments for the year ended 31 December 2021 is as follows:

Cost value	Vehicles	Furniture and Fixtures	Leasehold improvements	Ongoing investments	Total
Balance at 1 January 2021	2.068.503	38.284.900	2.883.320	1.518.251	44.754.974
Additions	948.301	9.813.681	104.404	6.261.866	17.128.252
Disposals	--	(1.081.107)	--	(24.018)	(1.105.125)
Transfers (*)	--	--	517.335	(1.625.807)	(1.108.472)
Closing balance as of 31 December 2021	3.016.804	47.017.474	3.505.059	6.130.292	59.669.629
Accumulated depreciation					
Balance at 1 January 2021	(364.393)	(12.339.946)	(2.881.996)	--	(15.586.335)
Current expense	(341.947)	(3.591.517)	(71.043)	--	(4.004.507)
Disposals	--	118.995	--	--	118.995
Net book value as of 31 December 2021	(706.340)	(15.812.468)	(2.953.039)	--	(19.471.847)
Net book value as of 1 January 2021	1.704.110	25.944.954	1.324	1.518.251	29.168.639
Net book value as of 31 December 2021	2.310.464	31.205.006	552.020	6.130.292	40.197.782

(*) Transferred to intangible fixed assets

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10. Intangible Assets

The movement table of intangible assets for the year ended 31 December 2022 is as follows:

Cost value	Rights	Research and development expenses	Total
Balance at 1 January 2022	17.673.330	3.682.131	21.355.461
Additions	6.700.631	655.181	7.355.812
Transfers (*)	167.461	265.572	433.033
Closing balances as of 31 December 2022	24.541.422	4.602.884	29.144.306
Accumulated amortization			
Balance at 1 January 2022	(9.535.636)	(2.599.199)	(12.134.835)
Current expense	(2.976.436)	(388.258)	(3.364.694)
Closing balance as of 31 December 2022	(12.512.072)	(2.987.457)	(15.499.529)
Net book value as of 1 January 2022	8.137.694	1.082.932	9.220.626
Net book value as of 31 December 2022	12.029.351	1.615.426	13.644.777

The movement table of intangible assets for the year ended 31 December 2021 is as follows:

Cost value	Rights	Research and development expenses	Total
Balance at 1 January 2021	11.832.423	2.935.111	14.767.534
Additions	4.952.445	527.010	5.479.455
Transfers (*)	888.462	220.010	1.108.472
Closing balances as of 31 December 2021	17.673.330	3.682.131	21.355.461
Accumulated amortization			
Balance at 1 January 2021	(7.508.039)	(2.329.361)	(9.837.400)
Current expense	(2.027.597)	(269.838)	(2.297.435)
Closing balance as of 31 December 2021	(9.535.636)	(2.599.199)	(12.134.835)
Net book value as of 1 January 2021	4.324.384	605.750	4.930.134
Net book value as of 31 December 2021	8.137.694	1.082.932	9.220.626

(*) Transferred from construction in progress accounted under property, plant and equipment.

For the year ended 31 December 2022, the amount of amortization recognized in marketing, selling and distribution expenses and general administrative expenses is TL 426.077 and TL 2.938.617, respectively (31 December 2021: TL 1.053.023 and TL 1.244.412).

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11. Right of use assets

The movement table of right-of-use assets for the years ended 31 December 2022 and 2021 is as follows:

	Building	Vehicle	Total
Balance at 1 January 2022	2.758.702	5.248.580	8.007.282
Additions (Note: 4)	2.550.441	136.059	2.686.500
Disposals	--	(1.255.541)	(1.255.541)
Accumulated Depreciation	(1.880.548)	(3.222.886)	(5.103.434)
Net book value as of 31 December 2022	3.428.595	906.212	4.334.807
	Building	Vehicle	Total
Balance at 1 January 2021	370.677	6.406.059	6.776.736
Additions (Note: 4)	3.215.940	2.045.608	5.261.548
Accumulated Depreciation	(827.915)	(3.203.087)	(4.031.002)
Net book value as of 31 December 2021	2.758.702	5.248.580	8.007.282

For the year ended 31 December 2022, the amount of amortization recognized in marketing, selling and distribution expenses and general administrative expenses is TL 2.065.864 and TL 3.037.570, respectively (31 December 2021: TL 1.847.600 and TL 2.183.402). As of 31 December 2022 and 2021, the Group has no obligations to fulfill from loan and financial leasing agreements.

12. Provisions, Contingent Assets and Liabilities

a) Provisions

As of 31 December 2022 and 2021, long and short term provisions are as follows:

	31 December 2022	31 December 2021
Warranty provision	6.458.949	4.027.584
Sales premium provision	1.492.507	232.947
Lawsuit provision	--	97.931
Other	783.710	648.553
Total Short term provisions	8.735.166	5.007.015
Warranty provision	5.291.677	3.430.956
Total Long Term Provisions	5.291.677	3.430.956
Total	14.026.843	8.437.971

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12. Provisions, Contingent Assets and Liabilities (continued)

a) Provisions (continued)

Warranty provision

Movement of total short- and long-term guarantee provision is as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Balance at 1 January	7.458.540	7.219.849
Provisions made during the year	18.217.052	9.006.831
Used during the year	(13.924.966)	(8.768.140)
Balance at 31 December	11.750.626	7.458.540

Sales Premium provision

Movement of total short- and long-term sales premium provision is as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Balance at 1 January	232.947	388.414
Provisions made during the year	1.492.507	232.947
Used during the year	(232.947)	(388.414)
Balance at 31 December	1.492.507	232.947

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12. Provisions, Contingent Assets and Liabilities (continued)

b) Collateral / pledges / mortgages ("TRI")

Collaterals pledges and mortgages ("CPM") given by the Company as of 31 December 2022 and 2021 are as follows:

	31 December 2022		31 December 2021	
	Original balances		Original balances	
	Total TL	TL	Total TL	TL
A. CPM's given in the behalf of own company (*)	7.522.500	7.522.500	7.500.000	7.500.000
B. CPM's given on behalf of the fully consolidated subsidiaries	--	--	--	--
C. CPM's given on behalf of third parties or ordinary course of business	--	--	--	--
D. Total amount of other CPM's given	--	--	--	--
i. Total amount of CPM's given on behalf of the parent	--	--	--	--
ii. Total amount of CPM's given on behalf of the group companies which are not in scope of B and C	--	--	--	--
iii. Total amount of CPM's given on behalf of third parties which are not in scope of C	--	--	--	--
Total	7.522.500	7.522.500	7.500.000	7.500.000

The ratio of other CPM's given by the Group to the Group's equity is 0% as of 31 December 2022 (31 December 2021: 0%).

