

**ZORLU YENİLENEBİLİR ENERJİ AŞ AND
ITS SUBSIDIARIES**

**Condensed Consolidated Interim Financial Statements
As at and for the Six-month Period Ended
30 June 2021
With Independent Auditor's Report on Review of
Condensed Consolidated Interim
Financial Statements**

ZORLU YENİLENEBİLİR ENERJİ AŞ

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Independent Auditor’s Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors of Zorlu Yenilenebilir Enerji Anonim Şirketi

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Zorlu Yenilenebilir Enerji Anonim Şirketi (“the Company”) and its subsidiaries (the “Group”) as at 30 June 2021, condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the condensed consolidated interim financial statements (“the condensed consolidated interim financial statements”). Management is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with IAS 34, ‘Interim Financial Reporting’. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 2021 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

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

Şirin Soysal, SMMM
Partner
24 August 2021
İstanbul, Türkiye

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ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

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

	Notes	30 June 2021	31 December 2020
ASSETS			
Current assets:			
Cash and cash equivalents	3	1,828,773	418,747
Trade receivables		124,069	108,520
- Trade receivables from related parties	5, 16	27,854	9,768
- Trade receivables from third parties	5	96,215	98,752
Other receivables		2,705	153
- Other receivables from related parties	16	2,196	-
- Other receivables from third parties		509	153
Inventories		35,920	38,742
Prepaid expenses		373,826	26,015
- Advances given to related party	6,16	347,993	-
- Third party prepaid expenses	6	25,833	26,015
Other current assets	7	27,107	20,495
Total current assets		2,392,400	612,672
Non-current assets:			
Other receivables		184	172
- Other receivables from third parties		184	172
Right of use assets		25,830	26,240
Property, plant and equipment	8	9,414,540	9,516,582
Intangible assets		12,157	5,736
Prepaid expenses		192	195
Deferred tax assets		5,467	-
Total non-current assets		9,458,370	9,548,925
Total assets		11,850,770	10,161,597

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

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

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

	Notes	30 June 2021	31 December 2020
LIABILITIES			
Current liabilities:			
Short-term loans and borrowings		1,979,942	1,259,446
- Short-term loans and borrowings	4	4,856	173,918
- Lease liabilities	4	9,591	8,376
- Short-term financial liabilities due to related parties	4, 16	-	597
- Short-term portion of long-term borrowings	4	1,742,715	1,076,555
- Short-term issued bonds	4	222,780	-
Trade payables		174,928	264,207
- Trade payables due to related parties	5, 16	2,316	35,804
- Trade payables due to third parties	5	172,612	228,403
Derivative financial liabilities	11	82,785	72,305
Other current liabilities	7	33,764	27,523
Total current liabilities		2,271,419	1,623,481
Non-current liabilities:			
Long-term loans and borrowings		7,662,277	6,886,563
- Long-term loans and borrowings	4	5,346,720	5,408,571
- Lease liabilities	4	15,550	15,550
- Long-term borrowings due to related parties	4, 16	-	1,462,442
- Long-term issued bonds	4	2,300,007	-
Derivative financial liabilities	11	176,906	233,973
Long-term provisions		6,913	5,466
- Long-term provisions related to employee benefits	9	6,913	5,466
Deferred tax liabilities	15	179,211	418,509
Total non-current liabilities		8,025,307	7,544,511
Total liabilities		10,296,726	9,167,992
EQUITY			
Equity attributable to owners of the Company		1,554,044	993,605
Share capital	10	1,045,000	1,045,000
Capital advance	10	1,650,000	-
Adjustment to share capital		927	927
Other comprehensive income/ (expenses) not to be reclassified to profit or (loss)		4,325,524	4,452,961
- Actuarial losses	10	(2,863)	(2,115)
- Revaluation of property, plant and equipment	10	4,328,387	4,455,076
Other comprehensive income that are or may be reclassified to profit or (loss)		(3,977,140)	(3,299,389)
- Hedge reserves	10	(3,977,140)	(3,299,389)
Accumulated losses		(1,079,205)	(708,164)
Loss for the period		(411,062)	(497,730)
Total equity		1,554,044	993,605
Total liabilities and equity		11,850,770	10,161,597

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

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

	Notes	1 January - 30 June 2021	1 January - 30 June 2020
PROFIT OR LOSS			
Revenue		850,093	690,286
Cost of sales (-)	12	(404,802)	(335,267)
Gross profit		445,291	355,019
General administrative expenses (-)	12	(27,640)	(23,223)
Other operating income		15,891	2,293
Other operating expenses (-)	13	(35,140)	(14,487)
Operating profit		398,402	319,602
Finance income	14	75,069	79,122
Finance expenses (-)	14	(959,673)	(665,017)
Loss from continuing operations before tax		(486,202)	(266,293)
Tax expense from continuing operations			
Deferred tax income	15	75,140	20,001
Net loss for the period		(411,062)	(246,292)
Loss attributable to:			
- Owners of the Company		(411,062)	(246,292)
Loss per share		(15.25)	(23.57)
Items that will not to be reclassified to profit or loss		(748)	1,379,510
- Actuarial gain/ (losses)		(935)	389
- Actuarial gain/ (losses), tax effect		187	(78)
- Revaluation fund		-	1,723,998
- Revaluation fund, tax effect		-	(344,799)
Items to be reclassified to profit or loss		(677,751)	(713,509)
- Hedge reserves		(847,189)	(891,886)
- Hedge reserves, tax effect		169,438	178,377
Other comprehensive income/ (loss)		(678,499)	666,001
Total comprehensive income/ (loss)		(1,089,561)	419,709

