

ARZUM

Annual Report 2022

**We are
Opening the
Future with
the Right
Moves**



Contents

Arzum at a Glance

- 14 2022 in Figures
- 16 What Happened in 2022?
- 18 Our Mission, Vision and Values
- 20 Value Creating Business Model
- 22 About Arzum
- 24 National and International Awards Received
- 26 Key Financial Indicators
- 28 Highlights from 1950 to 2022

From the Management

- 30 Chairman's Assessment
- 34 Members of the Board of Directors
- 36 CEO's Assessment
- 40 Executive Management

The Brand Building on its Achievements: Arzum

- 42 Annual Report - Independent Auditor's Opinion
- 44 SHA Industry, Turkish Market, and Arzum's Position in the Industry
- 46 High Brand Recognition
- 48 R&D Works Focused on Future Technologies
- 50 Easily Accessible Sales Network
- 52 International Sales and Marketing Plans
- 54 Operational Management Approach
- 56 Developing Digital Infrastructure
- 57 Smart Solutions in Logistics and Supply Chain
- 58 Sustainability Awareness
- 60 Human Resources
- 64 Social Responsibility Projects and Sponsorships

Corporate Governance

- 68 Corporate Governance Principles Compliance Statement
- 72 Sustainability Principles Compliance Statement
- 73 Investor Relations
- 74 General Assembly
- 76 Profit Distribution Policy
- 77 Structure and Operation of the Board of Directors
- 85 Risk Management and Internal Control Mechanism
- 88 Other Developments

Independent Audit Report

Directory





Leading Moves

As Arzum, we are advancing into the future with robust strategies and our long-standing experience. Taking advantage of the figures that contribute to our development, we make the right moves to offer our consumers practical products focused on innovation and solutions. We reach millions of households in many countries around the world and consider every variation alongside our strategic movements. We lay the foundations for our 60th anniversary today and continue to rise on notations we created to be a global brand.

While maintaining our leadership in the sector, since 2009, we have supported women and girls in chess. In this area, as well as all other fields, we trust in the agility and incisiveness of women, as stated in our motto, “It’s the women’s turn, Arzum is with them”. The potential in the field of chess expands every year and, with a record rise in the number of players, we believe in the future of chess in Türkiye and are confident that the Arzum Turkish Women’s Chess Championship will produce future world champions.

We are proud to have the opportunity to encourage and accompany women in the sport of chess, which has long held a unique role in social life.



Uninterrupted support for 15 years



Power- Oriented Tactics

Since our establishment, we have held a powerful position in the sector with our quality-based strategy. With a distinguished history of more than a half-century, we refine our strategy day by day, achieving high brand recognition and household penetration. With products that showcase durability, aesthetics and functional design, such as Tea Tock, we facilitate lives in the homes where we are hosted as guests. Caring about customer satisfaction and our products' ease of use, we ensure the continuity of our brand recognition and reliability.

40.6
TL million

Net profit





arzum
DEMANDE



Agile Maneuvers

We maintain steady growth with our agile teams. On our way to becoming an international brand, we respond to challenges in the global arena with rapid adaptation to other markets. Deploying our leading products and effective maneuvers, we address customers' needs with real-life, practical solutions like the Airtasty series. With the importance we attach to corporate management and governance, as well as our aspiration for equal opportunity, we expanded our business portfolio and were listed on the Women-Friendly Companies Equity Index.

48

Number of countries
of international
sales

Innovative Figures

We leverage cutting-edge technology to support our continuous product development. As we prepare for the future fortified by our long-standing experience, we reinforce our R&D power and support new initiatives. Through Robotek, we lead many ground-breaking innovations in the sector and consider all the variations alongside our strategic movements. We continue introducing the best innovative products to our consumers and executing effective moves in our progressive R&D designs.

Tech Brands Türkiye

State-of-the-art brand in Türkiye



arzum



Sustainable Strategical Achievement

We rapidly proceed based on notations identified throughout our mission of disseminating 500 years of Turkish coffee culture around the world. We underpinned our sustainable achievements, creating a difference in our country and across the global market with the Arzum OKKA Rich, presenting a unique option to coffee enthusiasts via its innovative technology. We continuously deepen our portfolio and achieve success in terms of sustainable brand loyalty by designing products that meet any need.

1.5
TL billion

Sales revenue



ADDRESS BY TURKISH CHESS FEDERATION DIRECTORATE

Dear Arzum Family,

As Turkish Chess Federation (TSF), we are glad that our investments in chess in recent years have turned into success stories. Turkish chess wins the general approval of the chess authorities around the world. We successfully organize championships, tournaments, and many international organizations and projects that break the attendance record. In addition to countless World and European championships, we now say that “Türkiye is a chess country” with the first Olympic championship in Turkish chess history. With chess classes across the country, we introduce chess to millions of children. Young people build their dreams on “chess” and want to become grandmasters.

According to the Ministry of Youth and Sports data, chess surpassed all sports branches with almost 1 million 200 thousand registered players. This is a historical record. We won 610 medals in total. Apart from being a World Champion in Chess, we have 13 Grandmasters - the highest title that a chess player can attain. The number of Grandmasters was a mere 5 until 2012.

Chess is an exemplary sport in terms of gender equality. Male and female players may compete against each other in a tournament or together on the same team. The number of registered female chess players also surpassed all other sports branches. Today we have around 400 thousand registered female chess players. We exert the utmost effort to increase the number of female directors, staff members, and players in the field of sports. We brought the number of female Board Members to 6. Many of our committees are directed by women.

Female chess players in our country are a source of pride with their world-class achievements. Türkiye received the highest number of awards in the 2022 Women of the Year in Chess Awards organized by the International Chess Federation (FIDE). Türkiye received the following awards: “Outstanding Chess Administrator (Europe)”, “Outstanding Chess Educator (Europe)” and “Woman with Disability for Outstanding Fighting Spirit (Europe)”. Female national athletes are placed in global competitions.

Being dedicated, planned, rationalist, and hard-working automatically bring success. We ceaselessly work and produce for Turkish chess with all our stakeholders. In this context, we have been uninterruptedly organizing one of the most prestigious chess championships in Türkiye - the Turkish Women’s Chess Championship for 15 years with Arzum, a stakeholder that our federation works with an enormous synergy. Arzum has been the sponsor of the Turkish Women’s Chess Championship for exactly 15 years, and we have been working hard to make our women more visible in the sport of chess. We have a lot to do; we are energetic and excited as well.

We know that chess is the best investment to be made in this country. We know that every brand that gets in touch with a sports branch, especially with the sport of chess invests in the future of this country. As the Turkish Chess Federation we work hard to raise this awareness. I express my sincere thanks especially to the Board of Directors Chairman Mr. Murat Kolbaşı and to the Arzum Family - the sponsor of the Turkish Women’s Chess Championship enhancing the presence of women in the sports of chess for their meaningful support.

Gülüz Tulay
President of the Turkish Chess
Federation



2022 in Figures

The strong financial performance continues

Net Sales

1.5
TL billion

Net sales increased by 88.6% to TL 1.5 billion.

Increase in Customer Satisfaction

5.7%

In 2022, customer satisfaction increased by 5.7%.

Total Assets

1.3
TL billion

Total assets increased by 78.2% to TL 1.3 billion.

EBITDA

170.9
TL million

EBITDA grew by 85.4% to TL 170.9 million.

International Sales Growth

60%

Arzum's international sales growth was 60%.

Shareholders' Equity

201.9
TL million

Arzum's shareholders' equity grew by 15% to TL 201.9 million.

Net Profit

40.6
TL million

Net profit was TL 40.6 million.

Gross Profit

493.2
TL million

Gross profit increased by 87.6% to TL 493.2 million.

Operating Profit

158.5
TL million

The operating profit reached TL 158.5 million with a 68.4% growth.

Total Sales Points

20
thousand +

Arzum has over 20 thousand sales points.

Countries of International Sales

48

Arzum makes sales to 48 countries abroad.

Share of Developed Products in Sales

45%

The percentage of the products developed by Arzum in total sales was 45%.

Female employee rate

45%

Arzum's female employee rate has increased to 45% as of this year.

SHA Industry Growth (TR)*

139.4%

Türkiye's SHA industry grew by 139.4% in 2022.

Number of Patent Applications

21

Arzum's total number of patent applications during the year was 21.

Rate of Female Members in Management

33%

Arzum reached 33% female members in the Board of Directors and Executive Management.

SHA Industry Volume

32.9
TL billion

Türkiye's SHA industry size amounted to TL 32.9 billion.

E-commerce Growth

%116

Arzum increased its e-commerce growth to 116% during the year.

SHA: Small Home Appliances Industry

* SHA industry data is based on the reports of an independent research organization.

What Happened in 2022?

January

Business Diplomacy Award presented to Murat Kolbaşı by DEİK

Murat Kolbaşı, Arzum's Chairman of the Board, was re-elected as the DEİK Asia-Pacific Region Coordinator Chairman and Hong Kong Business Council Chairman at the Business Councils Elective Ordinary General Assembly 2021 of the Foreign Economic Relations Board (DEİK). Murat Kolbaşı was also recognized with the "Executive Board Process Management" Award at the DEİK Business Diplomacy Awards.

February

Arzum is the Tech Brands Türkiye Winner for the Third Consecutive Time

Arzum was granted the title of Türkiye's Best Technological Brand for the third consecutive time by Tech Brands Türkiye, the first and only technology-based award of Türkiye.

Galatasaray Women's Football Team Sponsor

Arzum became the uniform sleeve sponsor of the Galatasaray Hepsiburada Women's Football Team competing in the Women's Football Super League. With the sponsorship agreement signed at Ali Sami Yen Sports Complex NEF Stadium, "Arzum" was prominently displayed on the uniform sleeves of the Galatasaray Women's Football Team during their matches in the 2021-2022 season of the Women's Super League.

March

Two Awards from Plus X Award 2022

Arzum added to its achievements with Plus X Awards for two products at the Plus X Award, one of the world's most prestigious competitions. The Arzum OKKA Rich Spin M Turkish Coffee Machine was recognized in the "Design and Ease of Use" category, and the Magiclean Neo Rechargeable Stick Vacuum Cleaner in the "Design and Ease of Use" and "Functionality" categories.

Supporting Women in Chess for 15 Years

The Arzum Turkish Women's Chess Championship finals, supported by Arzum for 15 years and organized by the Turkish Chess Federation (TSF), were held at a hotel in Ayvalık, Balıkesir between March 5-11. Eighty-two women master chess players from all corners of Türkiye competed in the Championship.

April

Prestigious Award from ECHO for Arzum's E-commerce Experience

Arzum ranked first in "Small Home Appliances" category at the ECHO Awards, which recognized outstanding brands in their sectors, for offering the best e-commerce experience to its customers throughout the year.

May

Every Home Can Have a Smart Garden with Arzum x Vahaa

Arzum launched its new product, Arzum x Vahaa Smart Garden, developed in cooperation with Vahaa, the soil-free agricultural ecosystem. As a first in Türkiye, the Arzum x Vahaa Smart Garden offers consumers the opportunity to grow fresh and tasty greens and vegetables in any area of the home, thanks to its soil-free agricultural technology.

The "Orada Annem Var" Commercial Spurred Interest in Chess

"Orada Annem Var", Arzum's commercial for Mother's Day, broadcast this year, was shot with Büşra Öztürk, who ranked second in Arzum Turkish Women's Chess Championship. The film depicted the struggle of Büşra, who began playing chess at five years old; Büşra was consistently supported by her mother on this journey even after the young chess player lost her right eye at the age of six. The commercial significantly contributed to the increased interest in the sport of chess.

Side-by-side with the world's technology giants at the International Retail Summit, Arzum attended the 7th International TCG Retail Summit, which brought Europe's technology giants and retail leaders together. Alongside Arzum, numerous technology giants from Europe and several countries across the world attended the Summit.

June

The "Arzum Seninle" Application Granted Two Awards

Arzum was granted a Bronze award for the Arzum Seninle application in the "Product or Service Development Innovation" and "The Best Technology Use-Retail and Wholesale" categories at the Türkiye Customer Experience Awards, which recognize the best customer experience applications.

August

Four Awards from LACP for Arzum's Annual Report

Arzum was presented with four awards for the Company's 2021 Annual Report at the Vision Awards, organized internationally by the League of American Communications Professionals (LACP) every year.

Grand Award at the Stevie Awards for Arzum's After-Sale Services

Arzum's Customer Services Department was recognized with the Silver Medal at the Stevie International Business Awards, considered among the most reputable business awards worldwide.

October

Crystal Apple for Arzum's Impressive Advertisements

Arzum's impressive "Mother's Day" commercial, created by TBWA, as well as an outdoor display advertisement design and commercials for the rechargeable kitchen series, garnered four awards at the Crystal Apple 2022, among the most prestigious creativity and marketing events in Türkiye.

Customer Brand of the Year at the A.L.F.A Awards

Arzum was selected as the Customer Brand of the Year in the "Small House Appliances" category at the A.L.F.A Awards, which honor the brands that design the best customer experience.

Bond Issue for Qualified Investors

Arzum successfully issued commercial paper amounting to TL 133,420,000 for qualified investors via the intermediation of Deniz Yatırım Menkul Kıymetler A.Ş.

December

December 5, World Turkish Coffee Day

Arzum OKKA celebrated December 5, World Turkish Coffee Day with a range of lively activities. The Company offered a nostalgic journey at the Türk Kahvesi'nde Ahde Vefa event, organized at the Beta Han (Inn), where Turkish coffee was roasted for the first time in Istanbul. The Arzum OKKA attracted great attention via presentations and tasting events organized abroad, especially in the USA and Germany.

September

Arzum's 55th Anniversary Celebrated with 55 Distinctive Designer Exhibitions

Arzum celebrated its 55th anniversary with an exhibition showcasing 55 different designers. Highlighting a retrospective journey of the Company in Öteki Çağlarla Arzum'lu Yıllar, a book featuring Arzum-inspired artworks by 55 designers, the event was held at Istanbul Galataport between September 20-23.

Bond Issue for Qualified Investors

Arzum successfully issued commercial paper amounting to TL 116,580,000 for qualified investors via the intermediation of Garanti Yatırım Menkul Kıymetler A.Ş.

November

The "Son Damlasına Kadar" Advertisement Won a Felis Award

Arzum was granted a Felis award in the "Consumer Durables and Electronics" category for its advertisement "Son Damlasına Kadar", prepared for the Meyvix Juice Extractor.

Our Mission, Vision and Values

Our mission

To become a brand which eases life with its innovative and technological products and services, which aim to take place within each home and establishes sincere and warm relations with its partners.

Our vision

To become a brand which creates the most value for its partners.



Our values

Arzum always aims to offer higher quality products and services by increasing the satisfaction of all its stakeholders with the goal of its innovation and sustainable growth.

We are mindful

We take care for our customers, each other, the society and environment in which we live. We carry out our business elaborately to create a sustainable growth and difference.

We are reliable

We keep our promises to each other, our customers, and our suppliers. We stand behind our work, commitment, products, and services.

We are sincere

We are sincere in our relationships with each other, our customers, and our suppliers. We take special care to be sincere, direct, and honest with everyone we communicate with.

We are passionate

We are passionate about reaching to our goals. We are a success-focused, brand-committed, and enthusiastically working team with high motivation.

We are innovative

We always want to “do better”, to be different, to be preferable, and to achieve sustainable success. We are innovative not only with our products but also with our services and in our approach to our business.

Value Creating Business Model

Strong growth with a durable business model

Business Model

A balanced product portfolio, widespread and multiple sales channels, innovation culture, agile product development, and R&D activities make the foundation of Arzum's resilient business model. The Arzum business model allows it to meet changing consumer needs, evolving channel structures, and product innovations appropriately. It creates value for its stakeholders with solid growth, balanced profitability, low investment need, and high return on equity.

Innovation- and Brand-Driven Investment Model



- Arzum coordinates a wide range of designers, inventors, engineers, and manufacturers.
- It has an agile structure that allows it to realize ideas swiftly.
- It operates only within the Small Home Appliances (SHA) sector, without needing significant investments.
- It only invests in R&D, mold, engineering, and design areas.
- It dedicates its resources to the brand and operation instead of factories.

Flexible Production Model Requiring Limited Investment



- Since it has no exclusive channels, there is no fixed lease risk.
- It doesn't require a large number of employees to run.
- It uses all sales channels flexibly.
- The channel structure shapes according to consumer demand quickly.

Flexible Supply Model



- It utilizes the most flexible procurement model according to product demand. There is no distress in keeping the production line busy.
- This model provides the flexibility to choose the best supplier according to product category, technology, and capacity.

Our Strategic Priorities



Strong position and organic growth in the Turkish electrical home appliances industry:

- Sustainable growth
- Customer satisfaction
- Being the preferred employer
- Operational excellence



Being one of the pioneers of the industry in e-commerce in Türkiye:

- Increasing its shares in online marketplaces



Carrying its success in the Turkish electrical home appliances market to export markets:

- Profitable and sustainable sales model
- Focus on strategic markets
- Effective maturity and risk management
- Strong collateral mechanisms
- Efficient transit or direct shipment scheduling
- Developing products that are specific to export markets

About Arzum

A sincere and reliable brand

The first principle of Arzum is to offer the best technology to its customers through experience, and with the innovative approach brought by this point of view, it has achieved many firsts in the industry.

The foundations of Arzum were laid by Kazım Kolbaşı, Kemal Kolbaşı, and İbrahim Kolbaşı in the early 1950s. Rejuvenated as a main brand in 1966, Arzum achieved the success of high brand awareness and household penetration in Türkiye. Carrying its success to the international platform in a short time with its deep-rooted history of more than 55 years, Arzum has always been at the forefront among its competitors in the industry by attaching importance to technology, innovation, and design, and it has prioritized providing convenience to its consumers.

Since its establishment, Arzum has always been a sincere and reliable brand that has produced many award-winning products to create the highest value for its stakeholders. Reaching millions of homes in many countries, Arzum continues to take firm steps towards becoming a global brand.

The first principle of Arzum is to offer the best technology to its customers through experience, and with the innovative approach brought by this point of view, it has achieved many firsts in the industry. After producing the first iron in 1967 and the first mechanical vacuum cleaner in 1968 under its brand, Arzum produced the first Turkish food processor in 1991. In 2014, Arzum introduced Arzum OKKA Turkish Coffee Machine to the domestic and global markets, which is a first with its direct-to-cup service and self-cleaning features. Introducing the



first mobile filtered tea machine, Arzum Heptaze, to its consumers in 2016, Arzum broke new ground in Türkiye in 2020 and launched Arzum Olimpia Smart Cyclone Bagless Vacuum Cleaner with the Internet of Things (IoT) technology. In 2021, Arzum became one of the pioneers of the industry by incorporating its artificial intelligence workmate, “RobotAR”.

Arzum, implementing the three-year warranty in 2001 as a first in the electrical home appliances industry, developed it into “3+1” as of the beginning of 2018 and provided its customers with a warranty period of four years for the first time in Türkiye. For all Arzum products with a three-year warranty which were subsequently registered a +1 year additional warranty was started to be implemented. In addition, Arzum’s first robot vacuum cleaner, Robotek X2 Smart Robot Vacuum Cleaner, was put on the market for the first time in Türkiye with a warranty period of four years in 2021.

In 2022, the Arzum OKKA Rich Spin M Turkish Coffee Machine, which has the feature of brewing Turkish coffee with milk through spinning, again a first in Türkiye, was offered to Turkish coffee lovers.

650
Number of Arzum
products



The new product Arzum x Vahaa Smart Garden developed in cooperation with Vahaa, the soil-free agricultural ecosystem, was put on the market with the launch on May 27, 2021. With Arzum x Vahaa Smart Garden, which was a first in Türkiye, it was made possible to grow fresh and tasteful greens and vegetables at any corner of the houses through its soil-free agricultural technology.

Arzum was deemed worthy of many prestigious local and international awards with its innovative and groundbreaking products. Arzum maintains its uptrend in success rate and wins awards every year; it carries out its activities in the electrical home appliances industry under three main and six sub-product categories. Arzum stands by its consumers with 650 products in Kitchen Appliances (Food Preparation, Cooking, and Frying, Hot Drink Preparation), Personal Care (Hair Dryers, Hair Stylers, Epilator and Shavers), and Electrical Home Appliances (Iron, Vacuum Cleaner, Heater-Cooler, Water Heater) categories...