As of 31 December 2022, the Group does not have customer checks given as collateral (31 December 2021: None).

The guarantees given for the loans are disclosed in Note 4.

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12. Provisions, Contingent Assets and Liabilities (continued)

c) Guarantees / pledges / mortgages received ("GPM")

As of 31 December 2022 and 2021, the company's GPM's are as follows:

Type	31 December 2022	31 December 2021
Receivables insurance	362.316.870	89.854.122
DBS / DTS	51.878.302	6.828.019
Letters of guarantee	22.347.515	10.766.556
Mortgage	21.713.443	12.255.000
Exim Bank	9.446.751	2.031.865
Total	467.702.881	121.735.562

d) Letters of credit

The letter of credit information of the Group as of 31 December 2022 and 2021 is as follows:

Type	31 December 2022		31 December 2021	
	USD	TL	USD	TL
Letters of credit for import	91.713	1.714.721	218.064	2.906.575
Total		1.714.721		2.906.575

e) Cheques and notes received

As of 31 December 2022, the total amount of cheques received as guarantee for the future sales of the Group is TL 22.938.621 (31 December 2021 – TL 21.356.729).

13. Employee Benefits

a) Liabilities for employee benefits

As of 31 December 2022 and 31 December 2021, liabilities for employee benefits are as follows:

	31 December 2022	31 December 2021
Social security premium payables	1.374.029	651.728
Due to personnel	99.174	50.061
Total	1.473.203	701.789

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13. Employee Benefits (continued)

b) Provisions for employee benefit

As of 31 December 2022 and 31 December 2021, provisions for employee benefits are as follows:

	31 December 2022	31 December 2021
Short-term		
Bonus provision	16.138.907	6.255.807
Unused vacation provision	2.964.758	2.598.307
Total short term provisions	19.103.665	8.854.114
Long term		
Provision for severance pay	8.907.066	3.565.508
Total long term provisions	8.907.066	3.565.508
Total	28.010.731	12.419.622

The movement of the provision for severance pay for the years ended 31 December 2022 and 2021 is as follows:

	1 January – 31 December 2022	1 January – 1 December 2021
Provision as of 1 January	3.565.508	2.505.772
Service cost	716.760	452.306
Interest cost	591.906	352.499
Paid severance pays	(628.788)	(261.977)
Actuarial difference	4.661.680	516.908
Provision at the end of the year	8.907.066	3.565.508

Within the framework of the laws in Turkey, those who have completed their one-year service period in the Company and its subsidiaries and joint agreements in Turkey and whose employment is terminated without any valid reason, who are called up for military service, who pass away, 25 years for men and 20 years for women. Employees who have completed their service period and have reached retirement age (58 for women, 60 for men) must be paid severance pay. There are certain transitional obligations regarding the length of service due to retirement, as the legislation changed as of 8 September 1999.

Statistical valuation methods have been developed to estimate the Group's liabilities arising from certain benefit plans. The following statistical assumptions were used in calculating the total liability:

	2022	2021
	%	%
Discount rate	2,00	3,74
Interest rate	12	19,3
Inflation rate	9,8	15

The provision for severance pay was calculated based on the severance pay ceiling announced by the Government. As of 31 December 2022, the severance pay ceiling amounted to 15.371,40 TL (shown in full TL amount) (as of 31 December 2021, 10.848,59 TL (shown with full TL amount)).

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13. Employee Benefits (continued)

b) Provisions for employee benefit

Bonus Provision

The movement of the bonus provision for the years ended 31 December 2022 and 2021 is as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Balance at 1 January	6.255.807	9.585.681
Provision made during the year	16.138.907	6.255.807
Provision paid during the year	(6.255.807)	(9.585.681)
Balance at 31 December	16.138.907	6.255.807

Unused vacation provision

The movement of the unused vacation provision for the years ended 31 December 2022 and 2021 is as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Balance at 1 January	2.598.307	1.488.869
Current provisions expense / (reversal), net	366.451	1.109.438
Balance at 31 December	2.964.758	2.598.307

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14. Share Capital

a) Capital

As of 31 December 2022 and 2021, the company's paid-in capital structure is as follows:

Shareholders	Group	31 December 2022		31 December 2021		
		Share Amount	%	Share Amount	%	
Talip Murat Kolbaşı	A	3.449.692	10,71	A	3.449.692	10,71
Ali Osman Kolbaşı	A	3.066.392	9,52	A	3.066.392	9,52
Yasemin Rezan Kolbaşı	A	2.710.472	8,42	A	2.710.472	8,42
Zeynep Figen Peker	A	2.710.472	8,42	A	2.710.472	8,42
Aliye Kolbaşı	A	1.971.250	6,12	A	1.971.250	6,12
Rengin Yağan	A	1.259.411	3,91	A	1.259.411	3,91
Filiz Kolbaşı (*)	A	314.852	0,98	A	1.259.411	3,91
Bora Kolbaşı (*)	A	314.853	0,98	-	--	--
İbrahim Buğra Kolbaşı (*)	A	314.853	0,98	-	--	--
Kayra Kolbaşı (*)	A	314.853	0,98	-	--	--
Halka Açık Kısım (**)	B	15.782.900	49,00	B	15.782.900	49,00
Paid-in capital		32.210.000			32.210.000	
Capital adjustment positive differences		148.360			148.360	

(*)The company decided to appoint a trustee on January 11, 2022, with a court decision, for the shares inherited from one of its partners, the deceased Oktay Kolbaşı, due to the fact that the three children of the heir were underage at the time of his death in accordance with the Turkish Civil Code. Therefore, on 31 December 2021, the shares of Filiz Kolbaşı, wholly owned by his wife, were equally shared between his wife and three children in the 31 December 2022 financial statements and included in the financial statements.