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

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

	Share capital	Capital advance	Adjustment to share capital	Other comprehensive income/ (expenses) not to be reclassified to profit or loss	Actuarial losses	Revaluation of property, plant and equipment	Other comprehensive income that are or may be reclassified to profit or loss	Hedge reserves	Accumulated losses	Loss for the year	Equity attributable to the owners of the Company	Total equity
1 January 2020	1,045,000	-	927	(1,996)	2,858,092	(2,324,083)	(816,448)	(94,412)	667,080	667,080		
Transfers	-	-	-	-	(73,007)	-	(21,405)	94,412	-	-	-	-
Total comprehensive income/ (loss)	-	-	-	311	1,379,199	(713,509)	-	(246,292)	419,709	419,709		
- <i>Loss for the period</i>	-	-	-	-	-	-	-	(246,292)	(246,292)	(246,292)		(246,292)
- <i>Other comprehensive income</i>	-	-	-	311	1,379,199	(713,509)	-	-	666,001	666,001		666,001
30 June 2020	1,045,000	-	927	(1,685)	4,164,284	(3,037,592)	(837,853)	(246,292)	1,086,789	1,086,789		
1 January 2021	1,045,000	-	927	(2,115)	4,455,076	(3,299,389)	(708,164)	(497,730)	993,605	993,605		
Capital advance	-	1,650,000	-	-	-	-	-	-	1,650,000	1,650,000		1,650,000
Transfers	-	-	-	-	(126,689)	-	(371,041)	497,730	-	-		-
Total comprehensive income/ (loss)	-	-	-	(748)	-	(677,751)	-	(411,062)	(1,089,561)	(1,089,561)		(1,089,561)
- <i>Loss for the period</i>	-	-	-	-	-	-	-	(411,062)	(411,062)	(411,062)		(411,062)
- <i>Other comprehensive loss</i>	-	-	-	(748)	-	(677,751)	-	-	(678,499)	(678,499)		(678,499)
30 June 2021	1,045,000	1,650,000	927	(2,863)	4,328,387	(3,977,140)	(1,079,205)	(411,062)	1,554,044	1,554,044		

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

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

	Notes	1 January - 30 June 2021	1 January - 30 June 2020
Net loss for the period		(411,062)	(246,292)
Adjustments to reconcile net loss to net cash provided by operating activities		1,019,836	787,377
Adjustments related to			
depreciation and amortisation expenses	2,6, 12	255,893	208,620
Adjustments related to tax income	15	(75,140)	(20,001)
Adjustments related to provisions		934	439
Adjustments related to interest income	14	(1,950)	(892)
Adjustments related to interest expenses	13, 14	328,667	311,747
Adjustments related to unrealized foreign currency translation differences		617,167	188,641
Adjustments related to (increase)/ decrease in inventories		2,822	(3,921)
Adjustments related to increase in trade receivables		(22,995)	(12,896)
Adjustments related to increase/ (decrease) in trade payables		(98,031)	66,862
Adjustments related to loss on derivative financial instruments, net	11, 14	1,596	18,169
Adjustments related to increase in other payables and liabilities related to operations		6,241	14,272
Adjustments related to (increase) / decrease in other receivables and assets related to operations		(2,147)	4,799
Other adjustments related to net profit/ (loss) reconciliation	17	6,779	11,538
Cash flows used in operations		(422)	(27)
Termination benefits paid		(422)	(27)
CASH FLOWS FROM OPERATING ACTIVITIES		608,352	541,058
CASH FLOWS USED IN INVESTING ACTIVITIES		(460,169)	(63,445)
Cash outflows from acquisition of property, plant and equipment and intangible assets		(119,139)	(64,407)
Cash inflows from sale of property, plant and equipment		5	70
Advances given to related party		(342,538)	-
Interest received		1,503	892
CASH FLOWS FROM FINANCING ACTIVITIES		1,314,614	(490,720)
Proceeds from the issue of bonds	4	2,468,278	-
Proceeds from bank borrowings	4	83,091	27,696
Repayment of bank borrowings	4	(913,874)	(351,672)
Interest paid	4	(183,284)	(209,611)
Cash outflows related to payment of lease liabilities	4	(4,526)	(1,652)
Other cash (outflows) / inflows	17	(135,071)	44,519
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		1,462,797	(13,107)
Effect of currency translation differences on cash and cash equivalents		(53,820)	(5,122)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	3	417,946	248,005
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3	1,826,923	229,776

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

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

The condensed consolidated interim financial statements as at and for the six-month period ended 30 June 2021 were prepared for Zorlu Yenilenebilir Enerji AŞ (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which engage in renewable energy generation in Turkey.

Companies and activities in the scope of condensed consolidated interim financial statements are as follows:

Company	Nature of business	Country
Zorlu Yenilenebilir Enerji AŞ	Power plant installation, operation and other	Turkey
Zorlu Doğal Elektrik Üretimi AŞ (“Zorlu Doğal”)	Electricity production	Turkey
Zorlu Jeotermal Enerji Elektrik Üretimi AŞ (“Zorlu Jeotermal”)	Electricity production	Turkey
Rotor Elektrik Üretim AŞ (“Rotor”)	Electricity production	Turkey

The Company was founded on 27 August 2020 as a wholly-owned subsidiary of Zorlu Enerji Elektrik Üretim AŞ (“Zorlu Enerji”). On 27 August 2020, all of the shares of Zorlu Enerji’s above mentioned subsidiaries (Zorlu Doğal, Zorlu Jeotermal and Rotor) were transferred to the Company and they became the wholly-owned subsidiaries of the Company as of that date.

As of 30 June 2021, Zorlu Enerji had a sole ownership of the Company and the ultimate controlling party is Zorlu Holding.

The registered office address of the Company is Levent 199, Büyükdere Cad. No:199 34394, Şişli, İstanbul, Turkey.

As of 30 June 2021, the average number of personnel employed was 307 (31 December 2020: 315).