Arzum, considering it as a mission to spread Turkish coffee culture with a 600-year history across the world, continues to carry Turkish coffee culture in several countries across the world today with its slogan "The Brand That Got The World to Love Turkish Coffee: Arzum OKKA".

Arzum organized an exhibition devoted to its 55th anniversary with 55 different designers. Adumbrating a retrospective journey with the book named "Öteki

Çağlarla Arzum'lu Yıllar", which was designed by 55 different designers inspired by Arzum, the event was held at Istanbul Galataport on September 20-23. At the nostalgic exhibition where the journey of Arzum was interpreted from the perspective of 55 different designers, Arzum managers engaged in pleasant conversations with colorful names from various sectors. During the program which continued for four days, "Turkish Coffee in the Ottoman Palace was served".

Shareholder Structure

	Share Amount (TL)	Share Ratio (%)
Talip Murat Kolbaşı	3,449,692	10.71
Ali Osman Kolbaşı	3,066,392	9.52
Zeynep Figen Peker	2,710,472	8.42
Yasemin Rezan Kolbaşı	2,710,472	8.42
Aliye Kolbaşı	1,971,250	6.12
Others*	18,301,722	56.81
Total	32,210,000	100.00

* As of the end of 2022, Arzum's actual free float is 48.97%.

National and International Awards Received

State-of-the-art brand of Türkiye

Arzum OKKA Rich Spin M was granted the “Design and Ease of Use” Award and Magiclean Neo was granted the “Design, Ease of Use, and Functionality” Award in Plus X Award 2022.

Design Awards



PLUS X AWARD®

Two Awards from the Plus X Award 2022

Arzum OKKA Rich Spin M was granted the “Design and Ease of Use” Award and Magiclean Neo was granted the “Design, Ease of Use, and Functionality” Award in Plus X Award 2022.



ECHO Awards Championship

Arzum ranked first in the category of “Small Home Appliances” at ECHO Awards.

Corporate Awards

Two awards from DP to the “The Most Beautiful Story of Arzum”

At the beginning of 2022, Arzum was granted an award in the categories of “Special Day Communications on Social Media” and “Special Day-Oriented Campaigns” at the 13th DP Awards with its Mother’s Day film “The Most Beautiful Story of Arzum” which won great recognition in 2021.



Bronze award to “Arzum Seninle”

Arzum was granted bronze awards with its “Arzum Seninle” application in the categories of “Product or Service Development Innovation”, “The Best Use of Technology”, and “Wholesale and Retail Sale” at Türkiye Customer Experience Awards.



Again, the most technological brand in Türkiye this year

Arzum was chosen as “The Most Technological Brand in Türkiye” for the third time in a row in 2022 after 2020 and 2021 in the category of “Small Home Appliances” at Tech Brands Türkiye.

“Customer Brand” of the year

Arzum became the “Customer Brand” of the year in the category of Small Home Appliances at A.L.F.A Awards 2022.

Silver Medal from Stevie International Business Awards

Arzum received “Silver Medal” in the category of the “Customer Services Department of the Year” at Stevie International Business Awards.



4 awards to the Annual Report

At the LACP (League of American Communications Professionals) Vision Awards competition, Arzum was granted the Platinum Award, which is the award with the highest value, by getting 99 out of 100 in its category with the Annual Report 2021 that it prepared with Finar. Arzum was granted a Bronze Award in the category of “Regional Outstanding Achievement Award: The Best Financial Report” at LACP Vision Awards. Arzum ranked 19th in EMEA (Europe, the Middle East, and Africa Regions) in the category of all industries with its 2021 Annual Report and took place in the “Best 20 Reports of Türkiye” list in Türkiye. Therefore, Arzum’s Annual Report was granted four awards at LACP Vision Awards.



4 Crystal Apples to Arzum

- Arzum’s Mother’s Day film of 2022, “Orada Annem Var”, was granted a Crystal Apple in the category of “Online Film”.
- The outdoor advertisement “Son Damlasına Kadar-Şeftali’nin Tasarımı” got the Bronze Award in the category of “Industrial Categories” at Crystal Apple.
- Arzum’s film “Dağ” on rechargeable kitchen series was granted the Silver Award in the category of “Online Film / Electronic, White Appliances, and Durable Goods” while the film “Orman” was granted the Bronze Award in the same category.
- Arzum OKKA Rich Spin M got the only award in the “Make Life Easier” category at Feed The Future Awards, which was granted for the first time this year.

Felis Award to the Advertisement “Son Damlasına Kadar”

Arzum was granted a Felis award with its advertisement “Son Damlasına Kadar” prepared for Meyvix Juice Extractor in the category of Consumer Durables and Electronics of Felis Awards.

Key Financial Indicators

Rising performance with greater achievements

Increase in shareholders' equity

In the successful year 2022, Arzum's shareholders' equity exceeded TL 200 million.

Summary Balance Sheet (TL)

	2021	2022	Change (%)
Current Assets	666,823,194	1,208,240,363	81.2
Fixed Assets	77,127,703	117,637,469	52.5
Short-Term Liabilities	537,392,474	1,108,835,357	106.3
Long-Term Liabilities	30,924,179	15,048,670	(51.3)
Shareholders' Equity	175,634,244	201,993,805	15.0
Total Assets	743,950,897	1,325,877,832	78.2

Summary Income Statement (TL)

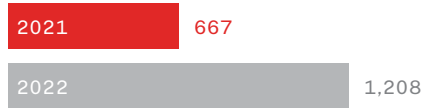
	2021	2022	Change (%)
Revenue	815,345,959	1,537,905,868	88.6
Cost of Sales	(552,511,256)	(1,044,719,044)	89.1
Gross Profit	262,834,703	493,186,824	87.6
Operating Profit	94,123,341	158,539,492	68.4
EBITDA	92,242,146	170,991,931	85.4
Profit Before Tax	62,177,117	54,612,354	(12.2)
Net Profit	50,130,119	40,619,421	(19.0)

Gross profit increases

Arzum's gross profit amounted to TL 493.2 million as of the end of 2022.

Basic Ratios (%)

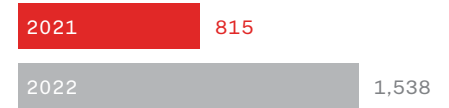
	2021	2022
Gross Profit Margin	32.2	32.1
Operating Profit	11.5	10.3
EBITDA Margin	11.3	11.1
Profit Before Tax Margin	7.6	3.6
Net Profit Margin	6.1	2.6

Current Assets (TL Million)

81.2%
Increase

Total Assets (TL Million)

78.2%
Increase

Revenue (TL Million)

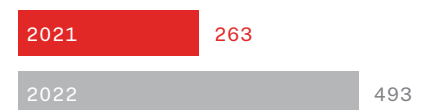
88.6%
Increase

Net Profit (TL Million)

19%
Decrease

EBITDA (TL Million)

85.4%
Increase

Gross Profit (TL Million)

87.6%
Increase

Highlights from 1950 to 2022

1950

The foundations of Arzum are based on a sole proprietorship company founded by Kazım Kolbaşı, Kemal Kolbaşı and İbrahim Kolbaşı in the early 1950s.

1977

Established under the name of Güney İthalat A.Ş., Arzum started to carry out its activities under this legal entity.

2002

Arzum introduced the first electric coffee pot to the market.

2007

The name of the company was changed and registered as Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret A.Ş.

2009

Arzum Asia Pacific Ltd., a subsidiary of Arzum in Hong Kong, was established. It has become the leader in the food preparation category and has been the leader for 12 years.

1966

“Arzum” was registered as a trademark.

1993

Arzum Dış Ticaret A.Ş. has established to market “Arzum” products.

2005

Felix Elektrikli Ev Aletleri A.Ş. was established to reach a different segment.

2008

A partnership was established with Turkish Household Appliances BV, a subsidiary of Ashmore Group, one of the world's leading private equity funds. Ashmore Group became a partner with the Kolbaşı Family by acquiring a total of 49% shares of Arzum through two transactions it carried out in 2008 and 2009.

2010

Arzum issued bonds for the first time.

2011

Arzum Europe GmbH, a subsidiary of Arzum in Germany, was established.

In the Türkiye qualifiers for the Blind Leaders Project 2011 Employee Volunteering Awards, Arzum ranked 1st in its category and represented Türkiye in the European finals in London.

2014

Arzum pioneered the creation of a new segment by launching the first direct-to-cup Turkish coffee machine under the brand "Arzum OKKA."

2019

Ducati By Arzum brand was established in cooperation with the Ducati and global brands.

2021

Arzum introduced Arzum OKKA Rich Spin-M, the first Turkish Milk Coffee Machine with a mixer and coffee pot.

2013

SDA International, a 100% subsidiary of Mediterra Capital Partners, has partnered with the Kolbaşı Family by purchasing 49% of Arzum shares owned by Ashmore Group.

2017

Arzum received the leading company award in Türkiye in the "Organization" and "Culture" categories of the INOVA League.

2020

Arzum shares started to be traded in Borsa Istanbul with the code ARZUM.

Arzum introduced Türkiye's first vacuum cleaner with IoT (Internet of Things) technology, Arzum Olimpia Smart.

2022

Arzum x Vahaa Smart Garden which was developed in cooperation with Vahaa -the first example of a soil-free agricultural ecosystem- was offered for sale.

Arzum celebrated its 55th anniversary with an exhibition held with 55 different designers. The event was inherently a retrospective journey through the book "Öteki Çağlarla Arzum'lu Yıllar" created by 55 designers inspired by Arzum.

Within the framework of the cooperation with Galatasaray Sports Club, Arzum became the uniform sleeve sponsor of the Galatasaray Hepsiburada Women's Football Team competing in the Women's Football Super League.



We reach
homes in 48
countries with
650 products

We reach millions of homes in 48 countries worldwide with 650 branded products across six categories: food preparation, cooking and frying, hot beverage preparation, cleaning, personal care and ironing.

1.3
TL billion

Total assets

Dear Stakeholders,

In 2022, we left the pandemic behind after a challenging two-year period, but the year also presented a series of unsettling challenges due to the Russia-Ukraine war, which started on February 24. Energy costs rose at the advent of the conflict, which had commenced at the very time when world economies were taking steps towards recovery, causing difficulties even in the most developed countries. In the IMF's World Economic Outlook report, it was stated that high inflation in the global economy, and financial conditions that were tightened in many regions put heavy pressure on the economic outlook, as did the war waged by Russia in Ukraine, and the COVID-19 pandemic. The Report noted that the world economy grew by 6% last year, that forecasts suggested global economic growth of 3.4% in 2022, and that growth would decline to 2.9% in the following year. In the Report, the statement, "This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic and reflects significant slowdowns for the largest economies" is an important reflection on our situation, as we are in the same boat.

In the IMF report, it was promising that the 2022 growth expectation for the Turkish economy was increased to 5.5% –unlike the world economy –and that the growth expectation of 3% was maintained for especially 2023. Given Türkiye's foreign trade figures for 2022, our exportation activities reached USD 254.2 billion with an annual increase of 12.9% compared to the previous year. As Türkiye, more than 50% of our exports are to EU countries. As a country, I think we can further increase our growth figures in exports if we focus more on the USA and Asia-Pacific region alongside the EU countries.

As Arzum, our focus was more on foreign markets in 2022. Considering the global conjuncture, our brand is highly suitable for e-commerce –and we have the advantage of selling our products directly online. As such, we focused our attention on this area. Our greatest goal is to make Arzum a world brand, and we continued to work towards this target in 2022. Every country has standards similar to the ones in Türkiye, where industries are subject to the Turkish Standards Institution (TSE). We improve our products in consideration of these standards and, with the studies we carry out in this regard, we seek to gain a solid foothold in the international arena by amplifying the brand awareness of Türkiye as well as our own. It is a point of honor that we can reach millions of homes in 48 countries across the world with our 650 branded products in six categories that include food preparation, cooking and frying, hot beverage preparation, cleaning, personal care and ironing. It gives us great pleasure to facilitate the lives of people from tens of different cultures. Focusing on this, we will continue our brand investments at full speed by elevating our recognition in, first, the nearby and then, the distant geographies.

When major brands across the world are examined, it is seen that each specializes in a certain area. Our specialty, on the other hand, is Turkish coffee, which serves as leverage for Arzum. As a company with expertise in Turkish coffee, we want to be featured with our Turkish coffee machines and introduce our brand's other small electrical home appliances as complements worldwide. We will continue to pursue these studies this year, as well.

We also worked hard last year within the framework of our mission to spread the Turkish coffee culture, which has been a mainstay in our lives for centuries, across the world. With Arzum OKKA, we proudly carried Turkish coffee to New York twice in 2021 by declaring that 'The Square belongs to Arzum OKKA' via on-wall advertising on the NASDAQ building, one of the most prominent buildings in New York City's Times Square. We value the collaboration with the Turkish Coffee Lady Foundation, who cooperated with us on the mission of spreading Turkish coffee culture across the world. In 2022, we put great effort into ensuring that the documentary "The Beginning: Turkish Coffee Stories from Anatolia", shot in eight different cities of Türkiye by the Foundation in 2021, and of which we were among the main sponsors, was watched by everyone. The documentary was screened in Hollywood, the heart of the American film industry, and introduced through events organized in Los Angeles and San Diego as part of the world tour for Turkish Cuisine Week. We performed a launch on May 20, hosted by the Consulate General in Los Angeles. Our documentary met with American coffee lovers at the Turkish Festival in Long Beach on May 22, and in San Diego on May 24-25, in collaboration with House of Türkiye. All the documentary screenings were enriched with cultural presentations using coffee by the famous micro art and miniature artist Hasan Kale, who synthesizes Turkish coffee with art. Through the documentary, we had the opportunity to reveal to all coffee lovers how Turkish coffee, the first method of making coffee in history, reached from Istanbul to Europe and then to the world, 600 years ago.

In 2022, we attended the London Coffee Fest on March 31-April 3 with our brand Arzum OKKA. At the booth we opened in the festival area, we offered Turkish coffee with a unique taste to guests and visitors.

Chairman's Assessment

We stand out with innovative products

We follow both national and international trends, aligning these trends with the needs of our customers before transforming them into products that bring us leadership in the industry.

As a brand that follows trends closely, the OKKA Rich Spin M was a shining star of 2022 for us as a product developed for consumers who want to drink their coffee with milk. We presented the OKKA Rich Spin M to consumers at the end of 2021. Thanks to the OKKA Rich, a first in Türkiye, our customers were able to prepare rich cocktails and beverages using hot chocolate, salep, and various syrups and ingredients alongside Turkish coffee types such as milky, classic, dark and slow-brew, as the machine offers the feature of making Turkish coffee with milk through spinning. Consumers could enjoy being their own baristas, thanks to the Arzum OKKA Rich.

UNESCO registered Turkish coffee as an “intangible cultural heritage of Türkiye” on December 5, 2013 – an achievement for us, as Arzum and the Turkish Coffee Culture and Research Association – after much effort on our part: We celebrate the date as “World Turkish Coffee Day”. In 2022, we organized several exclusive events to commemorate this meaningful date. Our Turkish coffee documentary was screened in 10 states across the USA. Alongside the documentary screening, we organized tastings of Turkish coffee, prepared using the Arzum OKKA, with the Turkish Coffee Lady. In addition to three days of tastings at the ICoffee branches in Jordan, our exclusive event

in Germany, where the world-renowned German chef Alex Wahi made tiramisu with Turkish coffee, drew great interest.

We brought together supermodel Tülin Şahin and Maye Musk, the mother of Elon Musk, the CEO of Tesla, SpaceX and Twitter, on social media within the framework of World Turkish Coffee Day. The posts of the two celebrities on the social media platform Instagram, featuring Arzum OKKA on the scene and Turkish coffee in their hands, received thousands of likes from followers. Moreover, we organized the “Türk Kahvesi'ne Ahde Vefa” event at Beta Han, the place where Turkish coffee was roasted for the first time in Istanbul. We offered Turkish coffee from the OKKA right on the texture with extra frothy at the Arzum OKKA tasting booth and presented the Ottoman Empire Coffee Ceremony.

The observance of December 5 as World Coffee Day is a noteworthy step in promoting Turkish coffee. However, Turkish coffee has yet to attain the global position we seek. Our first brand, Arzum OKKA, is prominent in Germany and the USA, as well as in most of Middle Eastern and North African countries. The European Union (EU) is the most important target market for us. We reach out from the EU to the Balkans. The Middle East is closely acquainted with Turkish coffee on the east side of our country, and we can easily establish a dialogue. Consumers

in these countries know Arzum, as they travel to and from Türkiye and prefer Arzum in their own countries. The widespread coffee chains operating in Türkiye use the Arzum OKKA machines to make Turkish coffee. Turkish coffee has high recognition all over the world, second only to Turkish delight. It is essential that studies are amplified to represent this culture and extend it into new markets. As Arzum, we will do our part and continue to work to ensure that Turkish coffee takes its rightful place across the world.

Design, technology, R&D, and innovation are the elements that elevate us to the leading position in the industry; they are what we care about most. We follow both national and international trends; we merge these trends with the needs of our customers before transforming them into products that bring us leadership in the industry. In particular, we assess “how to make a difference in markets in Türkiye and the world” and we carry out our innovation activities accordingly. We maintained these activities in 2022: In addition to the OKKA Rich, we introduced our consumers to one of our most important innovations, the Arzum X Vahaa Smart Garden. Offered for sale as a result of the cooperation with Vahaa, the Arzum X Vahaa Smart Garden –a soil-free agricultural ecosystem designed for urban living –we facilitated the cultivation of fresh and tasty greens anywhere in the home. Thanks to this new product, we enable easy and sustainable production throughout the year via the Arzum x Vahaa Smart Garden, which runs on Internet of Things (IoT) technology and features the soil-free agriculture method.

In 2022, we continued to undertake the sponsorship of the Arzum Turkish Women’s Chess Championship that we, as Arzum, have consistently supported for 14 years. This support is a expresses our commitment to “It’s the women’s turn, Arzum is with them.” Next year will be the fifteenth year of our sponsorship and we look forward to continuing to cooperate with the Turkish Chess Federation, to take chess a step forward both in general and in terms of female players.

An extremely meaningful event in 2022 was our 55th anniversary exhibition. As Arzum, we celebrated our 55th year admirably. We published a book immortalizing the story of Arzum, as a tribute to the Company’s deep-rooted history of 55 years and one of Türkiye’s most important values. We placed this book, ÖTEKİ ÇAĞLARLA ARZUM’LU YILLAR, into the center of our 55th anniversary celebrations, and we believe that it is an eloquent testament to our industry and our culture. Our exhibition was further enriched by the fifty-five distinctive perspectives of 55 designers who have achieved great success in their fields. As a brand with the mission of spreading Turkish coffee culture across the world, we accorded special publicity to Turkish coffee at our event. The four-day “Turkish Coffee in the Ottoman Palace” presentation attracted great attention from Turkish coffee lovers.

It is time to start another 55-year journey, inspired by our more than half a century of deep-rooted history.

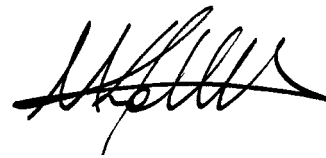
In the coming period, we will take firm steps forward by placing steady and sustainable growth at center of our goals to become a global brand, continuing to address consumers from every walk of life, and assuring inclusivity through our product range and diversity. We will continue to make the lives of our customers easier and, as a friendly and accessible brand, offer reliable and quality home technologies that enhance every moment and every home.

We will strive to be a first-line brand when it comes to Turkish coffee, both in Türkiye and around the world, by reaching out to the countries where we have no presence as Arzum through the technologies we develop. In addition, sustainability is one of our most important focal points at Arzum. In 2022, we came a long way in this regard by successfully integrating the circular economy model into our organizational structure within the framework of our focus on sustainability. It is our greatest goal to continue our sustainability-aligned studies and, moving forward, to become one of the industry-leading companies in this area.

Many thanks to everyone who has brought our Company to its current point over the last 55 years and who has played a major part in our success.

I would like to extend my sincere gratitude to our esteemed Board members, our shareholders, suppliers, business partners and all other stakeholders, and all my colleagues for their steadfast commitment and devoted work. Hopefully, we will share better days and further successes on this path we are walking together.