(**)The company is registered with the Capital Markets Board ("CMB") and its shares are traded on Borsa İstanbul A.Ş. ("BİST") as of 2020. %1,49 of shares among the remaining Group B shares which were not traded on the BİST, were registered as of 6 July 2021 and have become tradable on the BİST. As of 6 July 2021, 51% of the shares are non-public shares and 49% are publicly held shares. As of the same date, the shareholders holding the Company's shares and their share ratios are as above.

As of 31 December 2022, the official and nominal capital of the Company is 32.210.000 TL (31 December 2021: 32.210.000 TL). This capital is divided into 32,210,000 registered shares, each with a nominal value of 1 TL (31 December 2021: 32,210,000). The shares consist of 16,427,100 Group A shares and 15,782,900 Group B shares. The 1.49% portion owned by B group shareholders: Murat Erkurt, Ahmet Faralyalı, Orhan Ayanlar, Cenk Coşkuntürk and Halit Görkem Oktay was taken over and dematerialized as of 6 July 2021 and became tradable on the BİST.

As of December 31, 2022, the Company's capital adjustment difference is TL 148,360 (December 31, 2021: TL 148,360).

Within the scope of the Company's Articles of Association, half of the members of the Board of Directors will be elected from among the candidates determined by the majority of votes among the A Group shareholders, in the Board of Directors, which will consist of at least five people. The number of members of the Board of Directors to be elected among the candidates to be determined by the majority of the votes of the Group A shareholders can never exceed half of the total number of the members of the Board of Directors. If the total number of members of the Board of Directors is odd and therefore half of them is fractional, the number of Board members to be appointed by Group A shareholders is rounded down, the said shares do not have voting privileges.

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14. Share capital (continued)

b) Share Premium

In the extraordinary general assembly meeting held on 14 April 2008, the sale of Company shares worth TL 4.608.000 to Turkish Household Appliances was approved. Turkish Household Appliances. TL 12.850.000 was paid for the shares sold and TL 8.242.000 of this was recorded as share premium.

In the extraordinary general assembly meeting held on 4 March 2009, the sale of Company shares worth TL 2.500.980 to Turkish Household was approved. For the shares sold by Turkish Household, TL 12.894.728 was paid and TL 10.393.298 of this was recorded as share premium.

c) Legal Reserves

The statutory legal reserves consist of first and second reserves, appropriated in accordance with TCC. TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the entity's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital. As of 31 December 2022, the Group's legal reserves included in the restricted reserves account allocated from profit is TL 10.136.451 (31 December 2021: TL 8.797.501).

d) Foreign Currency Translation Reserves

Foreign currency conversion differences consist of the differences arising from the conversion of the financial statements of Arzum Asia Pacific, whose functional currency is the US dollar, and Arzum Europe, whose functional currency is the Euro, into TL, which is the reporting currency. As of 31 December 2022, the Group's total foreign currency translation differences is TL 11.860.329 (31 December 2021: TL 7.297.611).

e) Retained earnings

The Group has accumulated previous year's profits amounting to TL 94.576.011 as of 31 December 2022 (31 December 2021: TL 60.784.842).

f) Dividend

In 2022, the Company distributed a dividend of TL 15.000.000 to its shareholders based on the approval of the Company's Ordinary General Assembly for the Year 2021, which took place on 21 April 2022, based on the Board of Directors Decision dated March 14, 2022 and numbered 2022/08 (31 December 2021: TL 11.769.746).

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15. Revenue and Cost of Sales

For the years ended 31 December 2022 and 2021, revenue and cost of sales is as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Domestic modern channel sales	2.324.123.100	1.137.703.737
Domestic traditional channel sales	836.207.201	435.376.908
Domestic other sales	49.147.692	32.551.311
Foreign sales	167.805.934	105.784.135
Gross sales	3.377.283.927	1.711.416.091
Sales returns	(33.186.128)	(31.829.453)
Sales discounts	(1.806.191.931)	(864.240.679)
Net sales	1.537.905.868	815.345.959
Cost of goods sold (-)	(1.018.798.757)	(538.848.184)
Warranty expenses	(22.749.743)	(11.596.171)
Depreciation expenses and amortization	(3.170.544)	(2.066.901)
Cost of sales (-)	(1.044.719.044)	(552.511.256)
Gross profit	493.186.824	262.834.703

The distribution of group sales by geographical regions is as follows:

Revenue	1 January – 31 December 2022	1 January – 31 December 2021
Turkey	1.370.114.253	710.643.568
Egypt	8.830.435	28.272.012
Germany	15.346.442	16.080.256
Kuwait	10.416.144	9.574.267
Other	133.198.594	50.775.856
Net sales	1.537.905.868	815.345.959

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16. Marketing, Sales and Distribution Expenses, General Administrative Expenses

Marketing, Sales and Distribution Expenses

For the years ended 31 December 2022 and 2021, marketing, sales and distribution expenses is as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Advertising and marketing expenses	89.077.438	43.683.915
Personnel expenses	68.333.369	34.698.441
Distribution expenses	31.357.108	11.588.592
Exhibition and fair expenses	23.416.479	7.710.212
Storage expenses	14.535.142	9.959.644
Outsourcing expenses	5.532.369	11.110.429
Travel expenses	5.325.807	1.468.828
Depreciation expenses and amortization	2.896.557	3.788.719
Motor vehicle expenses	2.776.077	832.281
Communication expenses	1.618.245	1.065.780
Market research expenses	1.464.321	1.239.270
Freight expenses	577.245	4.141.883
Other	6.508.792	2.409.030
Total	253.418.949	133.697.024

General Administrative Expenses

For the years ended 31 December 2022 and 2021, general administrative expenses are as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Personnel expenses	42.245.018	25.805.377
Consulting expenses	9.814.197	7.267.894
Depreciation expenses and amortization	8.935.025	4.477.324
Office expenses	7.200.021	2.892.733
Software expenses	4.226.316	1.602.041
Travel expenses	1.807.012	425.143
Insurance expenses	1.550.733	768.705
Repair and maintenance expenses	1.108.268	182.689
Taxes, fees and charges	530.764	195.154
Other	6.360.716	3.611.417
Total	83.778.070	47.228.477