The nature of business of the companies included in the consolidated financial statements are as follows:

Zorlu Doğal Elektrik Üretimi AŞ

Zorlu Doğal was established in 2008 to sell electricity to develop projects to meet energy, steam and heat needs, to prepare the relevant feasibility and to establish electrical energy production facilities according to all kinds of renewable energy sources including but not to be limited to hydroelectric power plants and geothermal power plants.

As a result of the privatisation tender of Ankara Doğal Elektrik Üretim ve Ticaret AŞ (“ADÜAŞ”) with a consideration of for USD 510 million on 5 March 2008, an agreement on the transfer of operation rights was signed on 1 September 2008 between Zorlu Doğal, ADÜAŞ and the Republic of Turkey.

Prime Ministry Privatisation Authority (“ÖİB”), and Zorlu Doğal took over the assets of ADÜAŞ and began a 30 year operating period.

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Below are details of the completed powerplants of Zorlu Doğal:

Region	Type of power plant	Active/ Inactive	Date licence obtained	Licence period	Production power (MW)	YEKDEM ending date
Denizli (Kızıldere I)	Geothermal	Active	1 September 2008	29 years	15.0 MW	-
Denizli (Kızıldere II) (*)	Geothermal	Active	2 May 2013	25 years	80.0 MW	2023
Denizli (Kızıldere III) (**)	Geothermal	Active	27 April 2016	22 years	165.0 MW	2027
Tokat (Ataköy)	Hydroelectric	Active	1 September 2008	30 years	5.5 MW	-
Eskişehir (Beşkoyü)	Hydroelectric	Active	1 September 2008	30 years	16.8 MW	-
Kars (Çıldır)	Hydroelectric	Active	1 September 2008	30 years	15.4 MW	-
Rize (İkizdere)	Hydroelectric	Active	1 September 2008	30 years	24.9 MW	-
Erzurum (Kuzgun)	Hydroelectric	Active	1 September 2008	30 years	20.9 MW	-
Tunceli (Mercan)	Hydroelectric	Active	1 September 2008	30 years	20.4 MW	-
Erzincan (Tercan)	Hydroelectric	Active	1 September 2008	30 years	15.0 MW	-
Total					378.9 MW	

(*) Kızıldere II geothermal power plant was integrated with the Renewable Energy Sources Support Mechanism (“YEKDEM”) and sold all electricity generated starting from 2014 within the scope of YEKDEM. YEKDEM is a law which provides fixed feed-in tariffs for electricity generation from renewable energy sources. An application to Energy Market Regulatory Authority (“EMRA”), to sell electricity in the scope of YEKDEM in 2020 was approved in November 2019. In this respect, Kızıldere II plant sold the electricity generated in 2020 at the support price of USD 10.5/kWh on source basis, based on the geothermal energy within the scope of YEKDEM and will sell the electricity with the same price in 2021.

(**) For the Kızıldere III geothermal power plant project developed in the Karataş neighbourhood within the provincial borders of Denizli and Aydın, Zorlu Doğal obtained a production licence from EMRA which will be valid through 2038. The Kızıldere III geothermal power plant project is composed of two units with a total installed capacity of 165 MW. The second unit began operating on 15 March 2018. Kızıldere III geothermal power plant is eligible to sell all the generated electricity at the price of USD 11.2/kWh which is given to production facilities utilising geothermal energy in the scope of YEKDEM. The application to EMRA, to sell electricity in the scope of YEKDEM in 2020 was approved in 2019. In this respect, Kızıldere III plant sold the electricity generated in 2020 at the total price of USD 11.2/kWh and will sell the electricity with the same price in 2021.

Zorlu Doğal's application to EMRA to amend the pre-license 54 months to 72 months for its Kızıldere IV Geothermal Power Plant, which is planned to be built in Denizli and Aydın provinces and have a 60 MW capacity, was approved on 26 March 2020.

On 22 January 2020, EMRA approved a pre-licence application for the Tekkehamam II geothermal energy power plant project planned to be built in Sarayköy, Denizli with installed power of 35 MW, and issued a pre-licence valid for 30 months for the project.

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Zorlu Jeotermal Enerji Elektrik Üretimi AŞ

Zorlu Jeotermal was founded in 2008 to develop projects to produce energy, steam and heat, to establish plants by carrying out feasibility studies for electricity energy generation plants based on all renewable energy resources, especially geothermal power plants; and to sell the generated energy.

Zorlu Jeotermal took over the Alaşehir geothermal license of Zorlu Petrogas Petrol, Gaz ve Petrokimya Ürünleri İnşaat Sanayi ve Ticaret AŞ on 28 July 2011.

Below are details of the completed powerplant of Zorlu Jeotermal:

Region	Type of power plant	Active/ Inactive	Date licence obtained	Licence period	Production power (MW)	YEKDEM ending date
Alaşehir (*)	Geothermal	Active	28 July 2011	28 years	45 MW	2025

(*) The application to EMRA for the sale of electricity in the scope of YEKDEM in 2016 was approved in December 2015. Starting from 2016 Alaşehir I plant started selling the electricity generated at a price of USD 11.2/kWh. The application to EMRA respecting the sale of electricity in 2020 in the scope of YEKDEM has been accepted. Moreover, Alaşehir I plant sold the electricity generated in 2020 at the same price of USD 11.2/kWh in the scope of YEKDEM and will sell the electricity with the price of USD 10.5/kWh in 2021.

Zorlu Jeotermal received a pre-license from EMRA on November 2017 for Alaşehir II geothermal power plant project which will be located and planned to be built in Manisa and having a capacity of 24.9 MW and EMRA issued a license for 22 years. On 17 July 2019 electricity production capacity was amended from 24.9 MW to 18.6 MW in order to manage resources and the reservoir efficiently.