Sincerely,



T. Murat Kolbaşı
Chairman

Members of the Board of Directors



Talip Murat Kolbaşı
Chairman

Talip Murat Kolbaşı graduated from Marmara University Faculty of Business Administration in 1987. He began his career in 1988 at Arzum Elektrikli Ev Aletleri A.Ş., where he managed sales, business development, and foreign trade units respectively, and as of 2008, he served as Arzum's General Manager and Chairman. He has been serving as the Chairman since September 2015. He contributed to Arzum's progress towards becoming a leading company in the industry by leading the partnership with Turkish Household Appliances B.V., a subsidiary of Ashmore Group, one of the world's leading investment companies, with a 49% share transfer in 2008. He played an important role in the sale of 49% of Arzum's shares to SDA International in 2013.



Yasemin Rezan Kolbaşı
Vice Chairman

Yasemin Rezan Kolbaşı, graduated from Marmara University Faculty of Economics and Administrative Sciences in 1980. During her university years, she worked at the family company, Güney İthalat A.Ş., and later on represented Arzum in international fair organizations. After 1999 Kolbaşı joined Arzum full-time.



Ali Osman Kolbaşı
Board Member

Ali Osman Kolbaşı started his career in Arzum, formerly known as Güney İthalat ve Pazarlama A.Ş., worked at all levels, and became a Member of the Board of Directors. He took an active role in recognizing the brand in Türkiye and creating the dealer network.



Süleyman Mete Zamil
Board Member & CEO

Süleyman Mete Zamil, studied Civil Engineering at the University of Delaware between 1989-1993 and completed his Master's degree in Civil Engineering in 1995 at Cornell University, which he started in 1993. After graduation, S. Mete Zamil worked as an engineer at Bettigole Andrews & Clark, Inc. between 1995-1996. Between 1996-1998, he worked at Balsu USA, Inc., first as Product Manager and then as Finance Director. From 1998 to 2000, he assumed various duties at Azizler Holding A.Ş. and as of 2000, he took office as General Manager and Board Member at the group company Teksu Dağıtım Hizmetleri A.Ş. Mr. Zamil worked as the General Manager of Korda Kağıt Pazarlama ve Ticaret A.Ş. between 2002-2006, and as General Manager and a Board Member of Schindler Türkeli Asansör San. A.Ş. between 2006-2011. S. Mete Zamil assumed the roles of Board Member and Country Manager at Ariston Thermo Group between 2013-2015. Mr. Zamil is also experienced in the fields of restructuring, growth, and business development and has been the CEO at Arzum Electrical Home Appliances since 2015. He handed on his duty as Chief Executive Officer as of January 1, 2023.



Elif Ateş Özpak
Independent Board Member

Elif Ateş Özpak graduated from the Faculty of Law at Istanbul University in 1992, she started to work at Pekin & Pekin Law Firm in 1994 and became a partner in 2019. After completing the International Trade and Legal Studies (PIL) at Harvard University in 2000, Özpak functioned as a corporate attorney at Turkcell between 2001-2005, and she became a shareholder partner at Taboğlu, Ateş, Demirhan Law Firm between 2004-2008. He is currently a managing partner at Kybele Consulting Limited UK, a partner at Globalturk Capital, a co-founder of Crescent Capital CETF (Clean Energy Fund), and a co-founder of BN Telekom 11880 and bulurum.com. Özpak has been an Independent Board Member of Unico Sigorta (former Aviva Sigorta) (2019), an Independent Board Member of Boyner Group (2012-2017), a Board Member of Kuzevkaya Elektrik Üretim A.Ş. (2014-2016), a Board Member of Doğa Çevre Teknolojileri A.Ş. (2014-2016). She served as an Independent Board Member of Kredix (fin-tech) (2014-2016), and a Board Member of Ray Sigorta (2008). Elif Ateş Özpak was elected as an Independent Member of the Board of Directors for three years at Arzum's General Assembly, dated April 2021.



Ahmet Cüneyt Yavuz
Independent Board Member

Ahmet Cüneyt Yavuz completed his master's degree in International Relations and Economics at Johns Hopkins University after obtaining his bachelor's degree in Political Science from Boğaziçi University. Ahmet Cüneyt Yavuz started his professional career in 1992 at Gillette Türkiye, where he held various senior sales and marketing management positions for 16 years for brands including Gillette, Duracell, Oral-B, and Braun in Türkiye, the Balkans, and Israel regions. During his tenure, he was appointed Gillette Country Manager for Poland in 2003, and in the new structure upon P&G acquisition in 2006, he took charge of managing Poland and the Baltic States until the end of 2008. Ahmet Cüneyt Yavuz has been serving as the CEO of Mavi since November 2008. Ahmet Cüneyt Yavuz was elected as an Independent Member of the Board of Directors for three years at Arzum's General Assembly, dated April 2021.



Globalization is one of our key goals

We strive to implement our business model in the countries where we operate as successfully as we have in Türkiye, and we are fully present in the global markets as a brand.

1.5
TL billion

Net sales

Dear Stakeholders,

After two years in the grip of the pandemic, we greeted 2022 with great expectations. However, soaring prices and currency fluctuations caused by the war between Ukraine and Russia, which started in February, exposed every economy to a new challenge. Fortunately, Small Home Appliances is a stable and durable industry that is not significantly affected by economic crises. We are a company that has witnessed all kinds of crises throughout our deep-rooted 55-year history; we have grown in every aspect, and we prevail under any circumstance. Despite numerous challenges, we have proven capable of continuing our journey in every period – we demonstrated the same resilience in 2022 and closed the year successfully.

I would like to state that, despite economic contraction throughout the world, our revenues amounted to TL 1.5 billion with an increase of 88.6% at the end of the year. In 2022, we achieved TL 158.5 million in real operating profit and our net profit amounted to TL 40.6 million. Our EBITDA increased by 85.4% to TL 170.9 million. Moreover, although we regularly distribute dividends every year, our return on equity stood at 20.1% and our equity size exceeded TL 200 million.

During the last year, when high inflation exerted great pressure on the economic outlook in many regions across the world, we maintained our focus on a sustainable growth strategy. I am quite happy about our successful results.

As Arzum, we consider real growth extremely important. The real growth of our net sales is critical to the highest degree; therefore, I am pleased to have attained the real growth we sought in 2022. The second important issue for us is our profitability. We care about staying within a margin of 11-12% EBITDA and we achieved it this year. We need to move forward in the next period regarding the net profit. Despite all the challenges, it is promising that our industry completed the year above the inflation.

We worked hard to improve the net working capital and our stock management last year. In a challenging period, when financing expenses rose every passing day, we prioritized establishing a more productive stock and better collection follow-up, and we started to observe its impacts in the last quarter. We were also pleased to complete the issuance of two successive commercial papers at a time when it was difficult to access credit. The confidence of the capital markets in our Company allows us to easily enter the debt instruments market, but our capacity to use credit with easiness is as critical for us, as it is for any other company in the real industry, as low-cost borrowing. Moreover, interest rates on loans must decline while accessibility to loans increases. We hope that accessibility to credit will be easier next year than it was in 2022 and that we can act with more agility.

Globalization is one of Arzum's most fundamental goals. In the countries where we operate, we strive to implement our business model as successfully as we do in Türkiye. We are fully present in the global markets with our brand. It is a point of honor that products bearing the Arzum design and logo are used by millions of people in their homes and offices across 48 countries worldwide. We reached the stage of establishing a serious infrastructure in line with our globalization goal and we built on these efforts throughout 2022. We started to use Arzum Europe, our 100%-owned

subsidiary in Germany, more effectively, and to provide on-premises service to our customers. By this means, we further strengthened our brand and took critical steps towards globalization such as establishing a company in the USA. I believe wholeheartedly that the fruits of our efforts will be even more bountiful in the coming years.

Our strategic difference from other companies is our operational business model and, in 2022, we reaped those benefits. The only store we own is our online store. We leave the production to our business partners, and we focus on R&D, product development, product design and marketing. We work with third-party suppliers and manufacturers. Concentrating on our competitive advantages in design and engineering lightens our operational burden, offering flexibility and agility to Arzum during times of global economic challenges.

Today, almost every device used by consumers is 'smart' and has an internet connection. Demand for smart devices will rise in the next period. All the devices offered for consumer use should be designed according to these requirements, starting with the product development process, and introduced to the market with new business models. We all see that connected and smart devices can talk to us and are managed via mobile applications; we have experienced numerous innovations in our lives. Innovative products advance rapidly and exponentially. We will witness a world where such connected devices can communicate with each other and create value – without a human presence – via 5G and artificial intelligence. As Arzum, we strive to stay abreast of these innovations and will amplify our efforts in this direction.

CEO's Assessment

Products with a smaller carbon footprint

As Arzum, we consistently strive to develop products that consume less energy and offer a smaller carbon footprint.

As a pioneer of firsts, we broke new ground again with the Arzum OKKA Rich Spin M, which we offered to consumers at the beginning of 2022. We reinterpreted the delight of Turkish coffee with the Rich Spin M, which is capable of making Turkish coffee with milk through spinning – again, a first in Türkiye. As a brand that focuses on design, technology and innovation, we enjoy making a difference in the industry through the innovative products we develop. The Rich Spin M machine attracted attention beyond our expectations last year.

In 2022, we also launched our new product, Arzum x Vahaa Smart Garden, which we developed in cooperation with Vahaa, the soil-free agricultural ecosystem. With Arzum x Vahaa Smart Garden, another first in Türkiye, we made it possible to grow fresh and tasty greens and vegetables in any corner of the home by utilizing soil-free agricultural technology. We are still at the beginning of this technology, and I believe it holds tremendous potential.

In 2022, observing the emerging popularity of heated air fryers, we met the expectations of our customers and introduced our air fryer product, the Arzum Airtasty, to great acclaim from the market. The Airtasty's functionality and advanced features make it one of the newest and greatest assistants for home cooks. We will continue to develop new products in line with

the expectations and needs of our consumers, and lead the industry with our innovations.

Today, the proper use of resources is of utmost importance in terms of a sustainable future. As Arzum, we have always strived to develop products that consume less energy and offer a smaller carbon footprint.

As Arzum, we are fortunate to draw on 55 years of experience that have garnered us invaluable awards in several national and international competitions. We have been recognized with numerous awards in fields such as innovation, after-sales services, customer satisfaction and design. As a brand, we are identified with awards and are consistently deemed worthy in such prestigious competitions as the Stevie Awards, the ECHO Awards, the Plus X Awards, and the Crystal Apple. These accolades have been a great source of motivation for us to do better each passing day and inspire us in future projects. In 2022, we were granted various national and international awards, including the "Customer Brand" of the Year in the category of Small Home Appliances at the A.L.F.A Awards 2022.

170.9
TL million

EBITDA

We received a Silver Medal in the “Customer Services Department of the Year” category at the Stevie International Business Awards. Our prestigious advertisement was awarded a Crystal Apple. The Arzum OKKA Rich was recognized with the Design and Ease of Use Award and the Magiclean Neo was granted the Design and Ease of Use, and Functionality Awards at the Plus X Award 2022. We ranked first in the “Small Home Appliances” category at the ECHO Awards, and were granted four awards for our 2021 Annual Report at the Vision Awards, organized internationally by the League of American Communications Professionals (LACP) every year. Following the LACP evaluation, we were given the Platin Award, the supreme award, by achieving 99 out of 100 in the category with our Annual Report 2021. We were granted a Bronze Award in the category of “Regional Outstanding Achievement: The Best Financial Report”. Moreover, we ranked 19th in EMEA (Europe, the Middle East, and Africa Regions) in the category of all industries and were included in the “Best 20 Reports of Türkiye” list in Türkiye. It certainly boosts our excitement to receive such recognition for our efforts at numerous prestigious national and international competitions.

Achieving such great success with a small but efficient staff is also highly motivating. In addition to the quality of our management team and the strong team spirit of our employees, the contribution of their selfless and shared enthusiasm to our success is substantial –and our success is attributable to our people-oriented approach. I would like to say proudly that the female employment rate at the Company is 45%. Furthermore, the female employment rate specifically in the Financial Affairs department is 67%; it is 50% in the Management and Human Resources departments; and 47% in the Marketing and Product Development departments. It is a fact that these rates exceed those of many other companies. In this regard, we affirmed our Equality, Inclusion and

Diversity Policy at the level of the Board of Directors and announced it to the public. With this policy, we set a goal to maintain the rate of female employees, especially on the Board of Directors and in middle-level management, above 30% and have pledged to increase the rate to 50%. As a brand adopting the social equality of opportunity, we will continue to be conscious of the fact that the most valuable asset of a company is its people, irrespective of the business and industry.

Through our Leadership Stage project, we started to provide opportunities for executives to develop their leadership and technical competencies and for non-executive employees to develop their competencies in receiving and giving feedback. We initiated an agile transformation process as a company, and we work to create a more agile culture via the ÇİTA project. We also organize training programs to extend the agile culture among all of our employees.

We have always been proud to hold the Great Place to Work certificate, which is granted by the Great Place to Work Institute, providing services globally on workplace culture and employee satisfaction. We attach importance to our GPTW scores and employee feedback. For this purpose, we organized meetings together with management teams, with the attendance of Human Resources, and we worked on GPTW actions. We meticulously examine each day’s feedback and continue to work on suggestions. It is one of our greatest goals to continue being a preferred employer. I would like to take this opportunity to thank each and every one of my teammates who has contributed to the development of Arzum.

In 2022, we left behind 55 years of a successful operational and financial performance, which we have maintained consistently since day one. We celebrated our anniversary at Istanbul Galataport with a wonderful

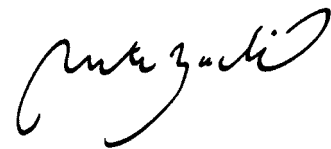
exhibition organized by 55 different designers. We hosted our esteemed guests for four days. It is time to proceed towards our 60th year with the inspiration of our 55-year deep-rooted history.

Last year, we added new achievements to our accomplishments within the framework of our mission to spread Turkish coffee culture, with its 600-year history, across the world. We enthusiastically celebrated December 5, World Turkish Coffee Day, through various events across the world.

We intend to amplify our powerful course towards international growth in 2023. We will continue to take firm steps towards achieving new successes to become a global brand. We will strengthen our bonds with our Small Home Appliances industry customers. We will continue Arzum’s mission to spread Turkish coffee culture across the world. We will continue to be one of the leading brands in the industry by maintaining our focus on R&D, design, and innovation.

As 2022 ends, and as I approach the conclusion of my career as Chief Executive Officer at Arzum, I remember the founders of Arzum, who have passed away, with great respect as the Company finishes its 55th year. I am thankful to our shareholders, to Arzum’s Board of Directors, to our management team, employees, suppliers, customers, and to all of our stakeholders – the supporters of our Company’s sustainable success – for the seven memorable years I have spent together with them.

Sincerely,



S. Mete Zadi
Chief Executive Officer and Board Member

Executive Management



Süleyman Mete ZadiL
Board Member & CEO

Süleyman Mete ZadiL, studied Civil Engineering at the University of Delaware between 1989-1993 and completed his Master's degree in Civil Engineering in 1995 at Cornell University, which he started in 1993. After graduation, S. Mete ZadiL worked as an engineer at Bettigole Andrews & Clark, Inc. between 1995-1996. Between 1996-1998, he worked at Balsu USA, Inc., first as Product Manager and then as Finance Director. From 1998 to 2000, he assumed various duties at Azizler Holding A.Ş. and as of 2000 he took office as General Manager and Board Member at the group company Teksu Dağıtım Hizmetleri A.Ş. Mr. ZadiL worked as the General Manager of Korda Kağıt Pazarlama ve Ticaret A.Ş. between 2002-2006, and as General Manager and a Board Member of Schindler Türkeli Asansör San. A.Ş. between 2006-2011. S. Mete ZadiL assumed the roles of Board Member and Country Manager at Ariston Thermo Group between 2013-2015. Mr. ZadiL is also experienced in the fields of restructuring, growth, and business development and has been the CEO at Arzum Electrical Home Appliances since 2015. He handed on his duty as Chief Executive Officer as of January 1, 2023.



Şecaettin Arda Altınok
Assistant General Manager
Responsible for Financial Affairs

He studied Economics at Hacettepe University between 1995-2000, Ş. Arda Altınok received a bachelor's degree in 2000. Between 2002-2014, he worked at various positions in Deloitte Türkiye and the USA and held managerial positions as well. He worked at Deloitte Türkiye between 2002-2006, managed the audit teams, and also audited the financial statements of the companies they were responsible for. Between 2006-2008, he was nominated for the Global Development Program of Deloitte&Touche LLP, Deloitte Private in New York/USA, and worked at Deloitte's New York office for 18 months. Afterwards, he continued his career at Deloitte Türkiye and took a position as a manager in the audit department. Between 2014-2020, he served as the Finance and Administrative Affairs Director of the Hotels Group at Doğu Hospitality Group. Ş. Arda Altınok, who started to work at Arzum to lead the management of all financial processes in 2020, took office as the Chief Executive Officer on February 1, 2023.



Mehtap Yıldız
Assistant General Manager for
Product Development and Marketing

Mehtap Yıldız, who graduated from Anadolu University Electrical and Electronics Engineering Department in 1994, continued her education at Sawston Hall College/Cambridge from 1997 to 1998. She completed Istanbul Bilgi University MBA Program between 2015-2016. Mehtap Yıldız began working as Production and Product Development Director at Eksen A.Ş. in 1998 and continued to work until 2009. During her 11-year career at Eksen A.Ş., she participated in many innovation projects that created a new category for the industry. In 2009, she joined Index Group and took part in a new brand founding team in the household appliances industry. After 10 months of brand positioning, product development, channel and customer services strategy, and structuring activities, she launched the 'Homend' brand. Yıldız continued to serve as the Product Development and Marketing Director at Homend Elektrikli Cihazlar San. ve Tic. A.Ş. until 2014. Mehtap Yıldız, who started work as R&D and Supply Chain Director at Arzum in 2014, resigned as the Assistant General Manager of Marketing and Product Development as of January 1, 2023.



Serhan Giray
Assistant General Manager
Responsible for Sales

Serhan Giray graduated from Anadolu University Department of Business Administration and served as Chain Stores Sales Manager, Chain Stores Group Sales Manager, and Türkiye Traditional Channel Sales Manager at Türk Philips Ticaret A.Ş. during his 16-year career between 2001-2016. During this period, he participated in the development of sales processes, the structuring of chain stores, the establishment of the e-commerce channel, the coordination of business development, and the improvement activities of the departments within the enterprise. Joining Arzum in 2017, Serhan Giray carries out his duty as Assistant General Manager of Sales. However, Serhan Giray undertook the responsibilities of the Marketing Department by proxy, which were one of the duties of Mehtap Yıldız, the Assistant General Manager of Marketing and Product Development, as of January 1, 2023. As of this date, he has started to undertake the responsibilities of both sales and marketing departments.



Arif Emre Ünal
Assistant General Manager
Responsible for Operations

Arif Emre Ünal, who graduated from Istanbul Technical University-Department of Geophysical Engineering where he studied in 1997-2002, received his Master's degree education in Engineering and Technology Management at Boğaziçi University between 2002-2005. He completed the Istanbul University MBA Program with an Honors Degree at the end of the Academic year 2014-2015. Ünal worked as Information Technologies Manager at Arkas Holding A.Ş. between 2005-2010 and worked as Information Technologies Manager at McCann Worldgroup Istanbul between 2010-2012. Arif Emre Ünal, who has taken on various roles at Arzum since 2012, continues his duty as Chief Operating Officer today. However, Arif Emre Ünal started to undertake the authorities and responsibilities of Mehtap Yıldız, the Assistant General Manager of Marketing and Product Development, regarding the management of the Product Development, Quality, R&D, and Purchasing Departments as of January 1, 2023.



Didem Oral
Assistant General Manager
Responsible for Human Resources

After graduating from Marmara University, Department of Labor Economics, Didem Oral received an Executive MBA from Koç University. Didem Oral started her career at Ram Dış Ticaret in 2000 and worked as a human resources specialist at TNT Lojistik, Turkcell and Wyeth Pharmaceuticals until 2008. Oral worked as a human resources business partner at MSD from 2008 to 2012. Oral worked as a human resources business partner at MSD between 2008-2012. Oral served as the Human Resources Coordinator of TAV Airports Holding between 2012-2014 and continued her career as the human resources and occupational health and safety director at Borusan Automotive Group as of 2015. Oral actively participated in mergers, leadership development, the establishment of career and performance management systems, and change management projects throughout her career. She also led the management of these projects. Didem Oral has been serving as Chief Human Resources Officer since April 2021.