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17. Expenses by nature

For the years ended 31 December 2022 and 2021, expenses by nature is as follows

	1 January – 31 December 2022	1 January – 31 December 2021
Cost of goods sold	1.018.798.757	538.848.184
Personnel expenses	110.578.387	60.503.818
Advertising and marketing expenses	89.077.438	43.683.915
Distribution expenses	31.357.108	11.588.592
Exhibition and fair expenses	23.416.479	7.710.212
Warranty expenses	22.749.743	11.596.171
Depreciation expenses and amortization	15.002.126	10.332.942
Storage expenses	14.535.142	9.959.644
Consulting expenses	9.814.197	7.267.894
Office expenses	7.200.021	2.892.733
Travel expenses	7.132.819	1.893.971
Outsourcing expenses	5.532.369	11.110.429
Donation and aid expenses	4.226.316	2.354.495
Motor vehicle expenses	2.776.077	832.281
Communication expenses	1.618.245	1.065.780
Insurance expenses	1.550.733	768.705
Market research expenses	1.464.321	1.239.270
Repair and maintenance expenses	1.108.268	182.689
Freight expenses	577.245	4.141.883
Taxes, fees and charges	530.764	1.039.238
Other	12.869.508	4.423.911
Total	1.381.916.063	733.436.757

Fees for Services Received from Independent Auditor/Independent Audit Firms

Information regarding the fees for the services received from the independent audit firms, in accordance with the letter of POA dated 19 August 2021 that was prepared considering the Board Decision published in the Official Gazette on 30 March 2021, are as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Independent audit fee for the reporting period (*)	633.751	355.510
Tax advisory service	432.909	121.000
Other assurance services	58.000	10.000
Total	1.124.660	486.510

(*) The fees above have been determined through including the independent audit and other related service fees of all subsidiaries, and the foreign currency fees of foreign subsidiaries have been converted into TL using the annual average rates of the relevant years.

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18. Other Income /Expenses from Operating Activities

For the years ended 31 December 2022 and 2021, other income and expenses from operating activities is as follows

Other income from operating activities	1 January – 31 December 2022	1 January – 31 December 2021
Foreign exchange gains, net	12.738.967	12.244.682
Deferred finance income	229.071	759.892
Other	1.512.344	3.181.955
Total	14.480.382	16.186.529

Other expense from operating activities	1 January – 31 December 2022	1 January – 31 December 2021
Deferred finance expenses	9.147.077	--
Doubtful receivables provisions, net	--	2.695.323
Other	2.783.617	1.277.067
Total	11.930.695	3.972.390

19. Financial Income and Expenses

For the years ended 31 December 2022 and 2021, financial income and expenses is as follows

Financial Income	1 January – 31 December 2022	1 January – 31 December 2021
Interest income	11.335.139	1.175.883
Foreign exchange gains, net	10.889.450	6.718.950
Total	22.224.589	7.894.833

Financial Expense	1 January – 31 December 2022	1 January – 31 December 2021
Loan interest expenses	81.351.878	31.632.226
Bank commission and pos expenses	22.605.910	6.526.493
Bond interest expense	19.396.750	--
Derivative expense	1.130.868	--
Interest expenses on leasing transactions	1.074.415	1.329.839
Severance interest expense	591.906	352.499
Total	126.151.726	39.841.057

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20. Taxation

Tax expense

For the years ended 31 December 2022 and 2021, tax expense is as follows:

Tax expense	1 January – 31 December 2022	1 January – 31 December 2021
Corporate tax expense	(31.481.185)	(17.564.997)
Deferred tax income	17.488.252	5.517.999
Total	(13.992.933)	(12.046.998)

Tax payable

As of 31 December 2022 and 31 December 2021, current tax asset /liability are as follows:

Current tax asset / (liability)	31 December 2022	31 December 2021
Corporate tax provision	35.704.884	17.564.997
Prepaid taxes (-)	(35.842.481)	(17.095.834)
Corporate tax provision / (assets related to current tax), net	(137.597)	469.163

Corporate tax

The Company and its subsidiaries are subject to tax legislation and practices effective in Turkey. Corporate tax is declared until the evening of the twenty-fifth day of the fourth month following the end of the relevant period and is paid in one installment until the end of the relevant month.

In Turkey, the corporate tax rate was applied as 20% after 1 January 2021 to the legal tax base, which was calculated by adding non-deductible expenses to and by deducting the exemptions from the the commercial income in accordance with the tax laws. However, according to the Article 11 of the Law numbered 7316 “Law on Collection Procedure of Public Claims and Law on Amending Certain Laws” which was published on the Official Gazette numbered 31462 on 22 April 2021 and according to the provisional clause 13 added to the Corporate Tax Law numbered 5520; corporate tax rate is amended to 23% for the corporate earnings of the 2022 taxation period. Therefore, the Company and its subsidiaries used 23% taxation rate for the calculation of current period’s taxation.

Within the scope of this amendment, tax rate used in the deferred tax calculation as of 31 December 2022 is %20 (31 December 2021: For the portions of temporary differences that will have tax effects in 2022 and the following periods 23% ve 20% respectively)

Turkish tax legislation does not allow the parent company to file a tax return based on the consolidated financial statements. Therefore, provision for taxes in previous periods, as reflected in the financial statements, has been calculated on a separate-entity basis. According to the Tax Procedure Law, financial losses can be carried for a maximum of five years. Tax authorities may inspect tax returns and the related accounting records and may revise assessments within five years.

Dividend payments made to resident joint-stock companies in Turkey, except to those who are not liable and exempt from corporate tax and income tax, and to real persons and non-resident legal entities in Turkey are subject to 15% income tax.

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20. Taxation (continued)

Corporate tax (continued)

Dividend payments made from joint stock companies residing in Turkey to joint stock companies residing in Turkey are not subject to income tax. In addition, income tax is not calculated if the profit is not distributed or added to the capital. Dividend earnings of corporations from participation in another fully liable corporation are exempt from corporate tax. In addition, 75% of the income derived by entities from the sale of participation shares, immovable property, preferential rights, founders' shares and redeemed shares which are recognised in assets at least for two years is exempt from corporate tax as of 31 December 2017. However, according to the amendments with Law numbered 7061, this rate has been reduced from 75% to 50% in terms of immovables and this rate is used as 50% in tax returns to be prepared as of 2018. In order to benefit from the exemption, the relevant income should be kept under a fund account in liabilities and should not be withdrawn from the enterprise for 5 years. The sales amount should be collected by the end of the second calendar year following the year of sale. In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax authorities may, however, inspect tax returns and the related accounting records and may revise assessments within five years.