In addition, on 10 December 2014 Zorlu Jeotermal received approval from EMRA of the pre-license of Alaşehir III geothermal power plant which will be located and planned to be built in Manisa, Alaşehir having 30 MW of planned capacity. Upon completing exploration, Zorlu Jeotermal applied to EMRA to amend the capacity from 30 MW to 50 MW. The application to the EMRA was accepted in April 2016 and the EMRA granted Zorlu Jeotermal a pre-license valid for 30 months and entering into force on the decision date. Before the pre-license ended Zorlu Jeotermal applied to EMRA for a time extension and EMRA approved extending the pre-license until 24 March 2021. According to EMRA's decision of the regulatory board dated 2 April 2020 and numbered 9276, license and pre-license projects obligation completion periods have been extended by 3 months. On June 2021, Zorlu Jeotermal applied for an additional extension and is awaiting the response of EMRA.

On 27 October 2016, Zorlu Jeotermal participated in Kütahya Special Provincial Administration's tender for the rights to search for geothermal resources. Zorlu Jeotermal won the tender and paid TL 450 plus VAT. Within the scope of the tender Zorlu Jeotermal is entitled to search for geothermal resources in the Yeniköy geothermal field of 4,950 hectares in Kütahya province, Simav District, Yeniköy. The exploration license was converted to an operating license on 11 November 2020 and its duration is 30 years.

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Rotor Elektrik Üretim AŞ

Rotor was established in 2003 for the purpose of building wind power plants and was acquired by Zorlu Enerji in 2007.

Details of the completed powerplant of Rotor as shown below:

Region	Type of power plant	Active/ Inactive	Date licence obtained	Licence period	Production power (MW)	YEKDEM ending date
Osmaniye - Bahçe (“Gökçedağ”)	Wind	Active	19 December 2003	49 years	135 MW	2020

Gökçedağ plant has been selling electricity at USD 7.3/kWh support price based on source given to wind energy generation plants within the scope of YEKDEM since 2016. Moreover, the application to EMRA dated October 2019, to sell electricity in 2020 in the scope of YEKDEM was approved. Therefore, Gökçedağ wind plant sold the electricity generated in 2020 at a price of USD 7.3/kWh. The 10 - year YEKDEM period for Rotor expired at the end of 2020. Hence Rotor began to sell electricity on a merchant basis without the support of feed-in tariff beginning from 1 January 2021.

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2.1 Basis of presentation

2.1.1 Basis of accounting

These condensed consolidated interim financial statements as at and for the six-month period ended 30 June 2021 have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting” and should be read in conjunction with the Group’s last annual consolidated financial statements as at and for the year ended 31 December 2020 (‘last annual financial statements’). They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual consolidated financial statements.

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, and areas where assumptions and estimates are significant to the condensed consolidated interim financial statements, are disclosed in Note 2.3.

Approval of condensed consolidated interim financial statements

The condensed consolidated interim financial statements were approved by the Company’s Board of Directors on 24 August 2021.

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.1 Basis of presentation (Continued)

Functional and reporting currency

The Group’s condensed consolidated interim financial statements are prepared in the currency of the primary economic environment where the companies operate. The Group has the right to make a significant portion of its sales in USD by applying annually in the scope of YEKDEM for certain periods. On the other hand, it is in the Group’s discretion to apply for YEKDEM or make its sales in TL at the market price after evaluating market conditions. Accordingly, the Group's financial position and activity results are presented in TL, which is the functional currency of the Group and the reporting currency for its condensed consolidated interim financial statements.

2.1.2 Amendments in International Financial Reporting Standards

The accounting policies that are the basis for the preparation of condensed consolidated interim financial statements for the period 30 June 2021 have been applied consistently with those used in the previous year, except for the new and amended IFRSs as of 30 June 2021 summarised below. The effects of these standards and interpretations on the condensed consolidated financial position, consolidated performance and consolidated cash flows of the Group are explained below.

a. Standards, amendments and interpretations applicable as at 30 June 2021:

Changes that have become effective and have been adopted for annual periods beginning on or after 1 January 2021 are as follows:

- Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases

The application amendments did not have a significant impact on the condensed consolidated interim financial statements of the Group.

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.1 Basis of presentation (Continued)

b. Standards, amendments and interpretations that are issued but not effective as at 30 June 2021:

A number of new standards 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:

- COVID -19 - Related rent concessions beyond 30 June 2021 (the 2021 amendment),
- Reference to the conceptual framework (amendments to IFRS 3),
- Property, plant and equipment - proceeds before intended use (amendments to IAS 16),
- Onerous contracts - cost of fulfilling a contract (amendments to IAS 37),
- Classification of liabilities as current or non - current (Amendments to IAS 1),
- Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2),
- Definition of accounting estimates (Amendments to IAS 8)

The Group is assessing the potential impact of these amendments on its condensed consolidated financial statements.

2.2 Basis of consolidation

The condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries on the basis set out in sections below. The condensed interim financial information of the companies included in the scope of consolidation have been prepared consistently in accordance with the Group accounting policies which are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2020 and as at and for the six month period ended 30 June 2021.

The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Company has power over a subsidiary when the Company has existing rights that give it the current ability to direct the relevant activities that significantly affect the subsidiary’s returns. Power arises from rights and the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries including the structured entities are the companies controlled by the Group. The Group’s control is due to its ability to affect the variable returns through its power over the subsidiaries. Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that control ceases.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated.

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.2 Basis of consolidation (Continued)

Loss of control

If the Group loses control of a subsidiary, it recognises any investment retained in the former subsidiary at its fair value when control is lost and any difference between the fair value and net book value of investment is accounted for as a gain or loss. That fair value shall be regarded as the fair value on initial recognition of a financial asset, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. Additionally, assets and liabilities that were previously recognised as other comprehensive income attributable to that subsidiary are accounted for as if they were disposed of by the Group. This may result in a fact that these amounts previously recognised as other comprehensive income may be classified as profit or loss.

The table below sets out all subsidiaries and demonstrates the Company’s proportion of ownership interest as at 30 June 2021 and 31 December 2020.