Annual Report - Independent Auditor's Opinion



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INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT

To Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret A.Ş. Board of Directors

Opinion

Since we have audited the complete set of consolidated financial statements for the accounting period 1/1/2022-31/12/2022 of Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi ("Company") and its subsidiaries (collectively referred to as the "Group"), we have also audited the annual activity report for this accounting period.

In our opinion, Board's analyses based on the consolidated financial information included in the annual report as well as the information regarding the Group's position included in the audited financial statements are consistent, in all material aspects, with the audited complete set consolidated financial statements and with the information obtained in the course of independent audit; and they reflect the truth.

Grounds for Opinion

We conducted our independent audit by the independent auditing standards issued by the Capital Markets Board ("CMB") and the Independent Auditing Standards, which is a component of the Turkish Auditing Standards ("TAS") issued by the Public Oversight, Accounting, and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities in the Audit of the Board of Directors' Annual Report section of our report. We hereby declare that we are independent of the Group in accordance with the Code of Ethics for Independent Auditors (incl. Independence Standards) ("Code of Ethics") published by POA, and the ethical requirements of independent audit legislation. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

Our Auditor's Opinion on the Full Set Consolidated Financial Statements

In our auditor's report dated February 28, 2023, we have expressed an unqualified opinion on the complete set of consolidated financial statements covering the accounting period January 1-December 31, 2022.

Board of Directors' Responsibility for the Annual Report

In accordance with Articles 514 and 516 of the Turkish Commercial Code no. 6102 ("TCC") and the provisions of the Communiqué no. II-14.1 on the "Principles of Financial Reporting In Capital Markets" ("the Communiqué") of the Capital Market Board ("CMB"), the management of the Group is responsible for the following tasks concerning the annual report:

- To prepare the annual report within the first three months following the balance sheet date and submit it to the general assembly.
- To prepare the annual report to reflect the Group's operations in that year and the consolidated financial position in a true, complete, straightforward, fair, and proper manner in all respects. The report evaluates the financial situation based on consolidated financial statements. Additionally, the report clearly indicates the developments and possible risks which the Group may encounter. The assessments of the Board of Directors in regard to these matters are also included in the report.
- The annual report includes the following issues as well:
 - Subsequent events occurred after the end of the fiscal year which are of significance,
 - The research and development activities of the Group,
 - Financial benefits such as salaries, bonuses, premiums and allowances, travel, accommodation and representation expenses, benefits in cash and in-kind, insurance, and similar guarantees paid/provided to the members of the Board of Directors and senior executives.

When preparing the annual report, the Board of Directors also considers the secondary legislation arrangements issued by the Ministry of Trade and related institutions.

Independent Auditor's Responsibility in the Audit of the Annual Report

Our aim is to express an opinion and issue an opinion report within the framework of TCC and Communiqué provisions regarding whether the Board's analyses based on the consolidated financial information included in the annual report as well as the information regarding the Group's position included in the audited financial statements are consistent with the audited consolidated financial statements of the Group and with the information obtained in the course of the independent audit and whether they reflect the truth.

We conducted our independent audit in accordance with the independent auditing standards set forth by the CMB, and the Independent Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the independent audit to obtain reasonable assurance about whether Board's analyses based on the consolidated financial information included in the annual report as well as the information regarding the Group's position included in the audited financial statements are consistent with the financial statements and with the information obtained in the course of the audit, and whether they reflect the truth.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi



3 March 2023
İstanbul Türkiye

SHA Industry, Turkish Market, and Arzum's Position in the Industry

Growth is gaining speed in offline sales channels

After overcoming the impact of the pandemic, growth in offline sales channels accelerated and the TSS channel became the channel with the highest growth in volume with a growth of 38% in number.

SHA Industry Growing with the Impact of New Product Segments

In 2022, the small home appliances market (SHA) grew by 13.4% in number and 139.4% in turnover and amounted to TL 32.9 billion. The Deep Fryer category reached 12.9% turnover in the total SHA market with a growth in Heated Air Fryers which had a strong breakthrough in 2022. In 2022, the product segment with the highest contribution to the SHA market's growth was the Heated Air Fryers with 30.1%. The second and third segments with the highest contribution were the robot vacuum cleaners and rechargeable vertical vacuum cleaners, which have had an increased trend in recent years.

After the impacts of the pandemic were recovered, the growth in offline sales channels has accelerated. TSS channel was the channel with the highest growth in volume with 38% growth in number.

Türkiye's Market Outlook (Turnover-Million TL) Small Home Appliances Market



139.4%
Increase





Arzum is the second brand in the Turkish SHA market with a market share of 10.8% on a unit basis and the 6th brand with a 5.5% market share on a turnover basis. Arzum is one of the leading players in the Turkish market thanks to its high brand awareness, agile product development capability, and effective use of sales channels. Arzum closed 2021 as the leader in terms of number and turnover regarding Food Preparation Machines and Toasters. Arzum brand maintained its leadership in terms of number and turnover in these categories between February-December 2022. In the Hair Care category, Arzum was the market leader in terms of number and ranked 3rd on turnover basis. The success of the products released in 2022 reinforced Arzum's leadership this year, as in previous years. Chefim Multi-Purpose Pressure Cooker and Airtasty heated air fryer, which were introduced to consumers in 2022, strengthened Arzum's position as the leading brand that follows trends in the segment alongside its leadership in the category of cooking.

Arzum, the leading company in number and 4th in turnover in the Hot Drink Preparation market, stands out with its success in the Turkish coffee machines segment in this market. Arzum OKKA, which was launched in 2014, maintains the title of the only domestic type 'Turkish coffee machine' that can serve directly to cups and draws attention as

a product that distinguishes itself from the competition. With Arzum OKKA Rich Spin-M, launched in 2022 as the first Turkish Coffee Machine with milk and a coffee pot with a mixer, Arzum strengthened its trendsetter-leading brand position. Moreover, the Arzum brand is the Leader in number and ranked as the second player in turnover considering its market share only in the online channel as a result of a focus on e-commerce in the Turkish Coffee Machines segment.

Arzum ranks 4th in terms of brand awareness and 3rd in terms of market share in the ironing category. Considering the strength of the Arzum brand, the ironing category is seen as one of the important growth areas for the company.

Similarly, Arzum maintained its market share with a growth parallel to the market based on turnover in the bagless vacuum cleaner category, one of the biggest segments. In number, it left the market behind with a growth of approximately 19% in the same segment and it gained a share. It ended the year as one of the top 5 players in the segment of bagless vacuum cleaners. Carrying the strength and success of the Arzum brand in other categories to the largest category in the Turkish SHA market presents significant growth potential.

Arzum's Market Shares (turnover basis)

16.3%

Food Preparation Market

4.3%

Cooking-Frying
(total including Deep Fryer, Mini Oven, Sand)

15%

Toasters Market

13.2%

Hair Care Market

10.7%

Hot Drink Preparation
Market

4.6%

Iron Market

2%

Vacuum Cleaner Market

**SHA industry data is based on the reports of an independent research organization. Data of January-December 2022.*

High Brand Recognition

Leading brand in food preparation

The high awareness of the Arzum brand is one of the most important factors that provide a competitive advantage.

Arzum's brand awareness is significant in five categories of the Turkish SHA sector. Arzum advanced to the leading brand position in the food preparation category when considering brand awareness. As a brand, it ranked second in the category of cooking and frying and preparing hot drinks. It ranked fourth in the ironing category, sixth in the vacuum cleaners category, and third in the personal care category.

This shows that Arzum is one of the leading brands in the minds of consumers and is on the list of priority brands that come to mind at the time of research or purchase. The high awareness of the Arzum brand is one of the most important factors that provide a competitive advantage.



Brand Awareness Ranking



R&D Works Focused on Future Technologies

New product research studies increase

In 2022, the highest number of R&D projects in Arzum's history was reached with 53 projects.

21 patent applications

The company record was broken with 21 patent applications in 2022.

Arzum's mission of product development is built on taking action promptly against the changing dynamics, unique organizational structure, consumer-oriented approach, and responding the consumer needs.

To maintain the increasing R&D and P&D activities of the Company sustainably, the work on increasing the depth of the R&D team and growth of the team continued. The consultant company evaluated the existing product development process to ensure that growing teams could continue their focused development activities. The workflow and process studies were performed for the future of the process to respond to possible needs.

Arzum continued to focus on R&D studies at its offices in Istanbul and Niğde Technopark with the motto of being the pioneer of innovation in the small home appliances (SHA) industry. In 2022, the highest number of R&D projects in the Company's history was reached with 53 projects. The approach adopted in the new product projects was to develop products oriented special to the national and international export markets as it was in the previous periods and to execute R&D activities in line with this orientation.

In addition to categories considered as areas for development, a contribution was made to the intellectual property rights portfolio of the Company with the increase in new product projects

in other product categories. In 2021, 13 patent applications were made on a subject basis in total and the company's record was broken with 21 patent applications in 2022.

It was aimed to disseminate the archiving structure among the expanding R&D team, which was created to reach all studies of R&D activities within the shortest time and at high quality. Points of improvement and good practices were detected in the internal audits conducted within this framework.

In 2022, the Design and Ease of Use and Good Design Award was granted at Plus X awards for the OKKA Rich Spin product, which is a first in Turkish Coffee machines with its spinner placed in the coffee pot.

Magiclean Neo product, which is manufactured in Türkiye, was granted Plus X Award and Good Design Award in the categories of Design, Ease of Use, and Functionality.

In addition to this, a pioneering role was played in R&D and innovation management as well as creating a culture, an active part was taken in the change of these and a tangible contribution was made, and R&D Manager Hasan Yörük was deemed worthy of the award granted for his works at Arzum in the category of Refik Üreyen given by TTGV to people who had a success story.



Easily Accessible Sales Network

Active sales points over 20 thousand

Arzum has been increasing its effectiveness in growing organized retail channels in the recent period and cooperates with Türkiye’s leading retailers.

Arzum has a wide sales network across Türkiye, with more than 350 customers in total and more than 20 thousand active sales points.

Arzum has an important position in the traditional sales channel (retail and wholesale) with its well-established brand and the trust relationships it has built for many years. It has strengthened its position with the new organizational structure established in recent years in accordance with customer needs for large shopping centers operating in the traditional channel.

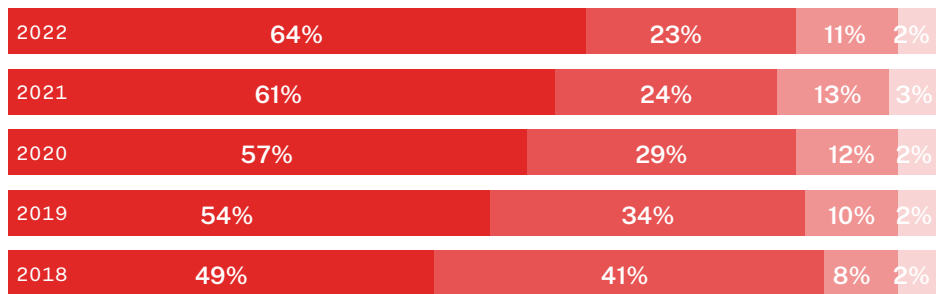


Arzum has been increasing its effectiveness in growing organized retail channels in the recent period and cooperates with Türkiye’s leading retailers.

116%
Rate of increase in the e-commerce sales

11%
Arzum’s rate of international sales

Distribution of Total Sales By Channels



■ Modern Channel
 ■ Traditional Channel
 ■ Sales Overseas
 ■ Other



Share of Channels in Sales

Modern Channel: 65%

Technology markets
Discount stores
Super/Hypermarkets
E-Commerce

Traditional Channel: 23%

Traditional stores
Wholesale and others

International Sales: 11%

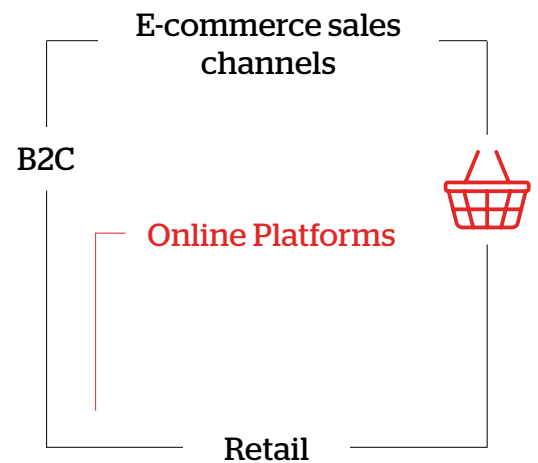
Arzum Europe
Country Distributors
Mainly Middle East and European countries
(48 countries)

Leading position and growth potential in the e-Commerce channel

The e-commerce channel with its impact felt all over the world and its effectiveness and importance gradually increasing in the Turkish SHA market has been in the focus of Arzum for a long time. The e-commerce channel has been structured and the necessary infrastructure works have been completed within the company's long-term sales channel strategy framework. Sales are carried out in this channel both via Arzum's website (www.arzum.com.tr) and national market places, and all these channels are managed with a special focus strategy. There are dealers that have been developed to focus only on the e-commerce channel. Being experienced in the dynamics of e-commerce, these dealers are supported through digital marketing and advertising activities that reflect the company's e-commerce plans. Arzum has created a special distribution fleet for e-commerce in recent years. Arzum added the e-commerce channel to its existing channels within the framework of all these efforts, making its sales organization more flexible.

Increase in the e-commerce sales

2018	98%
2019	75%
2020	99%
2021	60%
2022	116%



International Sales and Marketing Plans

Profitable international sales structure

All international marketing activities are carried out in online and offline channels with a multi-channel strategy.

In addition to the changes it has made in its organizational structure, Arzum has also implemented medium and long-term overseas sales and marketing plans. Parallel to these plans, it has gained the potential for international sales with the product variety that it has organized based on regions suitable for foreign markets and consumers. Having a profitable and sustainable international sales structure is among the important priorities in this channel. In this context, the most important parts of Arzum's international sales strategy includes focusing on strategic international sales markets, ensuring effective risk and maturity management, increasing efficiency with transit shipments and improving efficiency in target markets with special product development activities for international sales.

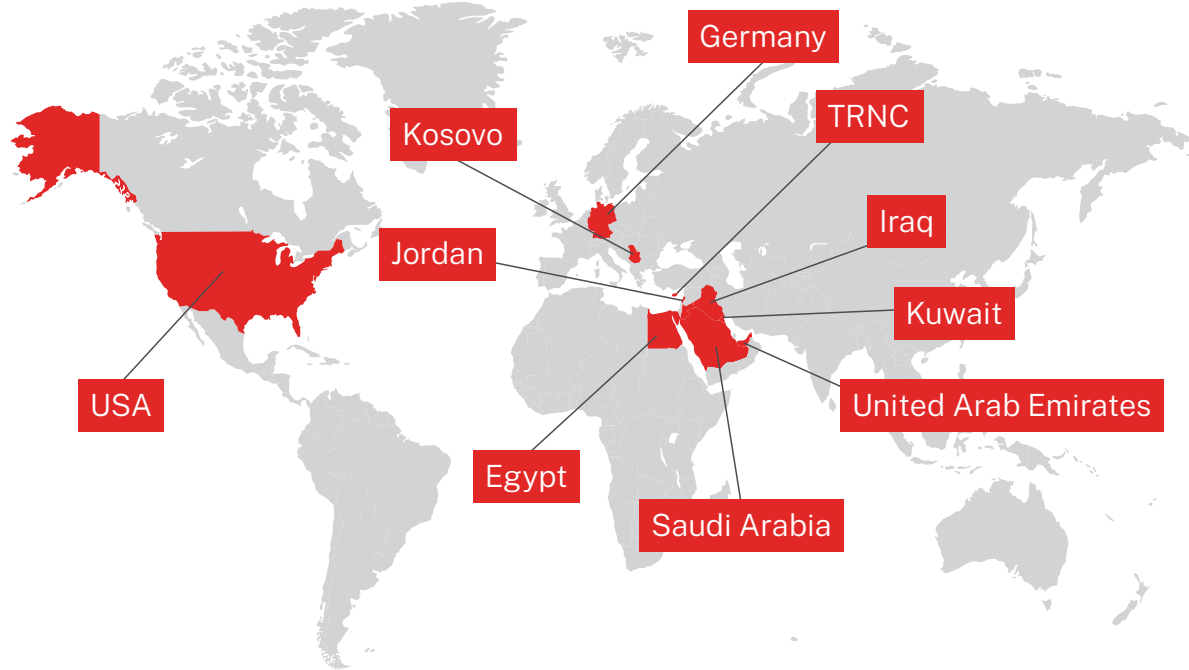
Arzum started to adopt a global sales approach rather than international sales, and made significant changes in its international sales structuring in line with this strategy. A region-based management system has been adopted in order to manage global sales more effectively; and a resident sales director has been positioned at Arzum Europe GmbH HQ at Munich, Germany, which was founded in 2011, to increase market and channel diversity in Europe, one of the priority regions, to increase brand awareness and to become a measurable brand in some countries. In parallel with the growth, it is planned to open local offices in different regions.

International sales turnover

It is anticipated that the new global sales organization, focused growth, strategy, and regional structuring will greatly contribute to the acceleration of foreign sales in the coming years. The growth of global sales and marketing teams, the establishment of an after-sales service structure, which is one of the cornerstones of customer satisfaction, especially in strategic countries, and the development of existing systems with distributors will contribute significantly to brand awareness, being one of the preferred brands and increasing international sales.

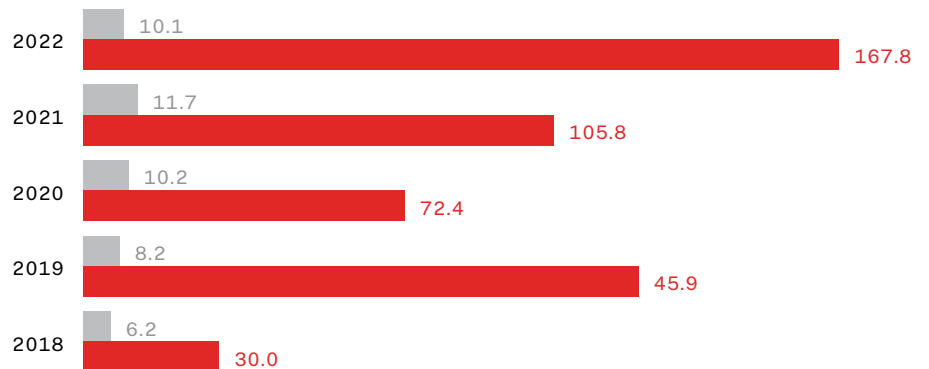
The marketing actions taken in foreign markets started to be created in parallel with Arzum's global and focused growth strategy with the International Marketing department established in 2019. All international marketing activities are carried out in online and offline channels with a multi-channel strategy. 360-degree communication plans are created and implemented to increase the awareness of Arzum and Arzum OKKA brands in existing foreign markets.

International Markets



A product portfolio is aimed to be created specific to countries with strategic priorities; special products are commissioned for international sales in the categories of food preparation, cooking, beverage preparation and cleaning; and sustainable international sales underlie the turnover increase in the medium and long-term. Arzum and Arzum OKKA brands haven't done a market entry yet to increase the total international sales volume and the number of countries. We prepare a market entry strategy for targeted international markets and create sales and marketing strategies in addition to a market-and consumer-specific product portfolio.

International Sales Revenue (on TL Million and USD Million basis)



■ International Sales Revenue (USD Million)

■ International Sales Revenues (TL Million)

Operational Management Approach

425 authorized after-sale service points

Arzum received the Stevie award three times, once in bronze, once in silver, and once in gold for its after-sales operations.

Widespread after-sales service network

For Arzum, which has an extensive network with 425 authorized after-sales service and service points in 80 cities of Türkiye, it is one of the most important factors of success to ensure customer satisfaction in the SHA market and to establish trust between the customers and the brand.

At the logistics hub of the Company in Gebze, an inventory is kept available for spare part demands to provide fast and effective customer service through the extensive after-sales service network.

Arzum carries out improvement works for the after-sales service operations continuously. Deploying the service automation application developed externally, Arzum gained high effectiveness in after-sales services in many areas such as product replacement and service performance.