Hong Kong corporate tax rate as of 31 December 2022 is 8.25% (31 December 2021: 8.25%) As of 31 December 2022, the German corporate tax rate is 30% (31 December 2021: 30%).

Income tax withholding

There is a withholding tax liability on dividend distributions, and this withholding liability is accrued in the period when the dividend payment is made. Dividend payments are subject to a 15% withholding tax until 22 December 2021, except for non-resident companies that generate income through a workplace or their permanent representative in Turkey, and those made to companies residing in Turkey. However, in accordance with the Presidential Decision No. 4936, published in the Official Gazette dated 22 December 2021 and numbered 31697, the withholding tax rate of 15% has been reduced to 10%. In the application of withholding tax rates for profit distributions to non-resident companies and real persons, the withholding tax rates in the relevant Double Taxation Prevention Agreements are also taken into account. The addition of retained earnings to the capital is not considered a profit distribution, therefore it is not subject to withholding tax.

Transfer pricing regulations

The transfer pricing law is covered under Article 13 "disguised profit distribution via transfer pricing" of the Corporate Tax Law. The General Communiqué on disguised profit distribution via transfer pricing dated 18 November 2007 sets details about implementation. If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length basis, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as a tax deductible for corporate income tax purposes.

Deferred tax

The Group calculates deferred tax assets and liabilities for temporary timing differences arising from differences between the legal consolidated financial statements prepared for tax purposes and the consolidated financial statements prepared for reporting purposes. The aforementioned differences are generally due to the fact that some income and expense items are included in taxable consolidated financial statements and consolidated financial statements prepared in accordance with TAS / TFRS in different years, and these differences are specified below.

Since the tax rate used in the calculation of the Company's deferred tax assets and liabilities has changed to 23% for 5 years from January 1, 2021, in deferred tax calculation as of 31 December 2020, for temporary differences expected to be realized / closed until 31 December 2025. 23% tax rate has been used. This rate will be valid for the years 2021, 2022, 2023, 2024 and 2025.

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20. Taxation (continued)

Deferred tax (continued)

The breakdown of the accumulated temporary differences and deferred tax assets and liabilities that are subject to deferred tax as of 31 December 2022 and 2021, using the applicable tax rates, is as follows:

Deferred tax assets / liabilities	Cumulative temporary differences		Deferred tax	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Contract liabilities	(83.283.202)	(20.046.477)	17.489.472	5.011.619
Employee benefits	(29.503.237)	(12.419.622)	5.928.468	3.033.596
Trade and other receivables	(17.277.259)	(2.004.089)	3.628.224	501.022
Warranty provisions	(11.750.626)	(7.458.540)	2.467.631	1.864.635
Tax losses	(7.288.790)	--	2.186.637	--
Impairment	(5.281.881)	(3.072.017)	1.109.195	768.004
Inventories	(2.126.693)	200.284	446.606	(50.071)
Derivative instruments	(1.130.868)	(261.848)	237.482	65.462
Right-of-use assets	(624.515)	(516.271)	131.148	129.067
Tangible and intangible assets	510.246	(21.221.804)	(91.844)	4.881.015
Loans	1.467.856)	(1.196.476)	(308.250)	299.119
Trade payables and other liabilities	4.388.717	3.593.298	(921.631)	(898.325)
Other assets and liabilities, net	(6.975.857)	667.203	1.464.930	(164.428)
Deferred tax asset, net	(158.876.108)	(63.736.359)	33.768.069	15.440.715

The movement table of deferred tax assets for the years ended 31 December 2022 and 2021 is as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Balance at 1 January	15.440.715	9.819.334
Deferred tax recognized in profit	17.488.252	5.517.999
Deferred tax recognized in other comprehensive income	839.102	103.382
Balance at 31 December	33.768.069	15.440.715

The movement table of tax expense for the years ended 31 December 2022 and 2021 is as follows:

	1 January - 31 December 2022	%	1 January - 31 December 2021	%
Profit before taxation	54.612.354		62.177.117	
Tax expense calculated with the income tax rate	(11.468.594)	(21,00)	(15.544.279)	(25,00)
Differences due to corporate tax rate deduction	(3.604.610)	(6,60)	--	--
Non-deductible expenses	(2.854.061)	(5,23)	(1.611.413)	(2,59)
Non-taxable income	2.391.578	4,38	455.567	0,73
Carried tax losses for previous years	619.903	1,14	--	--
The effect of tangible fixed assets revalued within the scope of Law No. 7326	4.202.460	7,70	4.582.868	7,37
Tax base effect within export incentive	105.942	0,19	--	--
Other	(3.385.552)	(6,20)	70.259	0,11
Current tax expense	(13.992.933)	(25,62)	(12.046.998)	(19,38)

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21. Earnings per Share

The weighted average number of Group shares and earnings per unit for the years ending 31 December 2022 and 2021 are as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Profit per share		
Average number of common shares available during the year (exact value)	32.210.000	32.210.000
Total	32.210.000	32.210.000
Term profit	40.619.421	50.130.119
Loss per ordinary share (1 TL nominal equivalent)	1.2611	1.5564

22. Related Party Disclosures

a) Trade payables to related parties

As of 31 December 2022 and 2021, there is no trade payables to related (31 December 2021: None).

b) Goods and service purchases from related parties

As of 31 December 2022 and 2021, the Group's purchases of goods and services from related parties are as follows:

	1 January – 31 December 2022	1 January – 31 December 2021
Kolbaşı Gayrimenkul Değerleme İnş. İç ve Dış Ticaret A.Ş.	--	35.640
Toplam	--	35.640

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22. Related Party Disclosures (continued)

c) Benefits provided to senior managers

The senior management team of the Group consists of the members of the Board of Directors and the members of the Executive Board. Benefits provided to senior executives include wages, severance pay, premiums, private pension, health insurance, life insurance, rent paid to foreign personnel, overseas moving expenses, passenger car rentals, fuel and mobile phone, etc. consists of payments made within the scope of other expenses, severance pay and other provisions.