Subsidiaries	30 June 2021	31 December 2020
Rotor	100.00	100.00
Zorlu Doğal	100.00	100.00
Zorlu Jeotermal	100.00	100.00

2.3 Critical accounting estimates, assumptions and judgments

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results could differ from these estimates.

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

The key assumption concerning the future, other key sources of estimation uncertainty at the reporting date and the significant judgments are set out below:

a) Deferred tax asset on cumulative tax losses

Deferred tax assets on carryforward tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. When accounting for deferred tax assets it is necessary to make critical estimations and evaluations regarding taxable profits in future periods. The Group has carry forward tax losses amounting to TL 3,002,097 as of 30 June 2021 (31 December 2020: TL 2,433,672). As per the management estimates, the Group has recognised deferred taxed assets of TL 569,058 (31 December 2020: TL 429,034) for its TL 2,726,672 (31 December 2020: TL 2,145,172) of carry forward tax losses, which the Group estimates to utilise in the future (Note 15). Should the estimated profit realize, the above-mentioned recognised deferred tax assets will be expensed in the profit or loss statement. The Group did not recognise deferred tax assets for TL 275,425 of carry forward tax losses (31 December 2020: TL 288,500).

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.3 Critical accounting estimates, assumptions and judgments

b) Non-derivative cash flow hedge

As explained in Note 11, the Group has an investment loan of USD 814,949 thousand (31 December 2020: USD 865,722 thousand investment loan and other payables to Zorlu Enerji amounting to USD 90,000 thousand) which is used as a hedging instrument for the USD spot exchange rate risk the Group is exposed to due to highly probable YEKDEM sales income, and applies cash flow hedge accounting. The estimations in budgets for YEKDEM sales income used to test effectiveness include estimations for items such as sales quantities and sales prices. Based on the sensitivity analysis of the estimations for 2021 and 2020 used in effectiveness tests, the Group concluded that a 5% increase/decrease in forecasted revenue would not have any significant effect on the conclusion of effectiveness tests.

c) Fair value of cash flow hedge

As explained in Note 11, cash flow hedge accounting was applied in the Group’s interest rate swap transactions. In the interest rate estimations used in the cash flow hedge accounting models of 30 June 2021 and 31 December 2020, 1% increase does not have a significant impact on the fair values of interest rate swap transactions recognised in the condensed consolidated interim statement of financial position.

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

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

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.3 Critical accounting estimates, assumptions and judgments (Continued)

d) Fair value measurement

When presenting the fair value of its power plants and the integral parts of a power plant which machinery, land and buildings, the Group selected the revaluation model from among the application methods mentioned in IAS 16. The amounts determined in the valuation studies carried out after deducting the tax effects on the Zorlu Doğal, Zorlu Jeotermal and Rotor power plants on 31 December 2020 were recognized for at their revalued amounts in the condensed consolidated interim financial statements.

The revaluation of the power plants was carried out by Aden Gayrimenkul Değerleme ve Danışmanlık AŞ, accredited by the Turkish Capital Markets Board (“CMB”).

Within the framework of these valuations, the following basic assumptions have been used:

Company	Power plant	Revaluation period	Revaluation work performed by	Revaluation method	Basic assumption used for revaluation work		
					Weighted average cost of capital	Electricity sales price (US cent/kWh) (*)	Sales volume (kWh/year)
Zorlu Doğal	Kızıldere I Geothermal Power Plant	31.12.2020	Aden Gayrimenkul	DCF	8.5	4.25-6 cent	45,300,150
Zorlu Doğal	Kızıldere II Geothermal Power Plan	31.12.2020	Aden Gayrimenkul	DCF	8.5	4.75-10.5 cent	459,041,520 - 483,201,600
Zorlu Doğal	Kızıldere III Geothermal Power Plant	31.12.2020	Aden Gayrimenkul	DCF	8.5	5.25-11.2 cent	1,010,840,490 - 1,082,026,440
Zorlu Doğal	Tokat/Ataköy Hydroelectric Power Plant	31.12.2020	Aden Gayrimenkul	DCF	8.5	4.25-6 cent	10,020,393 - 10,139,684
Zorlu Doğal	Eskişehir/Beyköy Hydroelectric Power Plant	31.12.2020	Aden Gayrimenkul	DCF	8.5	4.25-6 cent	54,360,180 - 60,883,402
Zorlu Doğal	Kars/Çıldır Hydroelectric Power Plant	31.12.2020	Aden Gayrimenkul	DCF	8.5	4.25-6 cent	17,229,588 - 17,560,927
Zorlu Doğal	Rize/İkizdere Hydroelectric Power Plant	31.12.2020	Aden Gayrimenkul	DCF	8.5	4.25-6 cent	124,814,425 - 122,662,452
Zorlu Doğal	Erzurum/Kuzgun Hydroelectric Power Plant	31.12.2020	Aden Gayrimenkul	DCF	8.5	4.25-6 cent	22,542,218 - 23,894,751
Zorlu Doğal	Tunceli/Mercan Hydroelectric Power Plant	31.12.2020	Aden Gayrimenkul	DCF	8.5	4.25-6 cent	80,090,665 - 84,491,251
Zorlu Doğal	Erzincan/Tercan Hydroelectric Power Plant	31.12.2020	Aden Gayrimenkul	DCF	8.5	4.25-6 cent	37,534,410 - 44,005,860
Zorlu Jeotermal	Alaşehir I Geothermal Power Plant	31.12.2020	Aden Gayrimenkul	DCF	8.5	5-10.5 cent	262,093,725 - 275,683,770
Rotor	Gökçedağ Wind Power Plant	31.12.2020	Aden Gayrimenkul	DCF	8.5	4.25-6 cent	364,019,063 - 378,579,825

(*) Represents the minimum and maximum sales price used in Discounted Cash Flow (“DCF”) calculation.