Arzum received the Stevie award three times, once in bronze, once in silver, and once in gold for its after-sales operations. At the same time, its customer satisfaction-oriented works were appreciated by the Ministry of Commerce with the 'Brand with Customer Satisfaction as a Principle' award in 2019. In 2021, Arzum won the Best Customer Service, Bronze award, and the Best Digital Transformation, Silver award at the CXA'21 International CX Awards, and the Best Customer

Redesign, Bronze award at the European Contact Center & Customer Service Awards. In 2022, two bronze awards in "Product or Service Development Innovation" and "Best Use of Technology" were granted by Türkiye Customer Experience Awards to the After-Sales Services Team and it was chosen as the "Customer Brand" of the year in the category of Small Home Appliances by Alfa Awards.

The company's strong after-sales service network and operational capability will play an important role in maintaining its strong position in the market and distinguishing itself from the competition.

Collaborations to expand the supplier network

Although Arzum does not have any production facilities in Türkiye or abroad as of today, it has long-term cooperation with different suppliers. As of 2022, approximately 80% of the company's product supply comes from manufacturers in Türkiye and 20% from suppliers abroad. In 2021, we worked with a total of 39 different suppliers from abroad. Arzum has a high international transaction volume in the field of SHA, while it cooperates to develop suppliers, improve product development and R&D capabilities in Türkiye. At the beginning of 2020, Arzum launched the ASRM application, which enables end-to-end management of the supplier processes, so that it can monitor all processes from order throughout delivery and provide improvement with the supplier performance management module it has commissioned.

Arzum's effective logistics capabilities also bring competitive advantage during the pandemic. With the 'Arzum on the Road' launched in this period, orders can be placed via arzum.com.tr and Arzum mobile application and can be delivered via Arzum's own delivery fleet across Istanbul.

99.9%

Error-free shipping

Error-free shipping rate is at the level of 99.9%.

The application, a first in the electrical household appliances market, enables consumers to access products easily. 'Arzum on the Road' was also used for chain stores, and receipt of retail and wholesale customer returns to ensure efficiency. Thanks to this project, Arzum entered the list of the "Most Effective Supply Chain Professionals in Türkiye" by LODER, and won a prize.

Arzum measures customer satisfaction, one of its strategic goals, at every time of delivery when it touches its consumers. The Company uses the Customer Recommendation Score (Net Promoter Score) methodology for this measurement and continues to increase its consolidated NPS score, which it calls Arzum NPS, day by day.

Shipping based on continuous improvement

The operational management metric 'Error-Free Shipping', one of Arzum's strategic goals that is followed within the scope of operational excellence was realized at the level of 99.9% in 2022. With a continuous improvement perspective, metrics of operational processes are monitored on a monthly basis and progress is made towards operational excellence.

Operational efficiency and effective cost management

Arzum closely follows the best practices in the world and increases its efficiency from year to year through operational process improvement projects. Aiming to be the pioneer of the industry in implementing trends, Arzum has largely completed its digital transformation in future stock, sales and profitability simulations by using S&OP processes in which all supply chain flows are operated with an integrated decision network.



Developing Digital Infrastructure

Investments increasing customer satisfaction

Considering the rapidly changing market conditions and consumer habits, digital transformation has become one of the most important tools for effective and efficient operation management. Arzum also considers digital transformation as a strategic priority and rapidly and continuously realizes investments that will lead digital transformation, create value for its stakeholders and increase consumer satisfaction.

The company has focused on digital transformation investments since 2010. The prominent digital transformation steps taken in this context are as follows:

Corporate Resource Planning

Arzum uses the corporate resource planning application, which was commissioned in 2011, in an integrated manner with other corporate applications. Updates are made as required by business processes and digital transformation applications are adapted.

Customer Relationship Management (CRM)

The customer relationship management application launched in 2013 ensures:

- To centralize the consumer data obtained from all communication sources on a single platform as per the customer satisfaction strategy,
- To implement the most accurate communication with the consumers.

The application, which is also used by Arzum Call Center, serves in accordance with all consumer data laws.

Adding WhatsApp and Webchat to its service channels alongside Social Media, Arzum provides the fastest service to its customers 24/7 with its advanced Chatbot and optimizes its operation. Arzum Chatbot makes a difference in customer experience with an 89% correct understanding rate, thanks to continuous improvement.

Process-Oriented Document Management System

The process-oriented document management system, which was launched in 2016, has enabled all signature-based processes to be transferred into a digital environment over the years and thus to manage operations much faster and without any errors.

Business Analytics

The business analytics application at Arzum was launched in 2014 for the purpose of management reporting and management cockpit application, contributing to the most accurate and rapid decision-making. In recent years, business analytics reports have also been used for operational needs to achieve effective management.

After Sales Service (ASOS)

ASOS application, which was invested within the scope of Arzum's customer satisfaction strategy, was launched in 2018. Thanks to the management of all service processes through a digital platform and the performance management module, the level of service provided to customers has been improved day by day. ASOS has become the industry's most effective and powerful software, with more than 200 updates every year.

"Arzum Seninle" mobile application

With Arzum Seninle, which can be accessed through both IOS and Android operating systems, documents such as warranty certificates and invoices that must be kept to be used in after-sales services of products are saved in the cloud database after going through various artificial intelligence verifications. This storage not only provides an extra 1-year warranty period in line with the customer-friendly approach, but also eliminates the need to keep these documents. Arzum Seninle application, which ensures personal data protection, guides the user with artificial intelligence technologies and leaves no room for error. With the easy access provided to end-users, customers can register via website, IOS or Android in less than 3 minutes, eliminating the need to store documents.

Smart Solutions in Logistics and Supply Chain

16 digital transformation projects were realized

Arzum measures customer satisfaction, one of its strategic goals, in every communication channel (call center, technical service, e-commerce site, etc.) where it touches its consumers. The Company uses the Customer Recommendation Score (Net Promoter Score) methodology for this measurement and continues to increase its consolidated NPS score, which it calls Arzum NPS, day by day.

5.7%
NPS increase

NPS increased by 5.7% compared to 2021.

Standing out among the competitors in similar categories, and built on a customer-oriented, innovative, and user-friendly structure to offer its customers a fast and effective solution in after-sales services, Arzum Customer Support Portal gathers all issues that may be needed in after-sales services under a single roof. The Portal offers a flawless mobile experience with its technological infrastructure and provides smart and versatile solutions to its customers with ASOS, ERP, CRM, Arzum APP, Logistics Service Provider and KVKK integrations.

Digital Maturity Platform

In 2021, Arzum launched the Digital Maturity Platform with the active participation of 24 stakeholders from all units to review the digital transformation strategy and determine a new roadmap. Digital maturity levels were defined for Customer, People, Operation, Technology, Innovation, and Governance verticals; the position among other players in the sector was determined, and thus targets to reach were set and designed most accurately.

Digital Eyes, which is one of the important elements of digital transformation in Arzum, involves the voluntary participation of business units. In 2021, the Platform implemented 16 digital transformation projects in line with the Digital Maturity Platform targets. The process, which started with the selection of platform members, continued with workshops where innovation culture and technology trends were shared. After the project ideas were revealed and the projects were decided, the teams started to work to implement their projects.

Customer Satisfaction

Arzum measures customer satisfaction, one of its strategic goals, in every communication channel (call center, technical service, e-commerce site, etc.) where it touches its consumers. The Company uses the Customer Recommendation Score (Net Promoter Score) methodology for this measurement and continues to increase its consolidated NPS score, which it calls Arzum NPS, day by day. By holding monthly satisfaction meetings with the participation of all relevant units and senior management and by implementing the decisions taken at these meetings, Arzum NPS continued to rise every year, and in 2022 as well, when Arzum NPS increased by 5.7% compared to the previous year.

Sustainability Awareness

Waste saving with cardboard recycling

Arzum recycled 47 tons of waste cardboard per year and used it for shipping. It stopped using air cushion coils of 64 km and paper coils of 57 km per year.

3,834
Refurbished Products

3,834 products were refurbished in 2022.

Arzum focused on two basic issues in its sustainable business model: resource-saving and recycling in production. The company also attaches great importance to e-waste.

Aiming to use company resources efficiently and reduce the adverse environmental effects Arzum launched the 'Product Refurbishment' project in 2020 as a responsible brand. In this context, the products that come as sales returns and are unused by the consumer are refurbished and re-offered to consumers as spare parts through disassembling. Thus, it reintroduces the scrapped products into the production cycle.

In addition, Arzum pays attention to the full compliance of all its suppliers with environmental regulations, and closely follows the energy regulations for its products. Arzum strives to achieve energy-efficient products with reduced carbon footprint and will keep carrying out its business with sustainability on its focus in the coming years.

Supply of Refurbished Products and Spare Parts Through Product Disassembling

In a world where natural resources are depleted and global economic recession is experienced, Arzum refurbishes products that come as sales returns and have not been used by consumers as part of its sustainability projects. In addition, resource savings are also achieved by

reusing these refurbished products as spare parts through the disassembling method. One year warranty is offered by affixing 'Refurbished Product' labels on the packaging of refurbished products. Since the launch of the product refurbishing project in March 2020, a total of 3,834 products were refurbished and brought back into use in 2022.

Products that are not suitable for refurbishment and that have never been used are disassembled and utilized in the repair of defective products. In 2022, Arzum reaped 223,379 unused spare parts from returned products through the product disassembling method.

Cardboard Waste Management

Arzum does not dispose of waste cardboard boxes from storage operations and recycles them with the cardboard recycling machine that fully belongs to Arzum's inventory. The recycled boxes are used to fill in gaps in the packaging of spare part orders so that the materials are not damaged. The purchase of 36 air cushion coils (64,750 meters) and 90 paper coils (57,400 meters) per year, which were purchased for filling in gaps, was terminated with this method. Activities carried out on the axis of the European Green Deal focus on the reduction of plastic use and the prevention of overpackaging. The priority targets with the cardboard recycling machine include the prevention of plastic waste, which cannot be recycled and remains in nature for around 1,000 years, and the utilization of all outputs as inputs again from a circular economy perspective. With the preferred cardboard recycling method, Arzum strengthens its environmental consciousness once again by recycling and reusing waste cardboard boxes without the need for any additional processes.

Thanks to the cardboard recycling method;

- It recycled 47 tons of waste cardboard per year and used it for shipping,
- It stopped using air cushion coils of 64 km and paper coils of 57 km per year.



Crate-Type Shipping

Continuous improvements are carried out to reduce packaging costs, which increase in parallel with consumer demands, and minimize environmental impacts. Within this scope, Arzum reduces packaging materials with works that encourage innovation and strengthens its environmental consciousness once again. Therefore, spare parts in Istanbul are shipped with recycled plastic crates instead of cardboard boxes to reduce the use of cardboard boxes and contribute to nature by preventing environmental pollution.

The project;

- Covers all services in both the European and Anatolian sides of Istanbul.
- Service orders in Istanbul are shipped with 3 types of crates instead of 9 types of cardboard boxes.
- 2150 spare parts were shipped with crates within 3 months.
- 1 ton of paper and cardboard equals 17

trees being cut down. The annual target of the project is to stop the release of 5.5 tons of paper into the environment and prevent 93 trees from being cut down.

- This method ensures cost savings and makes a conscious and practical contribution to environmental protection.
- Recycled plastic crates are used for shipping instead of releasing new materials into the environment and nature.

Packaging and Other Waste Management

Pursuant to the Packaging Waste Control Regulation, following obligations have been imposed on companies:

- to prevent the formation of packaging wastes,
- to reduce the number of unavoidable packaging wastes to be disposed through recycling and recovery,
- to prevent the packaging wastes blended with receiving environment directly or indirectly in a way that will harm the environment.

Arzum works with the ÇEVKO Foundation, which voluntarily implements practices related to the separate collection of packaging waste at the source in order to comply with this regulation. ÇEVKO Foundation has taken over an obligation from industrial establishments that put products on the market and fulfills it by cooperating with local governments and licensed collection-separation companies. Packaging wastes of the products that are taken to the warehouse to be put on the market every year are reported to the Ministry of Environment and Urbanization in the first three months of the following year. Arzum also works with the ÇEVKO Foundation to fulfill its recycling obligation arising from the Packaging Waste Control Regulation. Currently, packaging wastes generated as a result of activities within the logistics company, returned products from dealers, and wastes generated as a result of the activities of the maintenance and repair team are collected separately at the source. Separated wastes are recycled, waste management is delegated to companies licensed by the Ministry of Environment and Urbanization, and they are recycled and brought into the circular economy.

Human Resources

Development plans are prepared for employees

Arzum plans its individual development activities in line with the company's strategic priorities and the individual needs of its employees.

Human Resources Strategy

The strategy of Arzum Human Resources consists of the following focus areas in line with Arzum's vision, mission, and strategy:

- Acquiring and retaining talent,
- Implementing the working models of the new normal,
- Creating a high-performance culture,
- Being the preferred employer,
- Ensuring the adaptation of digitalization to the company culture,
- Increasing productivity.

Arzum prioritizes fulfilling its responsibilities towards all its stakeholders in the best way possible. It values its employees, who are one of its most important stakeholders. Therefore, the company implements modern Human Resources practices by constantly monitoring the needs and expectations of its employees.

Arzum employees mean much more than their jobs and they add value to the company. In this context, Arzum measures employee loyalty and satisfaction by independent consultants on an annual basis. Action plans and focus areas are defined according to the results of the measurement surveys. All actions of Human Resources are taken in line with the Human Resources Strategy and employee needs.

The Human Resources Manifesto prepared in 2021 emphasized that Arzum Human Resources adopts an empathetic approach. This approach is based on contributing to its employees, communicating with them closely, meeting the changing needs of employees, strengthening the employees' sense of meaning in their work, and ensuring their participation in decision-making (#hepbirliKte).

Talent Management and Development

Arzum Talent Management is about developing the competencies of Arzum's employees, strengthening their loyalty, and acquiring new talents from outside the company. For a healthy and result-oriented Talent Management:

- Arzum's employees are evaluated based on their competencies;
- They are encouraged to receive and give feedback on a continuous basis;
- Development plans are prepared for the employees according to their individual needs.

Arzum plans its individual development activities in line with the company's strategic priorities and the individual needs of its employees. In Arzum, development does not only consist of trainings; it also involves implementations for individual development, such as trainings, project-based studies, volunteering works, coaching, mentoring and mentee roles and internal trainer activities.

45%

Female employee rate

The female employee rate at Arzum is around 45%.

Launched in 2021, the Awareness and Development Journey project focuses on improving the leadership and technical competencies of managers while it emphasizes improving the feedback receiving and giving competencies of non-managerial employees. The project includes 360-degree evaluation surveys, Development Center studies, Feedback Receiving and Giving, Leadership Competence Training, and preparing an Individual Development Plan. With the “Leadership Stage” project launched in 2022, leaders continue to contribute to their personal and leadership developments with one-on-one meetings and workshops with consultants.

Performance Management

One of the focus areas of the Human Resources Strategy is to be a high-performing company. Human Resources aim to create a working environment that supports employees’ high performance, creativity and innovative thinking.

Every year, all employees from all levels are included in the performance evaluation process.

The process starts with the reflection of the company goals to all employees as performance goals, starting from the Chief Executive Officer. According to this approach, each employee contributes to the company’s result in line with the scope of their work. The goals set at the beginning of each year are monitored by the employee supervisor throughout the year, and the realization of the goal is constantly evaluated. At the end of the year, targets are reviewed in line with concrete criteria, employee competencies are assessed, and an individual development plan is prepared. The criteria assessed include “to what extent” as well as “how” the targets were achieved. The outputs of the performance evaluation process are used in individual development plans and wage increases.

Recruitment and Orientation Process

The principles of equality and justice underlie all processes as well as recruitment. Recruitment at Arzum is a detailed process that is meticulously handled and executed. Recruits must comply with Arzum’s values and have the required Arzum leadership competencies and technical skills for the role. Apart from interviews, various inventories, case studies, presentations, and development center studies are used to get to know the candidates closely during the recruitment process.

A comprehensive orientation program is implemented to help each new Arzum employee quickly adapt and get to know the company and their colleagues. The process is initiated on the first day of the employee. A buddy is assigned to the new recruit in line with the Buddy Program, implemented to facilitate the integration of new recruits and make them more productive. In order to accelerate the adaptation of the newcomers to the company, Buddies often meet them and communicate the Arzum culture to them. New recruits come together with the Human Resources Department within 6 months at the latest, and share their observations and feedback, which help to monitor their commitment and satisfaction.

Internal Communication

Internal communication is one of the most important tools in understanding, strengthening and spreading the Arzum culture. Arzum carries out an internal communication strategy involving all its employees in different locations. Arzum has a hybrid internal communication system consisting of face-to-face and online communication. The internal communication schedule is prepared by Human Resources every January, and important days and agendas are identified at the beginning of the year. Celebrations via e-mail are organized within the company on special occasions and important days; gift organizations and activities are carried out.



Human Resources

Easy internal communication with an open office system

Employees in all roles can be easily reached thanks to the glazed open office system in the Arzum office, which is aimed at facilitating internal communication.

Employees in all roles can be easily reached thanks to the glazed open office system in the Arzum office, which is aimed at facilitating internal communication.

The “Bir Arzumuz Var” (We Have a Desire) team, composed of the Company’s volunteer employees, plays an important role in conveying the needs of the employees to the management without delay and is positioned as a key player in internal communication. We work together with the “Bir Arzumuz Var” team in all processes that, in particular, require culture change and affect the daily lives of employees. Through the “Bir Arzumuz Var” (We Have a Desire) Team,

employees can instantly share their suggestions and feedback with the entire company via an online platform. All suggestions are displayed and replied to transparently by the entire company on the online platform.

Company agendas are shared every quarter at the “Agenda Arzum” meeting with the participation of all employees. Again, at the end of each quarter, a “Meetings with the CFO” event is held with the participation of all employees, where the financial performance of the company is communicated.

“İK ile OKKA’lı Sohbetler” (OKKA Talks with HR) attended by employees from different focus groups and “Leader Cafe” meetings addressing leadership competencies related to leaders are held monthly by Human Resources. Employees provide each other with information on their areas of expertise through the “We Learn From Each Other” sessions, aiming to accelerate and mainstream information sharing among employees.

Appraisal and Rewarding

We notice and reward success in Arzum. Communication meetings attended by the whole company and e-mail notifications are preferred to celebrate successes. In addition, Seniority Awards Organization is held for every 5 years of term of employment at Arzum, and the employees’ loyalty to Arzum is celebrated.

Occupational Health and Safety

Arzum’s Occupational Health and Safety (OHS) approach aims to raise the OHS awareness of employees by putting people at the center, constantly monitoring the needs shaped by changing dynamics and offering sustainable OHS solutions.

Arzum makes every effort to create the most ideal conditions for the health and safety of all employees, in line with its human-oriented approach stemming from its culture and the occupational health and safety approach protected by the laws (Occupational Health and Safety Code No. 6331). Especially within the scope of work requirements in the new normal shaped by digitalization and the Covid-19 pandemic, not only the physical health and integrity of the employees, but also the mental and mental health of the employees are supported within the scope of the concept of employee well-being.

In line with the OHS approach and responsibilities arising from the law, OHS trainings are given to every new employee, and these trainings are repeated at certain intervals. In order to strengthen OHS awareness among all Arzum employees, various OHS projects are implemented throughout the year.

Remuneration and Benefits

At Arzum, remuneration is conducted without any discrimination based on language, religion, race and gender. According to the wage and benefit surveys conducted by independent and international consultancy companies in the relevant geographies, wages, and benefits of employees are determined in line with their roles, scopes of duty, and responsibilities. The benefits support the implementation of premium payments in proportion to the company’s success, private health insurance, travel allowance, food aid, laptop, mobile phone, GSM line, personal accident insurance, excuse leave, and death/birth cases.

Female Employee Rate

As of the end of 2022, the rate of female employees at Arzum is 45%.