The benefits provided to senior managers for the years ended 31 December 2022 and 2021 are as follows:

	1 January –31 December 2022	1 January –31 December 2021
Fees and other benefits	32.687.619	13.418.163
Total	32.687.619	13.418.163

Benefits provided to senior managers include wages, bonuses, insurance and similar benefits.

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23. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Capital risk management

While trying to ensure the continuity of its activities in capital management, the Group also aims to increase its profits by using the debt and equity balance in the most efficient way. The Group's funding structure consists of debts including loans disclosed in Note 4, and equity items including issued capital, reserves and retained earnings, respectively. As of 31 December 2022 and 2021, the net debt/equity ratio is as follows:

	31 December 2022	31 December 2021
Total borrowings	636.330.392	276.225.038
Minus: Cash and cash equivalents	(316.305.477)	(94.541.789)
Net liability	320.024.915	181.683.249
Total equity	201.993.805	175.634.244
Total capital	32.210.000	32.210.000
Liability / equity	1,5843	1,0344

Financial risk factors

The Group is exposed to market risk (currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk due to its activities. The Group's risk management program generally focuses on minimizing the potential adverse effects of uncertainty in financial markets on the Group's financial performance.

Credit risk management

The risk of financial loss to the Group due to the failure of one of the parties to the financial instrument to fulfill its contractual obligations is defined as credit risk. The Group seeks to mitigate credit risk by conducting transactions only with creditworthy parties and, where possible, obtaining adequate collateral. The Group's exposure to credit risks is continuously monitored. Credit risk is controlled by the insurance policy for customers and limits that are reviewed and approved by Group management.

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23. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Credit risk

Carrying values of financial assets show the maximum exposure to credit risk. The maximum exposure to credit risk as of the reporting date is as follows:

31 December 2022	Receivables				Cash and cash equivalents
	Trade receivables		Other receivables		
	Related party	Other party	Related party	Other party	
Maximum credit risk exposed as of the end of the reporting year (1)	--	614.821.370	--	--	316.305.477
- The part of the maximum risk under guarantee with collateral etc. (4)	--	467.702.881	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	--	580.229.785	--	--	316.305.477
B. The book value of financial assets whose conditions have been renegotiated, otherwise deemed overdue or impaired	--	--	--	--	--
Net book value of assets that are overdue but not impaired	--	34.591.585	--	--	--
- the part secured with security, etc.	--	30.396.569	--	--	--
D. Net book values of impaired assets	--	--	--	--	--
Overdue (gross book value)	--	19.971.406	--	--	--
- Impairment (-)	--	(19.971.406)	--	--	--
- The part of the net value that is secured with security, etc.	--	--	--	--	--
- Not overdue (gross book value)	--	--	--	--	--
- Impairment (-)	--	--	--	--	--
- The part of the net value that is secured with security, etc.	--	--	--	--	--
E. Elements containing credit risk outside the statement of financial position	--	--	--	--	--

31 December 2021	Receivables				Cash and cash equivalents
	Trade receivables		Other receivables		
	Related party	Other party	Related party	Other party	
Maximum credit risk exposed as of the end of the reporting year (1)	--	320.208.596	--	--	94.541.789
- The part of the maximum risk under guarantee with collateral etc. (4)	--	121.735.562	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	--	289.456.610	--	--	94.541.789
B. The book value of financial assets whose conditions have been renegotiated, otherwise deemed overdue or impaired	--	--	--	--	--
Net book value of assets that are overdue but not impaired	--	30.751.986	--	--	--
- the part secured with security, etc.	--	27.374.554	--	--	--
D. Net book values of impaired assets	--	--	--	--	--
Overdue (gross book value)	--	17.317.484	--	--	--
- Impairment (-)	--	(17.317.484)	--	--	--
- The part of the net value that is secured with security, etc.	--	--	--	--	--
- Not overdue (gross book value)	--	--	--	--	--
- Impairment (-)	--	--	--	--	--
- The part of the net value that is secured with security, etc.	--	--	--	--	--
E. Elements containing credit risk outside the statement of financial position	--	--	--	--	--

(1) In determining the amount, factors that increase credit reliability, such as guarantees received, have not been taken into account.

(2) Does not include VAT amounts and deposits and guarantees given.

(3) Does not include cash amounts in the safe.

(4) Letters of guarantee consist of mortgage, coface, DBS / DTS and Eximbank balances (Note 12 c).

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Credit risk (continued)

The aging of the overdue but not impaired receivables is as follows:

31 December 2022	Trade receivables	Other receivables	Total
Past due 1-30 days	25.752.997	--	25.752.997
Past due 1-3 months	4.537.310	--	4.537.310
Past due 3-12 months	4.301.279	--	4.301.279
Past due 1-5 years	--	--	--
Total overdue receivables	34.591.585	--	34.591.585
The part under guarantee with collateral etc.	30.396.569	--	30.396.569

31 December 2021	Trade receivables	Other receivables	Total
Past due 1-30 days	10.722.275	--	10.722.275
Past due 1-3 months	13.909.473	--	13.909.473
Past due 3-12 months	718.566	--	718.566
Past due 1-5 years	5.401.672	--	5.401.672
Total overdue receivables	30.751.986	--	30.751.986
The part under guarantee with collateral etc	27.374.554	--	27.374.554

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23. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Liquidity risk management

The main responsibility for liquidity risk management rests with senior management. The Group manages liquidity risk by maintaining adequate funds and borrowing reserves by regularly monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below shows the maturity distribution of the Group's financial liabilities. Non-derivative financial liabilities are prepared without discount and based on the earliest payment dates. The interests to be paid on these liabilities are included in the table below.

Terms according to the contract as at 31 December 2022	Registered value	Cash as per contract sum of outputs (I + II + III)	Less than 6 months (I)	6 to 12 months (II)	More than 1 year (III)
Derivative and non-derivative financial instruments					
Financial borrowings and financial lease payables	636.330.392	757.699.315	631.106.614	125.722.541	870.160
Trade and other payables	339.034.695	343.423.412	343.423.412	--	--
Derivative instruments	1.130.867	29.001.000	29.001.000	--	--
Total financial liabilities	976.495.954	1.130.123.727	1.003.531.026	125.722.541	870.160
Terms according to the contract as at 31 December 2021	Registered value	Cash as per contract sum of outputs (I + II + III)	Less than 6 months (I)	6 to 12 months (II)	More than 1 year (III)
Derivative and non-derivative financial instruments					
Financial borrowings and financial lease payables	276.225.038	312.804.178	198.295.873	63.889.208	50.619.097
Trade and other payables	227.114.010	231.273.657	231.273.657	--	--
Derivative instruments	261.848	82.921.840	82.921.840	--	--
Total financial liabilities	503.600.896	626.999.675	512.491.370	63.889.208	50.619.097

Market risk management

The Group is exposed to financial risks related to changes in foreign exchange rates due to its activities. Market risks encountered at the group level are measured based on sensitivity analysis.