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.4 Going concern assumption

The Group has prepared its condensed consolidated interim financial statements on a going concern basis in a foreseeable future and does not foresee any risk regarding the ability of the Group to continue as a going concern. The Group's gross profit for the period 30 June 2021 is TL 445,291 (1 January 2020 - 30 June 2020: TL 355,019) and the EBITDA is TL 673,544 (1 January 2020 - 30 June 2020: TL 540,416).

The net loss for the period 30 June 2021 is TL 411,062 (1 January - 30 June 2020: TL 246,292). The Group's accumulated losses as of 30 June 2021 are TL 1,079,205 (31 December 2020: TL 708,164) and its current assets exceeded its short-term liabilities by TL 120,981 (31 December 2020: short-term liabilities exceeded current assets by TL 1,010,809). The Group's total equity is TL 1,554,044 (1 January - 31 December 2020: TL 993,605).

A major portion of the Group's electricity production is eligible for sale at pre-determined prices in USD within the scope of YEKDEM, which has a positive effect on gross profit and limiting exposure on the foreign exchange losses arising from borrowings of the Group. The Alaşehir geothermal energy power plant owned by Zorlu Jeotermal will sell electricity in the scope of YEKDEM until 31 December 2025, and the Kızıldere II and Kızıldere III geothermal energy power plants owned by Zorlu Doğal, until 31 December 2023 and 31 December 2027, respectively.

2.5 Financial risk management

Foreign exchange risk

The sources used by the Group in financing its investments are predominantly denominated in foreign currency. The Group is exposed to foreign exchange risk arising from the translation of amounts denominated in USD and EUR. In order to eliminate this risk, protection policies are applied to use various derivative instruments. In addition, foreign exchange losses arising from borrowings of companies that sell electricity in the scope of YEKDEM have been hedged by the foreign exchange gains arising from the sales indexed mainly to USD.

The details of foreign currency assets and liabilities as of 30 June 2021 and 31 December 2020 are as follows:

	1 January – 30 June 2021	1 January – 31 December 2020
Assets	2,191,837	436,496
Liabilities	(9,749,407)	(8,225,144)
Net foreign currency position	(7,557,570)	(7,788,648)

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.5 Financial risk management (Continued)

TL equivalents of assets and liabilities denominated in foreign currency held by the Group at 30 June 2021 are as follows:

		30 June 2021			
		TL equivalent (functional currency)	USD	EUR	Other
1.	Trade receivables	8,461	610	304	-
2a.	Monetary financial assets	1,808,405	207,717	18	1
2b.	Non-monetary financial assets	347,993	39,975	-	-
3.	Other	26,978	2,780	268	-
4.	Current assets (1+2+3)	2,191,837	251,082	590	1
5.	Trade receivables	-	-	-	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	Non-current assets (5+6+7)	-	-	-	-
9.	Total assets (4+8)	2,191,837	251,082	590	1
10.	Trade payables	132,329	13,189	1,690	-
11.	Financial liabilities	1,970,351	226,342	-	-
12a.	Other monetary liabilities	-	-	-	-
12b.	Other non-monetary liabilities	-	-	-	-
13.	Short-term liabilities (10+11+12)	2,102,680	239,531	1,690	-
14.	Trade payables	-	-	-	-
15.	Financial liabilities	7,646,727	878,409	-	-
16a.	Other monetary liabilities	-	-	-	-
16b.	Other non-monetary liabilities	-	-	-	-
17.	Long-term liabilities (14+15+16)	7,646,727	878,409	-	-
18.	Total liabilities (13+17)	9,749,407	1,117,940	1,690	-
19.	Net Asset/(Liability) Position Of Off Statement of Financial Position Derivative Instruments (19a-19b)	-	-	-	-
19a.	Off Statement of Financial Position Foreign Currency Derivative Assets	-	-	-	-
19b.	Off Statement of Financial Position Foreign Currency Derivative Liabilities	-	-	-	-
20.	Net Foreign Currency Asset/(Liability) Position (9-18+19)	(7,557,570)	(866,858)	(1,100)	1
21.	Net Foreign Currency Asset/(Liability) Position of Monetary Items (1+2a+5+6a-10-11-12a-14-15-16a)	(7,932,541)	(909,613)	(1,368)	1
22.	Total Fair Value of Financial Instruments Used for Foreign Currency Hedging	-	-	-	-
23.	Export	-	-	-	-
24.	Import	68,710	7,893	-	-

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.5 Financial risk management (Continued)

		31 December 2020			
		TL equivalent (functional currency)	USD	EUR	Other
1.	Trade receivables	381	9	35	-
2a.	Monetary financial assets	410,455	55,892	20	1
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	25,660	3,230	216	-
4.	Current assets (1+2+3)	436,496	59,131	271	1
5.	Trade receivables	-	-	-	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	Non-current assets (5+6+7)	-	-	-	-
9.	Total assets (4+8)	436,496	59,131	271	1
10.	Trade payables	184,784	22,941	1,819	-
11.	Financial liabilities	1,177,068	148,778	9,432	-
12a.	Other monetary liabilities	-	-	-	-
12b.	Other non-monetary liabilities	-	-	-	-
13.	Short-term liabilities (10+11+12)	1,361,852	171,719	11,251	-
14.	Trade payables	-	-	-	-
15.	Financial liabilities	6,863,292	886,889	39,197	-
16a.	Other monetary liabilities	-	-	-	-
16b.	Other non-monetary liabilities	-	-	-	-
17.	Long-term liabilities (14+15+16)	6,863,292	886,889	39,197	-
18.	Total liabilities (13+17)	8,225,144	1,058,608	50,448	-
19.	Net Asset/(Liability) Position Of Off Statement of Financial Position Derivative Instruments (19a-19b)				
19a.	Off Statement of Financial Position Foreign Currency Derivative Assets	-	-	-	-
19b.	Off Statement of Financial Position Foreign Currency Derivative Liabilities	-	-	-	-
20.	Net Foreign Currency Asset/(Liability) Position (9-18+19)	(7,788,648)	(999,477)	(50,177)	1
21.	Net Foreign Currency Asset/(Liability) Position of Monetary Items (1+2a+5+6a-10-11-12a-14-15-16a)	(7,814,308)	(1,002,707)	(50,393)	1
22.	Total Fair Value of Financial Instruments Used for Foreign Currency Hedging	-	-	-	-
23.	Export	-	-	-	-
24.	Import	34,713	4,729	-	-