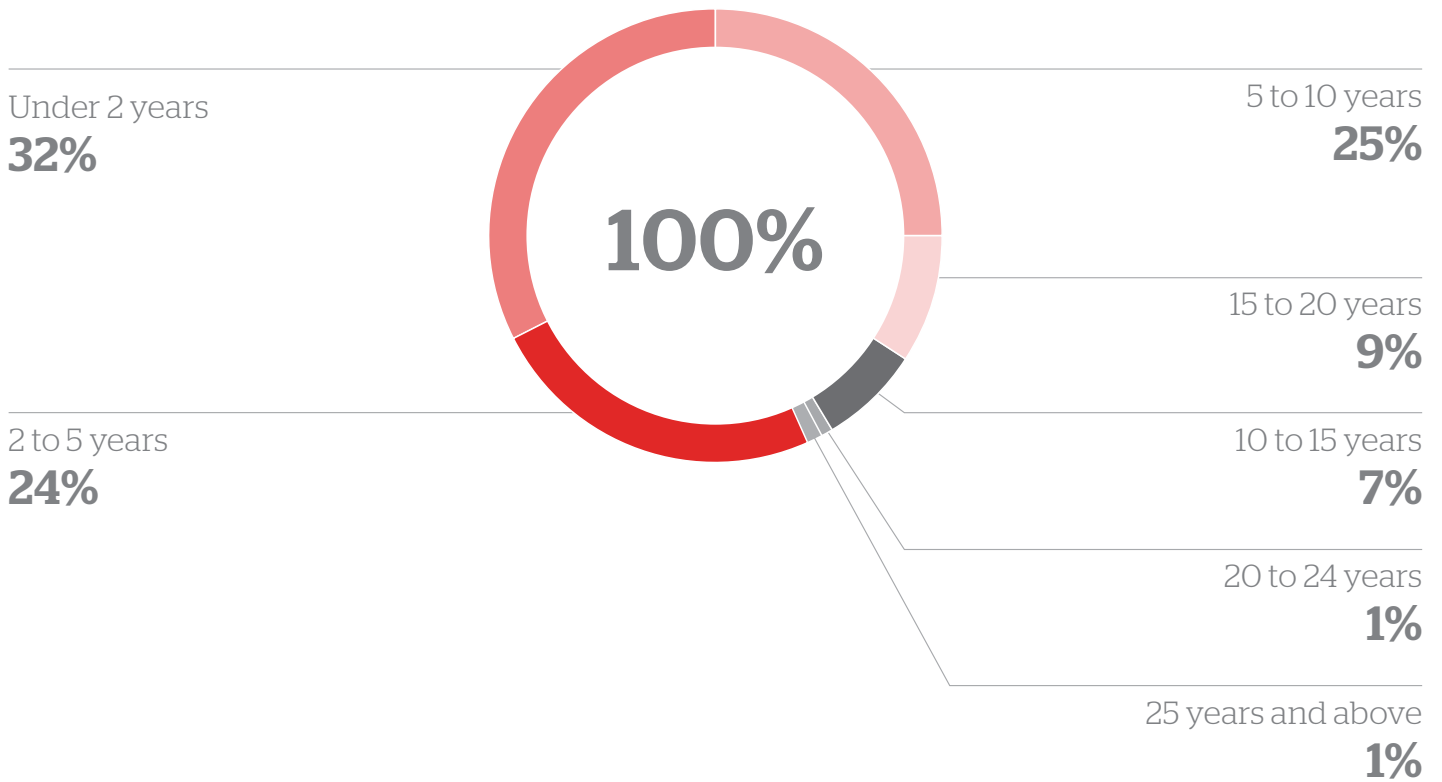
Male Employee Rate

As of the end of 2022, the rate of male employees at Arzum is 55%.

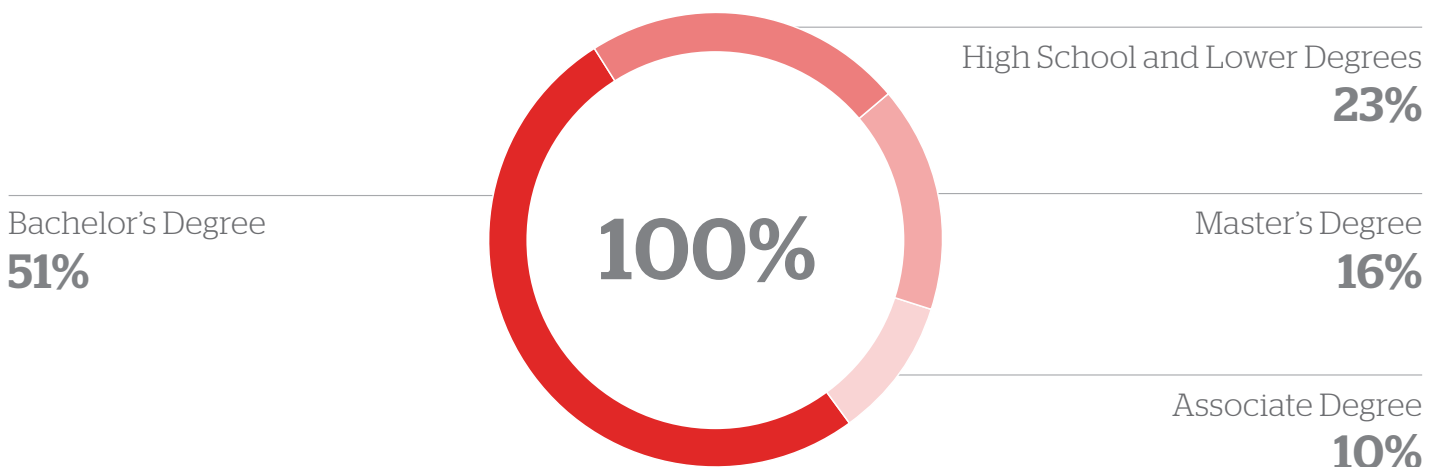
Age Distribution

The majority (69%) of the Company is made up of the Y generation.

Distribution by Seniority



Distribution by Educational Status



Social Responsibility Projects and Sponsorships

Women's Chess Championship sponsor

Arzum has been sponsoring the “Arzum Turkish Women's Chess Championship” for 15 years without skipping a beat.



Arzum supports the Turkish Women's Chess Championship uninterruptedly for 15 years

Arzum has been sponsoring the “Arzum Turkish Women's Chess Championship” for 15 years without skipping a beat. Arzum carries out projects that support women in every field, making it clear that “It's the women's turn, Arzum is with them”. Being aware of the need to support chess and the importance of encouraging children to this sport from a young age, Arzum closely follows the increasing number of female players every year. The potential in the field

of chess is increasing every year with these initiatives and support. Arzum plans to cooperate with the Turkish Chess Federation, both to support female players and take chess a step forward in general. Arzum's biggest goal in this field is to have a world champion from Türkiye...



“The Beginning: Turkish Coffee Stories from Anatolia”, the Documentary Shot by the Turkish Coffee Lady Foundation with the Sponsorship of Arzum OKKA, Went on World Tour

We cooperated with the Turkish Coffee Lady Foundation to spread Turkish coffee culture to the world. Arzum OKKA also became one of the main sponsors of the documentary “The Beginning: Turkish Coffee Stories from Anatolia” shot by the foundation in eight different cities in Türkiye in 2021. The documentary tells all coffee lovers how Turkish coffee, the first coffee-making method in history, spread from Istanbul to Europe and then to the world 600 years ago. Screened in Hollywood, the heart of the American movie industry, as well as Los Angeles and San Diego, the documentary received considerable attention from the audience. The documentary “The Beginning: Turkish Coffee Stories from Anatolia” was screened in 10 more states of the USA as part of World Turkish Coffee Day on December 5. Projects and cooperations will continue with the Turkish Coffee Lady Foundation, which has been carrying out several activities for spreading Turkish coffee culture to the world for years, just like Arzum OKKA.

Arzum became the sleeve sponsor of the Galatasaray Hepsiburada Women’s Football Team.

Supporting female athletes and players, not only in chess but also in football, Arzum cooperated with Galatasaray Sports Club. Arzum became the jersey and sleeve sponsor of the Galatasaray Hepsiburada Women’s Football Team competing in the Women’s Football Super League in the 2021-2022 season. Arzum, who contributed to changing the perception that “Football is for men” all over the world and in Türkiye, gave a message of equality by standing by the brave women who want to show that football is not a man’s game and say, “We are in every field!”.





Corporate Governance

Corporate Governance Principles Compliance Statement

Arzum Elektrikli Ev Aletleri San. ve Tic. A.Ş. (“Arzum” or “Company”) believes that all mandatory or non-mandatory corporate governance principles and practices within the scope of the Corporate Governance Communiqué (the Communiqué) numbered II-17.1 of the Capital Markets Board are an important part of sustainable and responsible growth. Within this framework, our Company has adopted the concepts of equality, transparency, accountability and responsibility of the Corporate Governance Principles, and shows the utmost care and effort to comply with the Capital Markets Code and the secondary regulations and decisions of the Capital Markets Board.

Our company was offered to the public on December 24, 2020 and is being traded in Borsa Istanbul with the code “ARZUM.” As of the first Ordinary General Assembly held on April 29, 2021, after the shares started to be traded on the stock exchange, all of the mandatory articles of the Corporate Governance Principles in the annex of the Corporate Governance Communiqué numbered II-17.1 of the Capital Markets Board have been complied with.

According to the Communiqué, the reasons for the non-mandatory Corporate Governance Principles, for which compliance has not yet been achieved, are given below. Those principles that have not yet been implemented have not led to any conflict of interest between the interested parties.

- **1.5.2.:** Those who have a ratio of less than one-twentieth of the capital are not granted the minority rights as per the Articles of Association, and the exercise of minority rights in the Company is subject to Turkish Commercial Code, Capital Markets Law, relevant legislation and the notifications and decisions of the Capital Markets Board. It is not planned to make any changes in this regard in the Articles of Association in the near future.
- **3.3.1.:** Our company does not have a succession program for key managerial positions yet. It is aimed to ensure full compliance with this principle in the upcoming periods.
- **4.4.7.:** Members of the Board of Directors are not restricted from taking on other duties outside the Company. And it is not interfering with the members’ duties within the Company. The duties of the Board Members outside the Company are presented to the information of the shareholders in the annual report. In the near future, no change of practice is planned otherwise.
- **4.5.5.:** The chairmen of the mandatory committees to be established under the CMB regulations must consist of independent members; all members of the committee responsible for the audit must be independent members; the chief executive officer/ general manager is not allowed to take part in the committees, and the knowledge and experience of our Board Members are to be taken into consideration. As a result of these requirements and conditions, some of our Board Members are assigned to more than one committee. Considering the effectiveness of current committee structure, it is not anticipated to make any change in this regard in the near future.
- **4.6.1.:** The Annual Report of the Company’s Board of Directors includes an explanation about whether the previous period’s targets have been achieved or not. Apart from this, there is no separate performance evaluation of the Board of Directors yet. It is aimed to ensure full compliance with this principle in the upcoming periods.
- **4.6.5.:** The relevant article is not complied with because the attendance fees for Board Members are determined at the General Assembly and disclosed in the Annual Report, and the remunerations for executives with administrative responsibilities are not disclosed on an individual basis, but rather collectively in the Annual Report of the Company in line with the general practice. No changes are planned for the current practice in the upcoming period.

According to the Communiqué, the principles for the non-mandatory Corporate Governance Principles, for which compliance has partially achieved, are given below. The principles that have not yet been implemented completely have not led to any conflict of interest between the interested parties.

- **1.3.11.:** In case the stakeholders who are not included in the Internal Directive on the Working Principles and Procedures of the General Assembly formed by the Company, wish to attend the General Assembly, the relevant request is evaluated by the meeting chairmanship and usually granted. It is possible for the media to attend the General Assembly Meetings, provided that they inform the Company officials. However, this principle is partially complied with because there is no open invitation to the media in the call for the Company's General Assembly. No changes are planned for the current practice in the upcoming period.
- **1.7.1.:** In Article 6 of our Articles of Association, the principles of transfer of shares are regulated and a restriction is imposed on the transfer of Group A shares that are not traded in the stock exchange. However, there are no practices that make it difficult for the B group shareholders traded in the stock exchange to transfer their shares freely, or no provisions restricting the transfer of shares. No changes in the Articles of Association are planned for the current practice in the upcoming period.
- **2.1.4.:** Partial compliance with the relevant article is achieved because some documents are available only in Turkish on the website while most of the Turkish content is also available in English on both company's corporate website and Investor Relations website. Currently, the Company is paying special attention to making sure that all information on the corporate website is matching the Turkish content completely.
- **3.2.1.:** Employees' participation in management is ensured through periodic communication meetings within the Company, a recommendation system, and frequently conducted surveys to receive feedback from employees. It is not regulated in writing via internal regulations. Therefore, this article is partially complied with.
- **3.5.2.:** Our Company's Ethical Policy is very extensive, and anti-bribery and corruption provisions are also included. However, compliance with this article is partial as there is no separate "Anti-Bribery and Corruption Policy".
- **4.2.3.:** Arzum started to receive consultancy services from an independent company for auditing the internal control systems. Established in line with the results of the consultancy process, the Internal Control Department has just started work and aims to increase the efficiency of the internal control system as of 2023.
- **4.4.1.:** Although the majority of the Board Members physically attended most of the meetings, the decisions of the members who could not attend the meeting were obtained through the circulation method within the framework of TCC 390/4. The Board of Directors convened 32 times in total during the year and was regularly informed about the performance of the Company. Related information and documents were shared with the Board Members prior to taking decisions, and their questions were answered by giving detailed information about the issues.

Corporate Governance Principles Compliance Statement

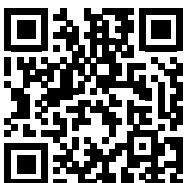
Our compliance with the Corporate Governance Principles, which are not obligatory as per the Communiqué, and the principles that are not included in the Corporate Governance Compliance Report (URF) template, are presented below with the transparency, accountability and responsibility approach adopted by our Company. The principles that have not yet been fully implemented have not led to any conflict of interest among the stakeholders.

Principle No.	Article No.	Compliance Status	Description
1.1.1.	In addition to the partnership bodies, the "Investor Relations Department" plays an active role in protecting and facilitating the exercise of shareholders' rights, particularly the right to obtain and review information.	Yes	-
1.3.3.	In order to increase the participation of the shareholders, the general assembly meeting is held in a way that does not cause inequality among the shareholders and ensures the participation of the shareholders at the least possible cost. For this purpose, the meeting is held where the shareholders have a numerical majority provided that it is included in the articles of association.	Partially	As stated in the Articles of Association, Company General Assemblies are held at the Company headquarters or at a convenient location in the city where the headquarters is located. Suitable places are chosen as meeting places to facilitate the participation of the shareholders, but this principle is partially complied with because there is no special provision in the Articles of Association stating that the meeting will be held in a place where the shareholders have a numerical majority. There has been no conflict of interest due to non-compliance with this principle, and there are no plans to make any changes in this direction in the Articles of Association in the near future.
1.3.4.	The chairman of the meeting makes preliminary preparations and obtains the necessary information regarding the conduct of the general assembly in accordance with the Turkish Commercial Code, the Law and the relevant legislation.	Yes	-

Principle No.	Article No.	Compliance Status	Description
2.1.3.	Financial statements, excluding special events and footnotes, which are required to be disclosed to the public in accordance with the capital market legislation, are disclosed simultaneously in Turkish as well as in English on the Public Disclosure Platform. English explanations are ensured to be accurate, complete, direct, understandable, sufficient and consistent with the Turkish version of the explanation to help those who will refer to the explanation make a decision.	No	The obligations, determined according to the groupings specified in the Corporate Governance Communiqué No. II-17.1 for the language of financial statements, which must be disclosed to the public pursuant to the capital market legislation, except for special events and footnotes, are taken into account, and no extra implementation is made in this direction, except for the grouping obligations that our Company is involved in. There are no plans to make changes to the implementation in the near future.
3.1.2.	In case the rights of the stakeholders are violated, which are protected by legislation and contracts, effective and prompt compensation is provided. The Company takes the necessary actions to facilitate the use of mechanisms such as compensation provided to the stakeholders by the relevant legislation. In addition, the Company establishes the compensation policy for its employees and discloses it to the public through the corporate website.	Yes	-

Our Company will continue to work on compliance with the Corporate Governance Principles by following the developments and practices in the legislation in the coming period.

Within the scope of the Capital Markets Board's (CMB) Corporate Governance Communiqué numbered II-17-1, which was issued in accordance with the Capital Markets Board's decision dated 10.01.2019 and numbered 2/49; our Company's Corporate Governance Compliance Report for the period 01.01.2022 - 31.12.2022 was prepared as "Corporate Governance Compliance Report (URF)" and "Corporate Governance Information Form (KYBF)" according to the aforementioned format and published on the Public Disclosure Platform. The disclosures in question are accessible via the following links: <https://www.kap.org.tr/tr/Bildirim/1119937> and <https://www.kap.org.tr/tr/Bildirim/1119952>.



To access the Corporate Governance Compliance Report (URF), scan the QR Code on your smart device.



To access the Corporate Governance Information Form (KYBF), scan the QR Code on your smart device.

Sustainability Principles Compliance Statement

As Arzum, we continue our development with an understanding of responsible growth by modeling good practices within the scope of sustainability management. In this context, we aim to maintain our full compliance status due to the principles and good practices specified in the Capital Markets Board's "Sustainability Principles Harmonization Framework", and to put into practice in the near future what we have not yet implemented. We aim to work towards increasing our compliance status as much as possible by regularly reviewing our principles and activities in 2023, taking into account the benefit of all stakeholders, especially shareholders.

The 2022 Sustainability Principles Compliance Report, prepared in accordance with the amendment made on 02/10/2020 in the Corporate Governance Communiqué of the Capital Markets Board No. II-17.1 and the Board Decision dated 23.06.2022 and numbered 34/977, was submitted to the information of shareholders and stakeholders at the address <https://www.kap.org.tr/tr/Bildirim/1119929>. In 2023 and the upcoming periods, our keen approach to finding solutions to areas that require compliance and improvement will be maintained by internalizing the Corporate Governance Principles and Sustainability Principles, taking into account the requirements and developments in the legislation.



**To access the
Sustainability
Principles Compliance
Report, scan the QR
Code on your smart
device.**

Investor Relations

Arzum Investor Relations Basic Activities

- To keep regular, secure, and up-to-date records of the correspondence made between the investors and the corporation, and other information and documents, and to carry out the transactions before the Central Registry Agency.
- To answer the questions received by the department during the period and the information requests of the shareholders regarding the partnership, with the exception of the confidential and trade secret information about the Company, openly and clearly, face to face or through communication tools, in line with the Company's public disclosure procedure.
- To prepare the documents to be submitted for the information and examination of the shareholders regarding the General Assembly Meeting and to take measures to ensure that the General Assembly Meeting is held in accordance with the relevant legislation, Articles of Association and other in-house regulations.
- To participate in conferences, panels, seminars and on-site promotional meetings in order to supervise and monitor the fulfillment of the obligations arising from the capital market legislation, including all matters related to corporate governance and public disclosure, to coordinate the communication with the public as well as the explanations made as required by the legislation, and to ensure to hold meetings with investors and analysts.

Based on Article 11 of the Capital Markets Board's Corporate Governance Communiqué, titled "Investor Relations Section," the Investor Relations Department has been established within the Company after the shares have been offered to the public and traded on the stock exchange, and the Department reports to Investor Relations Department Manager and Chief Financial Officer (CFO). The Investor Relations Manager, who is also a member of the Corporate Governance Committee, holds the Capital Market Activities Level 3 License, the Corporate Governance Rating License and the Derivative Instruments License. Investor Relations contact information is as follows:

Investor Relations Manager

Neslihan Aydođdu

Phone: 0212 476 80 80

E-mail: yatirimci@arzum.com

Exercise of Shareholders' Right to Information

No discrimination is made between shareholders regarding the exercise of the right of the shareholders to obtain and review information. Every shareholder has the right to receive and review information. There is no regulation in the Articles of Association that restricts the right to receive information.

In terms of exercising the shareholder rights, the Company complies with the legislation, Articles of Association and other in-house regulations, measures are taken to ensure the exercise of these rights, and all shareholders are treated equally. The main purpose of the Company is to enable the shareholders to exercise their right to obtain information and to provide information objectively and completely within the framework of the law.

All matters regarding the public disclosure obligation are presented in accordance with the legislation and the Articles of Association, and in this context, important material event disclosures regarding investors are disclosed to the public on the Public Disclosure Platform (KAP) in accordance with the legislation and in a timely manner.

In 2022, written and verbal information requests from investors and shareholders were answered in accordance with the Capital Markets Legislation, CMB regulations and decisions, and the relevant information and documents were delivered to the shareholders, with the exception of confidential or trade secrets, by observing the principle of equality. Within the framework of the current legislation, the Investor Relations page (<https://yatirimciiliskileri.arzum.com.tr/tr/home/>) in the corporate website of the company is used effectively in order to expand the shareholders' right to obtain information and to exercise their rights in a healthy way. In this context, information and documents stipulated by the Corporate Governance Principles and regulatory authorities are made available to shareholders on the corporate website.