In the current period, there has been no change in the market risk the Group is exposed to or the method of handling the risks encountered or the method used to measure these risks compared to the previous period.

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23. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Currency Risk

Transactions in foreign currencies cause exchange rate risk. The Group uses derivative financial instruments to hedge the currency risk arising from the cash flows of its operations and financing agreements.

The distribution of the monetary and non-monetary assets and monetary and non-monetary liabilities of the Group in foreign currency as of the end of the reporting year is as follows:

	31 December 2022		
	TL equivalent (functional currency)	Usd	Eur
1. Trade receivables	67.745.187	1.683.454	1.824.316
2 a. Monetary financial assets	25.125.088	1.306.805	34.820
2b. Non-monetary financial assets	--	--	--
3. Other	--	--	--
4. CURRENT ASSETS	92.870.275	2.990.259	1.859.136
5. Trade receivables	--	--	--
6a. Monetary financial assets	--	--	--
6b. Non-monetary financial assets	--	--	--
7. Other	--	--	--
8. NON-FIXED ASSETS	--	--	--
9. TOTAL ASSETS	92.870.275	2.990.259	1.859.136
10. Trade payables	20.322.456	1.036.040	47.885
11. Financial liabilities	--	--	--
12a. Other Monetary Liabilities	--	--	--
12b. Other Non-Monetary Liabilities	--	--	--
13. SHORT-TERM LIABILITIES	20.322.456	1.036.040	47.885
14. Trade payables	--	--	--
15. Financial liabilities	--	--	--
16a. Other monetary liabilities	--	--	--
16b. Other non-monetary liabilities	--	--	--
17. LONG-TERM LIABILITIES	--	--	--
18. TOTAL LIABILITIES	20.322.456	1.036.040	47.885
19. Net assets / liability position (19a-19b)	27.670.968	1.480.000	--
19a. Amount of foreign currency derivative products with active character out of financial position statement	27.670.968	1.480.000	--
19b. Amount of derivative products with passive character in non-financial position in foreign currency	--	--	--
20. Net foreign currency asset liability position	100.218.787	3.434.219	1.811.251
21. Monetary items net foreign currency asset / liability position (1 + 2a + 5 + 6a-10-11-12a-14-15-16a)	72.547.819	1.954.219	1.811.251
22. Financial instruments used for foreign currency hedging total fair value	--	--	--
23. The amount of the hedged portion of foreign currency assets	--	--	--
24. The amount of the hedged portion of foreign currency liabilities	--	--	--

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23. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Currency Risk (continued)

	31 December 2021		
	TL equivalent (functional currency)	Usd	Eur
1. Trade receivables	20.373.164	1.230.650	263.135
2 a. Monetary financial assets	33.935.540	2.119.065	377.188
2b. Non-monetary financial assets	--	--	--
3. Other	--	--	--
4. CURRENT ASSETS	54.308.704	3.349.715	640.323
5. Trade receivables	--	--	--
6a. Monetary financial assets	--	--	--
6b. Non-monetary financial assets	--	--	--
7. Other	--	--	--
8. NON-FIXED ASSETS	--	--	--
9. TOTAL ASSETS	54.308.704	3.349.715	640.323
10. Trade payables	25.472.368	1.828.867	72.607
11. Financial liabilities	--	--	--
12a. Other Monetary Liabilities	--	--	--
12b. Other Non-Monetary Liabilities	--	--	--
13. SHORT-TERM LIABILITIES	25.472.368	1.828.867	72.607
14. Trade payables	--	--	--
15. Financial liabilities	--	--	--
16a. Other monetary liabilities	--	--	--
16b. Other non-monetary liabilities	--	--	--
17. LONG-TERM LIABILITIES	--	--	--
18. TOTAL LIABILITIES	25.472.368	1.828.867	72.607
19. Net assets / liability position (19a-19b)	82.826.406	6.214.000	--
19a. Amount of foreign currency derivative products with active character out of financial position statement	82.826.406	6.214.000	--
19b. Amount of derivative products with passive character in non-financial position in foreign currency	--	--	--
20. Net foreign currency asset liability position	111.662.742	7.734.848	567.716
21. Monetary items net foreign currency asset / liability position (1 + 2a + 5 + 6a-10-11-12a-14-15-16a)	28.836.336	1.520.848	567.716
22. Financial instruments used for foreign currency hedging total fair value	--	--	--
23. The amount of the hedged portion of foreign currency assets	--	--	--
24. The amount of the hedged portion of foreign currency liabilities	--	--	--

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23. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Currency Risk (continued)

Sensitivity analysis

The Group's principal currency rate risk relates to changes in the value of the TRY relative to the EUR and the USD.

The basis for the sensitivity analysis to measure foreign exchange risk is an aggregate corporate-level currency exposure. The aggregate foreign exchange exposure is composed of all assets and liabilities denominated in foreign currencies. Net foreign currency investments not included to the analysis.