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.5 Financial risk management (Continued)

The Group is mainly exposed to foreign exchange risk as a result of the impact of rate changes in the translation of USD and EUR denominated assets and liabilities to local currency. As of 30 June 2021 and 31 December 2020, had the TL appreciated or depreciated by 10% against the USD and EUR and all other variables held constant, the effect on current period net income and equity would be as follows:

30 June 2021

	Gain/(Loss)		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
+/-10% fluctuation of USD				
USD net asset/liability	(754,617)	754,617	(754,617)	754,617
Amount hedged against USD risk (-)	709,429	(709,429)	-	-
USD net effect	(45,188)	45,188	(754,617)	754,617
+/-10% fluctuation of EUR				
EUR net asset/liability	(1,140)	1,140	(1,140)	1,140
EUR net effect	(1,140)	1,140	(1,140)	1,140
Total net effect	(46,328)	46,328	(755,757)	755,757

31 December 2020

	Gain/(Loss)		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
+/-10% fluctuation of USD				
USD net asset/liability	(733,666)	733,666	(733,666)	733,666
Amount hedged against USD risk (-)	701,548	(701,548)	-	-
USD net effect	(32,118)	32,118	(733,666)	733,666
+/-10% fluctuation of EUR				
EUR net asset/liability	(45,199)	45,199	(45,199)	45,199
EUR net effect	(45,199)	45,199	(45,199)	45,199
Total net effect	(77,317)	77,317	(778,865)	778,865

As of 30 June 2021, the Group used its investment loans of USD 814,949 thousand (31 December 2020: USD 865,722 thousand investment loans and its debt to Zorlu Enerji of USD 90,000 thousand) as a hedging instruments to hedge against the exchange rate risk resulting from the highly probable sales income earned in the scope of YEKDEM, and implemented cash flow hedge accounting for highly-probable YEKDEM sales as a result of efficiency tests carried out within this scope.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2.5 Financial risk management (Continued)

Fair value of financial instruments

Fair value is the amount for which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best supported by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments:

Financial assets

Due to their short-term nature, the fair value of cash and cash equivalents, trade and other receivables represents their book value.

Financial liabilities

The fair value of borrowings with fixed interests is obtained by calculating their discounted cash flows using the market interest rate effective at the reporting date.

The fair value of foreign currency denominated borrowings with variable interests is obtained by discounting the projected cash flows using estimated market interest rates.

Fair value estimation:

The table below analyses financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for similar assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

The fair value of financial instruments not being traded in active markets is determined using valuation techniques. These techniques help make the most use of observable market data when it is as dependable and available as the Company’s specific predictions. If all significant inputs necessary in terms of a financial instrument’s fair value are observable, this instrument falls in the scope of Level 2.

The following table presents the Group’s assets and liabilities that are measured at fair value at 30 June 2021 and 31 December 2020:

Derivative financial instruments	30 June 2021	31 December 2020
Level 1	-	-
Level 2	(259,691)	(306,278)
Level 3	-	-
	(259,691)	(306,278)

2.6 Other Information

The information used by Group management to evaluate performance and allocate resources comes from the “Renewable Energy” segment in Turkey, which operates as a single line of business. Therefore, separate segment reporting is not presented.

The Board primarily uses EBITDA to assess the performance of the operating entities. EBITDA is not a financial measure defined by IFRS as a measurement of financial performance and may not be comparable to other similarly titled indicators used by other companies. EBITDA definition includes subtracting general administrative expenses from the Group’s gross profit and adding the depreciation and amortisation expenses. EBITDA presentation is summarized as follows:

1 January - 30 June 2021	Zorlu Doğal	Zorlu Jeotermal	Rotor	Zorlu Yenilenebilir	Eliminations	Total
Revenue	671,630	106,815	73,918	-	(2,270)	850,093
Cost of sales	(301,588)	(43,836)	(61,648)	-	2,270	(404,802)
Gross profit	370,042	62,979	12,270	-	-	445,291
General administrative expenses	(18,625)	(5,520)	(2,763)	(732)	-	(27,640)
Depreciation and amortisation expenses	207,685	27,781	20,427	-	-	255,893
EBITDA	559,102	85,240	29,934	(732)	-	673,544
1 January - 30 June 2020	Zorlu Doğal	Zorlu Jeotermal	Rotor	Zorlu Yenilenebilir	Eliminations	Total
Revenue	499,065	95,586	95,635	-	-	690,286
Cost of sales	(230,110)	(35,495)	(69,662)	-	-	(335,267)
Gross profit	268,955	60,091	25,973	-	-	355,019
General administrative expenses	(17,298)	(4,256)	(1,669)	-	-	(23,223)
Depreciation and amortisation expenses	165,836	22,248	20,536	-	-	208,620
EBITDA	417,493	78,083	44,840	-	-	540,416

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

NOTE 3 - CASH AND CASH EQUIVALENTS

	30 June 2021	31 December 2020
Banks	1,828,773	418,747
- <i>Time deposits</i>	1,405,333	233,634
- <i>Demand deposits</i>	423,440	185,113
	1,828,773	418,747

As of 30 June 2021, the average effective interest rate for USD and TL denominated time deposits is 0.02% and 11.45%, respectively (31 December 2020: USD 0.05% and TL 9.17%) for those with maturity periods of less than three months.

The credit risk of banks with which the Group has deposits is evaluated based on independent data and no significant credit risk is expected.