General Assembly

General Assembly Meetings

The General Assembly meetings convenes ordinarily or extraordinarily. During the General Assembly Meetings, the provisions of the Turkish Commercial Code, the capital market legislation, the Company's Articles of Association and the Internal Directive on the Working Principles and Procedures of the General Assembly are applied.

Notifications regarding the General Assembly Meetings are made within the framework of the provisions of the Turkish Commercial Code and the capital market legislation. The announcement of the General Assembly Meeting is made at least three weeks before the date of the General Assembly Meeting, excluding the announcement and meeting days, by using all kinds of communication means, including electronic communication, as well as the procedures stipulated in the legislation. The announcement in question is published on the Company's website, on the Public Disclosure Platform and in other places determined by the Capital Markets Board, and in the Turkish Trade Registry Gazette. Shareholders are informed about the announcement of the General Assembly Meeting, the notifications and explanations that the Company must make in accordance with the legislation, and the matters determined by the corporate governance regulations of the Capital Markets Board via the Company's website.

Ordinary General Assembly Meetings are held after the end of the relevant accounting period of the Company and at least once a year. Extraordinary General Assemblies, on the other hand, are convened as and when required by the business of the Company.

At General Assembly Meetings, each shareholder has one vote for each share. The provisions of the TCC, the provisions of the capital market legislation and the regulations of the Capital Markets Board on corporate governance principles are complied with in the invitation to the General Assembly Meetings, in the meetings and in the decision quorum in these meetings. Without prejudice to Article 438 of the Turkish Commercial Code and Article 29 of the Capital Markets Law, matters that are not included in the agenda cannot be discussed and resolved. Without prejudice to the provisions of Articles 6 and 7 of the Articles of Association, meeting and decision quorums in General Assemblies are subject to the relevant articles of the Turkish Commercial Code and capital market legislation. The General Assembly convenes at the Company's head office or at a convenient place in the city where its head office is located. Pursuant to the "Regulation on the General Assembly of Joint Stock Companies to be Held via Electronic Means," the Company may set up an electronic General Assembly system or procure any system developed for this purpose so that shareholders are able to attend, express their views, make suggestions, and cast their votes via electronic communication means.

At General Assembly Meetings, shareholders may participate themselves, or get represented in the General Assembly by other shareholders or an externally appointed proxy. Proxies who are shareholders in the Company are authorized to vote for the shares of the shareholders they represent, as well as for their own shares. The form of authorizations is determined and announced by the Board of Directors. Capital market legislation and relevant legislation shall be complied with regarding representation by proxy. The Shares are an indivisible whole against the Company. If a share has more than one owner, they can exercise their rights against the Company only through a proxy to be appointed jointly. If they do not appoint a joint attorney, the notifications made by the Company to one of them will apply to all of them.

2021 Ordinary General Assembly Meeting

2021 Ordinary General Assembly Meeting was held on 21.04.2022 at the address “Harbiye, Cumhuriyet Cd., No:50, 34367 Şişli/İstanbul, Hilton İstanbul Bosphorus Hotel, Şadırvan A Hall”, and registered on 25.04.2022.

At the Annual General Assembly Meeting, agenda items are communicated to shareholders in an impartial, thorough, clear, and understandable manner such that they may express their views under the same conditions and are offered an opportunity to ask questions. At the General Assembly Meeting held on April 21, 2022, the questions posed by the shareholders were answered during the meeting, and there was no question on the agenda that could not be answered and sent to the Investor Relations Department in writing. The questions asked at the General Assembly were shared with the public under the title of the General Assembly on the Investor Relations website (<https://yatirimciiliskileri.arzum.com.tr/tr/anasayfa/>), along with their answers within the framework of Article 1.3.5 of the Corporate Governance Principles, which is an annex to the Corporate Governance Communiqué No. II.17.1 of the Capital Markets Board.

Voting Rights and Minority Rights

The Company’s Articles of Association do not grant any privileges regarding voting rights. One voting right is granted for each share in ordinary or extraordinary General Assemblies.

The Company avoids practices that make it difficult for shareholders to exercise their voting rights. In this context, according to Article 13 of the Company’s Articles of Association regarding the General Assembly, the beneficiaries who have the right to attend the General Assembly Meetings of the Company can also attend these meetings electronically in accordance with Article no. 1527 of the Turkish Commercial Code.

Those who have a ratio of less than one twentieth of the capital are not granted with the minority rights as per the Articles of Association, and the use of minority rights in the Company is subject to Turkish Commercial Code, Capital Markets Law, relevant legislation and the notifications and decisions of the Capital Markets Board. Utmost care is taken in this regard.

Profit Distribution Policy

Right to Dividend

The profit distribution principles of the Company are regulated by the provisions of the Articles of Association regarding profit distribution. Accordingly, the Company acts in accordance with the provisions of the Turkish Commercial Code and capital market legislation regarding profit determination and distribution. There are no privileges granted to shareholders in the Articles of Association regarding participation in company profits.

The profit distribution policy of the Company is given below.

Profit Distribution Policy

Our Company's Dividend Distribution Policy has been prepared within the framework of the provisions of the Turkish Commercial Code, Capital Market Regulations, Tax Regulations and other relevant regulations, as well as the article on profit distribution in our Articles of Association, and profit distribution is made accordingly.

In profit distribution, a balanced and consistent policy is followed between the interests of the shareholders and the Company in accordance with the Corporate Governance Principles. In principle, it is aimed to distribute at least one third of the distributable period profit calculated within the framework of the Capital Markets Regulations to the shareholders and other persons participating in the profit in the form of cash and/or bonus shares in proportion to their shares as long as the relevant regulations and financial possibilities allow, and as long as it can be met from the resources available in our legal records based on the market expectations, our long-term company strategy, the capital requirements of our subsidiaries and affiliates, our investment and financing policies, profitability and cash situation. After the first dividend is paid to the Board Members and their employees, the payment of dividends is subject to the decision of the General Assembly in accordance with Article 19 of the Company's Articles of Association, and the dividend distribution rates to be made to the Board Members and employees will be determined by the General Assembly.

It is aimed to distribute the profits within one month at the latest following the General Assembly Meeting, and the dividends will be distributed equally to the shareholders on the date determined by the General Assembly following the approval of the General Assembly within the legal deadlines, regardless of all existing shares and their issuance and acquisition dates. The General Assembly or if authorized, the Board of Directors may decide to distribute the dividend in installments in accordance with the Capital Markets Regulations.

In any case, the distribution process starts at the latest as of the end of the accounting period in which the General Assembly Meeting is held.

According to the Articles of Association, the Board of Directors may distribute advance dividend only if authorized by the General Assembly and adhering to the Capital Market Regulations.

Article 19 of the Articles of Association, titled "Determination and Distribution of Profit," includes the principles regarding profit distribution.

This Policy is submitted for the approval of shareholders at the General Assembly Meeting. Any changes to this policy are also submitted for the approval of the shareholders at the first General Assembly meeting after the change and announced to the public on the website.

Transfer of Shares

The principles for the transfer of shares have been regulated in Article 6 of our Articles of Association, restrictions have been imposed on the transfer of group A shares that are not traded on the stock exchange, but there are no provisions that make it difficult for B group shareholders to transfer their shares or restrict the transfer of shares freely.

Structure and Operation of the Board of Directors

Company Management

The business and administration of the Company is carried out by a Board of Directors consisting of at least 5 (five) members to be elected by the General Assembly within the framework of the provisions of the Turkish Commercial Code and the Capital Markets Law, meeting the conditions specified in the Turkish Commercial Code and the capital market legislation. Half of the Board Members of the Company will be elected among the candidates determined by the majority of votes among the A Group shareholders, with the quorum specified in the Turkish Commercial Code and the Capital Markets Code. The number of Board Members to be elected among the candidates determined by the majority of the votes of Group A shareholders can never exceed half of the total number of Board Members. If the total number of Board Members 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 Board Members to be elected among the candidates nominated by the said Group A shareholders will be from members other than the independent members specified in the Corporate Governance Principles of the Capital Markets Board. The affirmative vote of 51% of the votes representing the total issued capital of the Company at the General Assembly is required for the election of the members other than the Board Members to be elected among the candidates nominated by the Group A shareholders. A sufficient number of independent Board Members are elected by the General Assembly within the framework of the principles regarding the independence of the Members of the Board of Directors specified in the corporate governance principles of the Capital Markets Board. Independent members must meet the conditions set forth in the regulations of the Capital Markets Board on corporate governance. The Chairman of the Board of Directors is elected among the Members of the A Group Board of Directors. The Chairman of the Board of Directors does not have the right to cast a decisive vote in case of equality.

Term and Re-election of the Board of Directors

Each Board Member will be elected for a maximum of 3 (three) years and shall serve until death, resignation or incapacity occurs before the end of the said period. A Board Member whose term of office has ended can be reappointed. Regarding the terms of office of the Independent Board Members, the regulations of the Capital Markets Board regarding corporate governance and the provisions of this Articles of Association shall apply. The General Assembly shall change the Board Members anytime if deemed necessary. The Board of Directors may conclude contracts and other transactions exceeding the term of office. In the event that a Board membership becomes vacant for any reason or the Independent Board Member loses his independence, the appointment is made in accordance with the provisions of the TCC and the capital market legislation and submitted to the approval of the first subsequent General Assembly. In the event that a member nominated by Group A shareholders leaves the Board of Directors for any reason, Group A shareholders also have the right to nominate the successor of the Board Member. In such a case, Group A shareholders appoint a new Board Member and the Board of Directors elects the said candidate as a Board Member in accordance with Article 363 of the TCC and to be submitted to the approval of the next General Assembly. The Board Members approved by the General Assembly serve until the expiry of the remaining term of their predecessors. In the event that the member leaving the Board of Directors is not a member nominated by the A Group shareholders, the vacant membership is elected by the Board of Directors in accordance with the TCC and Capital Markets Legislation. Legal entities may be elected as a Board Member in accordance with the provisions of the Turkish Commercial Code. If the legal person represented by the real person determined, registered and announced by the legal person no longer has any relationship with the Board Member, the said real person cannot act on behalf of the legal person and another real person is determined by the legal person. The remuneration regarding the Board of Directors is determined by the General Assembly. The General Assembly is authorized for the financial rights to be granted to the Board Members, other than wages. The provisions of the Capital Markets Code and relevant legislation regarding the remuneration of the Independent Board Members are reserved.

Structure and Operation of the Board of Directors

Board of Directors' Meetings

The Board of Directors convenes with regularity that will help the Board effectively carry out its tasks and duties. The Chairman of the Board of Directors determines the agenda of the Board of Directors meetings in consultation with the other Board Members and the Chief Executive Officer. Each Board Member may request the Chairman or Vice Chairman to call a meeting. Meetings of the Board of Directors to be held in the physical environment are held within the borders of the Republic of Türkiye, unless otherwise unanimously decided by the Board of Directors. If necessary, a sworn translator is present at the meetings.

Invitation to the Board of Directors Meetings is made by the Chairman or the Vice Chairman of the Board via fax, electronically signed e-mail or registered mail with return receipt at least 5 (five) days before the date determined for the meeting. The invitation includes a detailed agenda including the issues to be discussed at the meeting and documents related to the agenda. If all Board Members agree in writing, the Meeting of the Board of Directors can be held without notice. In such case, members are given sufficient time to prepare and attend the meeting. The presence of any member at the Board of Directors Meeting constitutes evidence that this member has waived the requirement to duly notify them. Each Board Member may request the Chairman or the Vice Chairman of the Board of Directors to add a new item to the agenda. In this case, the Chairman or Vice Chairman of the Board of Directors, who invites the meeting, makes the necessary addition to the agenda.

Pursuant to the provisions of the Turkish Commercial Code, unless any of the Board Members requests a meeting, and provided that the written approval are received from a sufficient number of Board Members stipulated in the Turkish Commercial Code, the capital market legislation and this Articles of Association for a decision made by one of the Board Members on a certain subject, a Board of Directors decision may be reached.

The provisions of the Turkish Commercial Code and the capital market legislation are applied regarding the meeting and decision quorums at the Board of Directors Meetings. In 2022, the Board of Directors held 32 meetings and the average attendance was 93%.

Administration and Representation of the Company

The representation of the Company against third parties belongs to the Board of Directors. The Board of Directors performs the duties assigned to it in accordance with the Turkish Commercial Code, the Capital Markets Law, other relevant legislation and this Articles of Association.

Upon the decision taken by the Board of Directors, the power to represent the Company can be assigned with a single signature to one of the members of the board of directors or to one or more executive members or to third parties who are managers. At least one Board Member must be authorized to represent the Company. Unless the decision, indicating the persons entitled to represent the Company and the method of representing, is registered and published in the trade registry, the transfer of the authority will not be valid. Limitation of the power to represent does not set forth any terms and conditions for bona fide third parties; however, the registered and announced restrictions on using the power to represent the company from a single center or branch or altogether are applicable. The provisions of Articles 371, 374 and 375 of the Turkish Commercial Code are reserved.

In accordance with Articles 367 and 371 of the Turkish Commercial Code, the Company may issue an internal directive regarding the transfer of representation authority. It is obligatory to register and announce the internal directive to be issued regarding the transfer of the power of attorney. The Company may appoint commercial attorneys or other merchant assistants with limited authority pursuant to the internal directive to be issued regarding the transfer of the power of attorney.

Pursuant to Articles 367 and 371 of the Turkish Commercial Code, the Board of Directors is authorized to transfer the management, partially or completely, to one or more Board Members or third parties, with an internal directive to be issued. This internal directive regulates the management of the Company and defines the duties, definitions and locations required for this, in particular, determines who is reporting to whom and who is responsible to provide information. Upon request, the Board of Directors notifies the shareholders and creditors who convincingly demonstrate their interests worth protecting, in writing, about this internal directive.

Board of Directors

Currently, the Company's Board of Directors consists of six members. Information about the Board Members is given below:

Name Surname	Position	Executive or Not	Duties Held Within the Group	Duties Held Outside of the Group
Talip Murat Kolbaşı	Chairman	Executive	Board Chairman	-
Yasemin Rezan Kolbaşı	Vice Chairman	Not Executive	Vice Chairman	-
Ali Osman Kolbaşı	Board Member	Not Executive	Board Member	-
Süleyman Mete Zadil*	Board Member & CEO	Executive	Board Member & CEO	-
Elif Ateş Özpak	Independent Board Member	Not Executive	Independent Board Member	Kybele Consulting Limited-Managing Partner, Globalturk Capital-Partner Akfen Yenilenebilir Enerji-Member of The Board of Directors
Ahmet Cüneyt Yavuz	Independent Board Member	Not Executive	Independent Board Member	Mavi Giyim Sanayi ve Ticaret A.Ş.-CEO

* Süleyman Mete Zadil transferred his duty as of January 1, 2023.

Independent Board Members

Our Company's shares started to be traded on the BIST as of December 24, 2020. Within the scope of Article 5/(4) of the CMB II-17.1 Corporate Governance Communiqué, the necessary compliance with the Corporate Governance Principles has been achieved as of the date of the first General Assembly held after our shares started to be traded on the stock exchange and Ms. Elif Ateş Özpak and Mr. Ahmet Cüneyt Yavuz have been appointed as Independent Board Members of our Company.

Declarations of independence of our Independent Board Members are given in ANNEX/1.

Structure and Operation of the Board of Directors

Board of Directors Committees

The Audit Committee, the Corporate Governance Committee, the Early Detection of Risk Committee, the Executive Committee and the Sustainability Committee have been formed in the Company in order to contribute to the healthy fulfillment of the duties and responsibilities of the Board of Directors, and the committees carry out their activities within the framework of the determined working principles. The working principles of the committees are also announced on the corporate website of the Company. No separate Nomination Committee and Remuneration Committee have been formed within the Company, and it has been adopted that the Corporate Governance Committee should also fulfill these duties in accordance with the principle decision number 4.5.1. The Board of Directors provides all resources and support that the committees need in order to execute their functions. Executive members do not take part in committees. Independent Board Members take part in more than one committee, since the committee chairs of the Audit Committee, Early Detection of Risk Committee and Corporate Governance Committee, and members of the Audit Committee, which are compulsorily established from the committees formed within the Board of Directors, must be elected from among the Independent Board Members.

Our Company's Board of Directors Committees are as follows:

Audit Committee

Audit Committee oversees the Company's accounting system, public disclosure of financial information, independent auditing, and the operation and effectiveness of the Company's internal control and internal audit system. The Audit Committee monitors selection of independent audit companies, preparation of independent audit contracts, launch of the independent audit process and all activities of independent audit companies at any phase. Additionally, the Audit Committee also determines the methods and criteria to be applied for the examination and resolution of the complaints received by the Company about the accounting, internal control system and the independent audit, and the processing the Company employees' reports on accounting and independent audit within the framework of the confidentiality principle.

The Audit Committee convenes at the Company headquarters or elsewhere upon the invitation of the Committee Chairman, at least four times a year, at least once every three months. The Committee may be called for an extraordinary meeting by the Chairman of the Board or the Chairman of the Committee. It can hold meetings with the auditors and managers with a special agenda. The Audit Committee convened 11 times in the 2022 fiscal year, examined the audit reports, and made a written notification to the Board of Directors.

The members of the Audit Committee, which does not assume a direct executive function and are independent members of the Board of Directors, and who have sufficient knowledge and experience in financial matters, are given below.

Name Surname	Duty in the Board	Independent or Not	Executive or Not
Elif Ateş Özpak	Chairman	Independent Member	Not Executive
Ahmet Cüneyt Yavuz	Member	Independent Member	Not Executive

Early Detection of Risk Committee

The Early Detection of Risk Committee is responsible for carrying out activities for early detection of the risks which may jeopardize the existence, development, and continuity of the Company, taking the necessary measures against the detected risks and managing the risks.

Early Detection of Risk Committee convenes at the Company headquarters or elsewhere upon the invitation of the Committee Chairman, at least 6 times a year, at least once every two months. The Committee may be called for an extraordinary meeting by the Chairman of the Board or the Chairman of the Committee. The Early Detection of Risk Committee convened 6 times in the 2022 fiscal year and examined and approved the audit reports.

The members of the Early Detection of Risk Committee, which does not assume a direct executive function and are independent members of the Board of Directors, and who have sufficient knowledge and experience in financial matters, are given below. In addition to the Independent Members, the Executive Assistant General Manager responsible for Financial Affairs also serves as a member of the committee.

Name Surname	Duty in the Board	Independent or Not	Executive or Not
Ahmet Cüneyt Yavuz	Chairman	Independent Member	Not Executive
Elif Ateş Özpak	Member	Independent Member	Not Executive
Şecaettin Arda Altınok	Member	-	-

Structure and Operation of the Board of Directors

Corporate Governance Committee

The Corporate Governance Committee detects whether the corporate governance principles are being implemented, determines the reasons thereof as well as the conflicts of interest arising from failing to fully comply with these principles, and makes recommendations to the Board of Directors to improve the corporate governance practices and oversees the work of the Investor Relations department. However, there is no separate Nomination Committee and Remuneration Committee within our company, and it has been adopted that the Corporate Governance Committee should also fulfill these duties in accordance with the principle decision number 4.5.1.

The Committee evaluated the Company's corporate governance practices and the Corporate Governance Principles Compliance Report in fiscal 2022, and followed the work of the Investor Relations Department. In addition, the Committee presented its views on the determination of the amount of attendance fee to be paid to non-executive Board Members of the Company to the Board of Directors. The Committee evaluates the number of members of the Company's Board of Directors, and also the structure and efficiency of the Board of Directors.

The Corporate Governance Committee convenes at least twice a year at the Company headquarters or elsewhere upon the invitation of the Committee Chairman. The Committee may be called for an extraordinary meeting by the Chairman of the Board or the Chairman of the Committee. The Corporate Governance Committee convened 6 times in the 2022 fiscal year.

The members of the Corporate Governance Committee, who do not assume a direct executive function, are independent members of the Board of Directors, and have sufficient knowledge and experience in financial matters, are given below. Apart from the Independent Members, the Investor Relations Manager is also a member of the committee.