Foreign currency sensitivity analysis				
31 December 2022				
	Profit / (Loss)		Equity	
	Appreciation of foreign currency (10%)	Depreciation of foreign currency (10%)	Appreciation of foreign currency (10%)	Depreciation of foreign currency (10%)
In case of 10% appreciation / depreciation of USD against TL				
1- USD net asset / liability	3.653.725	(3.653.725)	--	--
2- The part protected from USD risk (-)	2.767.097	(2.767.097)	--	--
3- USD net effect (1 +2)	6.420.822	(6.420.822)	--	--
In case of 10% appreciation / depreciation of Euro against TL				
4 - EUR net asset / liability	3.601.057	(3.601.057)	--	--
5 - The part protected from Euro risk (-)	--	--	--	--
6- EUR net effect (4 + 5)	3.601.057	(3.601.057)	--	--
Total (3+6)	10.021.879	(10.021.879)	--	--

Foreign currency sensitivity analysis				
31 December 2021				
	Profit / (Loss)		Equity	
	Appreciation of foreign currency (10%)	Depreciation of foreign currency (10%)	Appreciation of foreign currency (10%)	Depreciation of foreign currency (10%)
In case of 10% appreciation / depreciation of USD against TL				
1- USD net asset / liability	2.027.137	(2.027.137)	--	--
2- The part protected from USD risk (-)	8.282.642	(8.282.642)	--	--
3- USD net effect (1 +2)	10.309.779	(10.309.779)	--	--
In case of 10% appreciation / depreciation of Euro against TL				
4 - EUR net asset / liability	856.496	(856.496)	--	--
5 - The part protected from Euro risk (-)	--	--	--	--
6- EUR net effect (4 + 5)	856.496	(856.496)	--	--
Total (3+6)	11.166.275	(11.166.275)	--	--

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23. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

Changes in market interest rates cause fluctuations in the prices of financial instruments, causing the Group to cope with the interest rate risk. The sensitivity of the Group to interest rate risk is related to the mismatch of assets and liabilities in their maturities.

As of 31 December 2022 and 2021, the Group's interest position is as follows:

<u>Interest position table</u>		
	31 December 2022	31 December 2021
Fixed rate financial instruments		
Financial assets	260.352.496	35.000.000
Financial liabilities	(636.330.392)	(276.225.038)
Variable rate financial instruments		
Financial liabilities	--	--

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24. Financial Instruments

The Group has calculated the fair values of financial instruments using available market information and appropriate valuation methods. However, as it is necessary to use judgment to find fair value, fair value measurements may not reflect the values that may occur in current market conditions. The fair values of the financial assets and debts, which are shown by the Group management at the cost value discounted with effective interest, including the receivables from the cash and banks, other financial assets and short-term financial debts, are close to their book values considering that they are short-term and that possible losses may be insignificant. the ayes have it. On the other hand, the carried values of short-term loans are assumed to reflect their fair value due to their short term.

31 December 2022	Loans and receivables	Financial instruments at fair value through profit or loss	Financial liabilities shown at amortized value	Registered value	Fair value	Note
<u>Financial assets</u>						
Cash and cash equivalents	316.305.477	--	--	316.305.477	316.305.477	3
Trade receivables	614.821.370	--	--	614.821.370	614.821.370	5
Other receivables	1.056.378	--	--	1.056.378	1.056.378	6
<u>Financial liabilities</u>						
Financial liabilities	--	--	636.330.392	636.330.392	636.330.392	4
Trade payables	--	--	338.894.399	338.894.399	338.894.399	5
Derivative financial liabilities	--	1.130.867	--	1.130.867	1.130.867	24
Other payables	--	--	140.296	140.296	140.296	6

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24. Financial Instruments (continued)

31 December 2021	Loans and receivables	Financial instruments at fair value through profit or loss	Financial liabilities shown at amortized value	Registered value	Fair value	Note
<u>Financial assets</u>						
Cash and cash equivalents	94.541.789	--	--	94.541.789	94.541.789	3
Trade receivables	320.208.596	--	--	320.208.596	320.208.596	5
Other receivables	139.584	--	--	139.584	139.584	6
<u>Financial liabilities</u>						
Financial liabilities	--	--	276.225.038	276.225.038	276.225.038	4
Trade payables	--	--	227.053.220	227.053.220	227.053.220	5
Derivative financial liabilities	--	261.848	--	261.848	261.848	24
Other payables	--	--	60.790	60.790	60.790	6

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24. Financial Instruments (continued)

Classification of measurement by fair value

The Group makes the classification of the measurement of financial instruments with their fair value at three levels according to the source of the financial instruments as follows:

Level 1: For identical assets or liabilities in active markets (unadjusted) prices;

Level 2: 1st place other than quoted prices and asset or liability, either directly (as prices) or indirectly (i.e. derived from prices) observable data;

Level 3: Asset or liability is not based on observable market data in relation to the data (non- observable data).

The fair value classification of financial assets and liabilities measured at their fair values as of 31 December is as follows:

31 December 2022	Level 1	Level 2	Level 3
Derivative financial liabilities (*)	--	1.130.867	--

31 December 2021	Level 1	Level 2	Level 3
Derivative financial liabilities (*)	--	261.848	--

(*) As of 31 December 2022, derivative financial liabilities are USD forward transactions with a maturity between January 2023 and February 2023 and a nominal value of TL 29.001.000 (31 December 2021: TL 6.214.000).

The Group discloses its investment properties at cost less depreciation and impairment, if any. As of 31 December 2022, the valuation of the Group’s investment properties were performed by the Group, market approach was used. The value of the Group’s investment properties is TL 1.500.000. By using market approach, considering the similar real estates that have been recently issued and sold, after price adjustments are made within the framework criteria that may affect the market value, square meters and total market values, including the land shares, are determined for the subject real estate and the comparables found are compared within the criteria such as location and size. It is determined by negotiating with real estate marketing firms for the current evaluation of the market.

25. Subsequent Events

As of 1 January 2023, S. Mete Zadil handed over his position as the Chairman of the Executive Board, which he had been carrying out since 2015.

Arzum Shangai Limited Company, as a 100% indirect subsidiary of the Group, was actually established in Shanghai and the capital of the company is 100,000 USD.

With the decisions taken at the meeting of the Board of Directors dated 31 January 2023; In accordance with the Internal Directive on Management and Representation dated 25 January 2023 (numbered 2023/01); Şecaettin Arda Altınok has been appointed as the General Manager in Charge of Financial and Corporate Affairs (Co-CEO), Arif Emre Ünal has been appointed as the General Manager in Charge of Technology, Product and Supply Chain (Co-CEO) and Serhan Giray has been appointed as the General Manager in Charge of Trade (Co-CEO) Furthermore, the position of Chairman of the Executive Board will be carried out by Şecaettin Arda Altınok beginning from the date of this decision until 31 December 2023, by Arif Emre Ünal for the period between 1 January 2024 - 31 December 2024, and by Serhan Giray for the period between 1 January 2025 - 31 December 2025.