Name Surname	Duty in the Board	Independent or Not	Executive or Not
Elif Ateş Özpak	Chairman	Independent Member	Not Executive
Ahmet Cüneyt Yavuz	Member	Independent Member	Not Executive
Neslihan Aydoğdu	Member	-	-

Executive Committee

The Executive Committee closely follows the developments in the industry in which the Company carries on business activities, and operates to inform the Board of Directors when necessary, to assist our Company's Board of Directors, to ensure coordination between the executive of the Company and the Board of Directors, to increase the efficiency of the decision-making processes of the Board of Directors, to maintain the balance between all beneficiaries of the Company, and to develop investment strategies and making suggestions to the Board of Directors.

The Executive Committee convened 12 times in the 2022 fiscal year, and the Committee Members are mentioned below.

Name Surname	Duty in the Board	Independent or Not	Executive or Not
Talip Murat Kolbaşı	Chairman	Not Independent Member	Executive
Yasemin Rezan Kolbaşı	Member	Not Independent Member	Not Executive
Ali Osman Kolbaşı	Member	Not Independent Member	Not Executive

Sustainability Committee

The Sustainability Committee was established to give recommendations and suggestions to the Board of Directors for determining the sustainability strategy, policy, and targets; making and realizing relevant planning; monitoring and auditing performance; defining and assessing risks and opportunities in environmental, social, economic and corporate areas; and determining the required steps.

The Sustainability Committee convened twice in the 2022 fiscal year, and the Committee Members are mentioned below.

Name Surname	Duty in the Board	Independent or Not	Executive or Not
Elif Ateş Özpak	Chairman	Independent Member	Not Executive
Süleyman Mete Zamil *	Member	Not Independent Member	Executive
Şecaettin Arda Altınok	Member	-	-
Mehtap Yıldız	Member	-	-
Arif Emre Ünal	Member	-	-
Didem Oral	Member	-	-

* Süleyman Mete Zamil transferred his duty as of January 1, 2023.

Structure and Operation of the Board of Directors

Board of Directors Evaluation of the Efficiency of Board Committees

All of the documents regulating the duties and working principles of the above-mentioned committees have been accepted by the Board of Directors and have been made available to the public on the Investor Relations page of our Company's website at www.arzum.com.tr.

During 2022, all the Board of Directors committees fulfilled their duties and responsibilities in accordance with the Corporate Governance Principles and their own regulations, and operated in an efficient manner. The committees submitted their reports to the Board of Directors; these reports included the work they did during the year and the results of the meetings held.

Accordingly:

- The "Audit Committee," which is responsible for the effective implementation of the internal audit system as well as taking all necessary measures for the adequate and transparent performance of all kinds of internal and independent audits, submitted all of its suggestions to the Board of Directors. In this context, the Company receives consultancy services from an independent institution with the recommendation of the Audit Committee in order to review the internal control processes in our Company in 2022 with the aim of minimizing the effects of internal risks that may affect the Company's stakeholders, especially the shareholders. At the end of this assessment, the measures and decisions to be taken by the committee on the subject will be reported to our Board of Directors.
- Established to monitor the Company's compliance with the Corporate Governance Principles, to carry out improvement activities in this regard and to offer suggestions to the Board of Directors, the "Corporate Governance Committee" has defined whether the Corporate Governance Principles are implemented, the reasons behind it if not implemented, and conflicts of interest due to not fully complying with these principles, has made recommendations to the Board of Directors to improve corporate governance practices, and has supervised the work of the Investor Relations Department.
- The "Early Detection of Risk Committee" works for the early detection of risks that may jeopardize the existence, development and continuity of the Company, the implementation of the necessary measures against the identified risks and the management of the risk; the Committee has established sub-working groups under 3 headings selected according to the dynamics of the company and has constantly reviewed the risk management of the Company.
- Established in accordance with the Corporate Governance Communiqué of the Capital Markets Board (II-17.1), apart from the obligatory committees, the Executive Committee, as per the duties and working principles of the committee, continued to hold its meetings actively to inform the Board of Directors when necessary, to assist our Company's Board of Directors, to closely follow the developments in the industry in which the Company operates, to ensure coordination between the executive of the Company and the Board of Directors, to increase the efficiency of the decision-making processes of the Board of Directors, to make suggestions to the Board of Directors, to maintain the balance between all beneficiaries of the Company, and to develop investment strategies.

Risk Management and Internal Control Mechanism

The main financial instruments used by Arzum are bank loans, bonds and commercial bills issued to qualified investors, cash, and short-term bank deposits. The main purpose of using these instruments is to create financing for operations. The Company also has financial instruments such as trade receivables and trade payables arising directly from operations.

The risks arising from the instruments used are foreign currency risk, interest risk, credit risk and liquidity risk. Arzum also monitors the market risk that may arise from the use of financial instruments. Details of how the Company manage these risks are included in the independent audit report.

In line with the Cash Flow Planning, necessary evaluations and researches are carried out with financial institutions and banks in order to ensure that the repayments of the bank loans used in the previous periods will be continued, and to provide financing with appropriate terms and conditions, taking into account the maturities of the new needs that will arise.

The Company's excess cash will be evaluated under the most favorable conditions in the market, and appropriate opportunities will be grasped to minimize the foreign exchange risk by closely monitoring the financial markets for the best management of the Company's foreign exchange risk.

In order to minimize the Company's increasing need for working capital, periodic studies will be carried out with the participation of the relevant units regarding receivables, debts and stocks, and possible opportunities will be taken advantage of to reduce the working capital requirement.

Efforts to simplify payment processes will continue.

In 2022, steps were taken for the inclusion of unsecured receivables under insurance coverage, and new methods and processes regarding risk management were designed and implemented together with the relevant units.

Risk Management and Internal Control Mechanism

Information on the important risk factors related to the issuer, its activities and the industry in which it operates

Significant risks regarding the Company, its activities and the industry in which it operates are as follows. These risks are not listed in order of importance.

Risks related to the issuer and its activities

- The company has all the products it sells manufactured by third parties. Failure to deliver the products on time, or to produce the products in accordance with the Company's instructions, or to comply with the mandatory legal regulations may adversely affect the activities of the Company.
- A significant part of the company's products are manufactured by specific suppliers. The Company's inability to maintain its relations with its suppliers, or the interruptions in the services of these suppliers, or the complete cessation of their services may harm the Company's operations.
- The Company depends on third parties for domestic and international logistics, storage activities and after-sales services. The activities of the Company may be interrupted due to reasons related to third parties.
- The Company cooperates with third party carriers to deliver its products to customers. Failure of these parties to fulfill their obligations or to cope with the increased costs may adversely affect the operations of the Company.
- In case the suppliers of the Company do not comply with the labor law, environmental regulations and other mandatory legal regulations, or if there is an impression that such violations exist, the public perception and the reputation of the Company's brands may be damaged.
- It may not be possible to fully compensate the losses incurred by the Company due to the insufficient protection provided by the Company's insurances or the failure of the insurance companies to fulfill their obligations.
- The Company derives nearly half of its revenue from its top 10 customers, and if it loses some of these customers, the Company's operations may be adversely affected.
- The Company depends on third parties in its international sales. If the cooperation with its distributors is interrupted or terminated, the Company's position in the relevant markets and its sales may suffer significantly. In order to eliminate this risk, the Company has used its 100% subsidiary, Arzum Europe, to establish an on-site warehouse structure in order to implement the same structuring abroad as in Türkiye, and to maintain the business model in Türkiye with the same quality in Germany with this formation.
- The Company is exposed to exchange rate risk. In order to avoid this risk, the Company uses forward instrument (a Derivative product) to achieve an advantageous protection against any potential volatility in foreign exchange rate fluctuations in the spot market during its import payments with specified maturities.
- The small home appliances industry is an unconsolidated industry in which many companies operate. As the Company's market share increases, the risk of violating competition law regulations may increase, or investigations that may be initiated by the Competition Authority may adversely affect the Company.
- Most of the Company's overseas production are done in China. Economic and political sanctions against China may adversely affect the Company's supply chain or costs.

Risks related to the industry of the issuer

- The competitive environment of the Company may significantly adversely affect the Company's operations.
- The Company's products and activities are subject to the regulations of the countries in which it operates. The activities of the Company may be adversely affected by the changes that may occur in the applicable legal regulations.
- Local and global economic conditions and their effects on consumer spending habits may adversely affect the Company's operations and performance.
- Türkiye, the sector that the Company operates in, and the Company's activities may be adversely affected by global macroeconomic conditions.

Other risks

Earthquakes, other natural disasters and other extraordinary situations may adversely affect the industry, facilities and operations of the Company, and may harm the Turkish economy in general. Natural disasters may have adverse effects on the supply chain.

Other Developments

Donations and aids

In 2022, a total of TL 442,654.12 was donated to various associations and foundations. TL 392,154.12 of these donations are in the status of tax-deductible expense.

Staff and worker movements

As of the end of 2022, the number of employees in our company was 175. There are no unionized workers.

Financial rights of the members of managing bodies and of senior executives

The total amount of wages and similar benefits paid to the senior management between January 1 and December 31, 2022, is TL 32,687, 619 (January 1-December 31, 2021: TL 13,418,163). Arzum has designated the Board Members, General Manager, and Assistant General Managers as senior management.

Information on the Company's investments made in the relevant accounting period

The Company invested TL 11,707,663.03 in 2022.

Utilized incentives and subsidies and their conditions

There is no significant level of incentives utilized as of December 31, 2022.

Information about the Company's acquisition of its own shares

The Company does not own any shares acquired.

Information on private and public auditing

No Private or Public audits have been made.

Information on important lawsuits filed and ongoing against the Company and their possible consequences

There are no significant lawsuits that may affect the activities of our Company.

There is no information on important administrative sanctions and penalties given to the Company and the Board Members due to practices contrary to the provisions of the legislation.

Information on the attainment of targets set in previous periods, implementation of General Assembly resolutions, and any reasons for failure attaining targets or implementing resolutions

The Board of Directors has made a positive assessment that the Company has achieved the defined operational and financial performance targets. Additionally, the resolutions of the General Assembly have been also fulfilled.

Information on legislative amendments which can have a significant impact on the Company's activities

There is no information on legislative amendments which can have a significant impact on the Company's activities.

Information on the Company's conflicts of interest with the service providers such as investment advisors and rating agencies, and the precautions taken by the Company to prevent these conflicts of interest

There have been no considerations that could lead to a conflict of interest between the Company and its service providers such as investment advisors and rating agencies.

Evaluation within the scope of Article 376 of the Turkish Commercial Code

It was evaluated whether the Company's capital was unrequited under Article 376 of the Turkish Commercial Code; It was concluded that our Company's issued capital of TL 32,210,000 as of December 31, 2022, with its equity amount of TL 201,993,805 as of the end of 2022, had largely covered its assets and the Company's debt structure is suitable for the continuation of its activities in a healthy way.

Related party transactions

Defining a company as a related company is determined based on the fact that one of the companies has control over the other or has a significant influence on the financial and administrative decisions of the related company.

Trade payables to related parties

The Group has no payables to or receivables from related parties as of December 31, 2022, and 2021.

Other Developments

Goods and services purchases from related parties

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

	January 1-December 31, 2022	January 1-December 31, 2021
Kolbaşı Gayrimenkul Değerleme İnş. İç ve Dış Ticaret A.Ş.	-	35,640
Total	-	35,640

Subsidiaries and Their Share Ratios

Title of the Subsidiary	Paid-in/Issued Capital	Share of Participated Capital (%)
ARZUM ASIA PACIFIC LTD.	USD 350,000.00	100
ARZUM EUROPE GMBH	EUR 25,000.00	100
ARZUM ELEKTRİKLİ EV ALETLERİ SANAYİ VE TİCARET A.Ş. FREE ZONE BRANCH*	USD 50,000	100
ARZUM USA**	-	100

* Although it is not a separate legal entity, Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi Istanbul Industry and Trade Free Zone Branch is also regarded as a subsidiary subject to consolidation in the attached consolidated financial statements. This branch is a free zone branch as per circular no. 1998/4 titled "Assessment of Operating License Applications, Branch, Branch Addressed Firm" by the Ministry of Trade regarding regulations on free zone branches. Although it is affiliated with the head office, it has its capital and keeps accounting records separately from the head office. Although it is not a separate legal entity in legal terms, it is subject to consolidation because it has its capital.

** To improve the Group's current operations in the American market, Arzum USA was established de facto in the State of Delaware, and procedures for opening bank accounts for depositing the company's capital have been continuing.

Corporate Record

Commercial Title	Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret A.Ş.
Address of Registered Office	Otakçılar Cad. No: 78 Kat: 1 B Blok No: B1B, 34050 Eyüp/İstanbul
Branch Address	Istanbul Industry and Trade Free Zone Branch: Aydınlı SB Mahallesi Mod-2 Cad. No: 11 Tuzla-İstanbul Ömer Halisdemir University Teknopark Branch: Fertek Köyü, Cumhuriyet Mevkii Ömer Halisdemir (Küme Evler) No: 34/208 Merkez/Niğde
Affiliated Trade Registry Office and Number	İstanbul Trade Registry Office / 148674
Legal Legislation	Laws of the Republic of Türkiye
Phone and Fax Number	Phone: (0212) 467 80 80 Fax: (0212) 467 80 00
Website	www.arzum.com.tr
Corporate E-mail Address	yatirimci@arzum.com and finans@arzum.com
Capital	TL 32,210,000
Registered Capital Ceiling	TL 160,000,000
Stock Exchange and Market Where It is Traded	Borsa İstanbul A.Ş. (BİST) – Main Market
Trading Date on the Stock Exchange	December 24, 2020
Ticker	ARZUM
Independent Auditor	KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
Address of the Independent Auditor	İş Kuleleri, Kule 3, Kat:2-9 Levent, İstanbul

LEGAL DISCLAIMER

This Annual Report (“Report”) is prepared for informing the shareholders and does not serve as a basis for any investment decision. The realization of the forward-looking views and estimated figures in the report may differ depending on the variables and assumptions on which the relevant estimates are based. Accordingly, Arzum, or the Board Members of the Company, or the Company’s consultants and employees are not responsible for any loss or damage incurred directly or indirectly by any person; (i) as a result of any information given or communication made within the scope of this Report, or (ii) based on any information contained/not-contained in this Report. As of the date of this report, all information contained in this report is believed to be accurate, however, Arzum assumes no responsibility for any typographical and printing errors that may occur.

Other Developments

Annex/1

Statement of Independence

Arzum Elektrikli Ev Aletleri San. ve Tic. I hereby declare that I am a candidate for assuming the role of an “independent member” of the Board of Directors of Arzum Elektrikli Ev Aletleri San. ve Tic. A.Ş. (“Company”), within the criteria stipulated in the legislation, the articles of association, and the Capital Markets Board’s Corporate Governance Communiqué, and in this context;

a) Between the Company, partnerships where the Company has managerial control or significant influence, partners or legal entities that hold managerial control or significant influence over the Company, and myself, my spouse, and blood or in-law relatives to the second degree, there was no relationship of employment as a manager with major duties and responsibilities; I did not hold 5% or above of their shares, voting rights or preferred shares either jointly or separately; I did not establish significant commercial relations with them,

b) I have not worked at an executive position with significant and material tasks and responsibilities or held the seat as a board member or held stocks (equal to or above 5%) in such companies from which the Company procures goods or services from or sells goods or services to in significant volumes in line with the agreements between them, including, in particular, the Company’s audit (including tax audit, statutory audit, internal audit), rating and consultancy services in the last five years,

c) As can be seen in my resume, I have the necessary professional education and training, knowledge, and experience required for properly fulfilling the duties that I will undertake due to the fact that I become an independent board member,

d) If I am nominated in public institutions and organizations and if I am elected separately as of the date of this declaration, I am/ will not be working full-time during my duty,

e) I am considered a resident in Türkiye according to the Income Tax Code (n.193) dated 31/12/1960,

f) I have strong ethical standards, professional reputation, and experience to contribute positively to Company’s operations, to preserve my impartiality in disputes between the Company and shareholders, and to decide with my free will by taking note of the rights of stakeholders,

g) I will make sufficient time for keeping track of the Company’s activities and for fully performing my duties on behalf of the Company,

h) I have not been a member of the Board of Directors of the Company for more than six years in total within the last decade,

i) I did not serve as an Independent Board Member in more than three companies where the Company or its ultimate controlling partners have managerial control nor in more than five companies traded in the stock exchange.

And I hereby submit this declaration to the information of the Company organs, shareholders and all concerned.

21.02.2022

Elif Ateş Özpak (*)

(*) The signature has been blackened in accordance with the Law on the Protection of Personal Data.

Annex/1 Statement of Independence

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And I hereby submit this declaration to the information of the Company organs, shareholders and all concerned.

21.02.2022

Ahmet Cüneyt Yavuz (*)

(*) The signature has been blackened in accordance with the Law on the Protection of Personal Data.

**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



KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
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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.



The key audit matter

The main revenue item of the Group consists of sales of electronic household appliances.

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.

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.

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.

How the matter was addressed in our audit

- Our audit procedures in this area include the following.
- 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.

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.

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

Contents	Page
Consolidated Financial Statement	102-103
Consolidated Statement of Profit or Loss and Other Comprehensive Income.....	104
Consolidated Statement of Changes in Shareholders' Equity.....	105
Consolidated Statement of Cash Flows.....	106
Notes to the Consolidated Financial	107-169
1. Group's Organization and Nature of Operations.....	107
2. Basis of Presentation of Consolidated Financial Statements.....	108-132
3. Cash and Cash Equivalents	133
4. Borrowings	134-135
5. Trade Receivables and Payables	136
6. Other Receivables and Payables and Other Current Assets and Other Short Term Liabilities	137
7. Inventories.....	138
8. Prepaid Expenses and Deferred Income.....	138
9. Property, Plant and Equipment.....	139-140
10. Intangible Assets	141
11. Right of Use Assets	142
12. Provisions, Contingent Assets and Liabilities	142-145
13. Employee benefits	145-147
14. Equity	148-149
15. Revenue and Cost of Sales	150
16. Operating Expenses.....	151
17. Expenses by Nature.....	152
18. Income /Expenses from Operating	153
19. Finance Income and Expenses.....	153
20. Taxation.....	154-156
21. Earning per Share	157
22. Related Party Disclosures.....	157-158
23. Financial Instruments and Financial Risk Management.....	159-166
24. Financial Instruments	167-169
25. Subsequent Events.....	169

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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 Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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
- Due to third parties	5	338.894.400	227.053.220
Liabilities for employee benefits	13	1.473.203	701.789
Other payables	6	140.296	60.790
- Due to third parties	6	140.296	60.790
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
- Short-term provisions for employee benefits	13	19.103.665	8.854.114
- Other short-term provisions	12	8.735.166	5.007.015
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
-Long-term provisions for employee benefits	13	8.907.066	3.565.508
-Other long-term provisions	12	5.291.677	3.430.956
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)
Gain/(loss) arising from defined benefit plans	14	(6.102.065)	(2.369.487)
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
- Foreign currency translation differences	14	11.860.329	7.297.611
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 Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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 Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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		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	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	--	--	--	--	--	--	--	--	(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 Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Consolidated Statement Of Cash Flows For The Year Ended 31 December 2022

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

		Audited 1 January- 31 December 2022	Audited 1 January- 31 December 2021
	Notes		
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	(1.074.415)	(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 BEGINNING 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 Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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).

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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 Group 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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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
- Lease liabilities	4.109.395	4.613.912
Long term lease liabilities		
Long-term lease liabilities from other parties	849.927	3.909.641
- Lease liabilities	849.927	3.909.641

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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

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.)

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).

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.)

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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).

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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:

	<u>2022</u>	<u>2021</u>
	%	%
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)).

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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).

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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	31	31	31
	December 2022	December 2021	December 2022	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)

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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).

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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

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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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.

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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	--	--	--

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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	--	--	--

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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)	--	--

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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	--	--

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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. 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	Financial Instruments at				Note
	Loans and receivables	fair value through profit or loss	Financial liabilities shown at amortized value	Registered value	
Financial assets					
Cash and cash equivalents	316.305.477	--	--	316.305.477	3
Trade receivables	614.821.370	--	--	614.821.370	5
Other receivables	1.056.378	--	--	1.056.378	6
Financial liabilities					
Financial liabilities	--	--	636.330.392	636.330.392	4
Trade payables	--	--	338.894.399	338.894.399	5
Derivative financial liabilities	--	1.130.867	--	1.130.867	24
Other payables	--	--	140.296	140.296	6

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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
Financial assets						
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
Financial liabilities						
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

Arzum Elektrikli Ev Aletleri Sanayi ve Ticaret Anonim Şirketi 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.)

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 Zadir 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.

Directory

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