The details of cash and cash equivalents include the following for the purpose of the interim consolidated statements of cash flows as of 30 June 2021 and 2020:

	30 June 2021	30 June 2020
Cash and cash equivalents	1,828,773	229,989
Less: restricted cash	(1,850)	(213)
	1,826,923	229,776

As of 30 June 2021, the Group's restricted cash amounting to TL 1,850 (30 June 2020: TL 213) is related to the purchase and sale of electricity by the Group.

NOTE 4 – FINANCIAL LIABILITIES

	30 June 2021	31 December 2020
Short-term loans and borrowings	4,856	173,918
Short-term portion of		
long-term loans and borrowings	1,742,715	1,076,555
Lease liabilities	9,591	8,376
Short-term issued bonds	222,780	-
Short-term loans and borrowings		
from related parties (Note 16)	-	597
Total short-term financial liabilities	1,979,942	1,259,446
Long-term loans and borrowings	5,346,720	5,408,571
Long-term issued bonds	2,300,007	-
Lease liabilities	15,550	15,550
Long-term loans and borrowings		
from related parties (Note 16)	-	1,462,442
Total long-term financial liabilities	7,662,277	6,886,563
Total financial liabilities	9,642,219	8,146,009

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NOTE 4 - FINANCIAL LIABILITIES (Continued)

The details of short-term financial liabilities other than lease liabilities of the Group as at 30 June 2021 and 31 December 2020 are as follows:

	<u>30 June 2021</u>			<u>31 December 2020</u>		
	Original amount	TL equivalent	Weighted average effective interest rate per annum (%)	Original Amount	TL equivalent	Weighted average effective interest rate per annum (%)
USD (*)	226,342	1,970,351	7.28	148,778	1,092,104	6.93
EUR	-	-	-	9,432	84,964	4.85
TL	-	-	-	74,002	74,002	26.45
		1,970,351			1,251,070	

The details of long-term financial liabilities other than lease liabilities of the Group as at 30 June 2021 and 31 December 2020 are as follows:

	<u>30 June 2021</u>			<u>31 December 2020</u>		
	Original amount	TL equivalent	Weighted average effective interest rate per annum (%)	Original Amount	TL equivalent	Weighted average effective interest rate per annum (%)
USD (*)	878,409	7,646,727	7.71	886,889	6,510,209	7.29
EUR	-	-	-	39,197	353,083	4.94
TL	-	-	-	7,721	7,721	20
		7,646,727			6,871,013	

(*) As at 30 June 2021 interest rate for bank borrowings varies between Libor + 5.90% and 9%.

The redemption schedules of loans and borrowings other than lease liabilities as at 30 June 2021 and 31 December 2020 are as follows:

	<u>30 June 2021</u>	<u>31 December 2020</u>
Up to 1 year	1,970,351	1,251,070
1- 2 years	1,192,853	1,886,536
2 - 3 years	1,334,147	1,534,454
3 - 4 years	1,124,687	717,132
4 - 5 years	2,047,272	682,537
More than 5 years	1,947,768	2,050,354
	9,617,078	8,122,083

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NOTE 4 - FINANCIAL LIABILITIES (Continued)

The movement of loans and borrowings for the period 1 January - 30 June 2021 and 2020 is as follows:

	2021	2020
As of 1 January	8,146,009	6,785,193
Proceeds from bank borrowings	83,091	27,696
Proceeds from issued bonds (*)	2,468,278	-
Cash outflow due to		
repayment of bank borrowings	(913,874)	(351,672)
Change in exchange differences and interest effect	1,820,886	1,267,105
Change in borrowings from related parties	(1,772,368)	754
Prepaid borrowing commissions, net	(1,993)	1,030
Interest paid	(183,284)	(209,611)
Cash outflows related to payment of lease liabilities	(4,526)	(1,652)
As of 30 June	9,642,219	7,518,843

(*) Zorlu Yenilenebilir Enerji issued USD 300 million senior secured bonds with 9% coupon rate and semi-annual interest payment guaranteed on a senior basis by Zorlu Jeotermal and Rotor with maturity due 1 June 2026. The bonds are listed on the Global Exchange Market of Euronext Dublin on 1 June 2021. The proceeds of the issuance will be used for repayment of certain existing financial indebtedness as well as existing shareholder loans, funding new investments and general corporate purposes.

As of 30 June 2021, the total accumulated arrangement commissions the Group had paid in relation to borrowings from financial institutions and related parties equalled TL 145,904 and this is accounted by offsetting from the borrowing amounts (31 December 2020: TL 130,288). These commission amounts are recognised as expenses spread throughout the terms of the loans. Guarantees, pledges and mortgages given for financial borrowings are explained in Note 9.

NOTE 5 - TRADE RECEIVABLES AND PAYABLES

a) Trade receivables:

	30 June 2021	31 December 2020
Trade receivables from third parties	96,215	98,752
Trade receivables from related parties (Note 16)	27,854	9,768
	124,069	108,520

As of 30 June 2021, the average maturity period of trade receivables is up to 30 days (31 December 2020: 30 days).

The Group does not have any overdue receivables that doubtful provision has not been accounted as of 30 June 2021 and 31 December 2020.

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

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NOTE 5 - TRADE RECEIVABLES AND PAYABLES (Continued)

b) Trade payables:

	30 June 2021	31 December 2020
Trade payables due to third parties	172,612	228,403
Trade payables due to related parties (Note 16)	2,316	35,804
	174,928	264,207

As of 30 June 2021 the average maturity period of trade payables is up to 90 days (31 December 2020: 90 days).

NOTE 6 - PREPAID EXPENSES

	30 June 2021	31 December 2020
Advances given to related party (Note 16) (*)	347,993	-
Third party prepaid expenses	25,833	26,015
Short-term prepaid expenses	373,826	26,015

(*) The amount relates to advance payments provided to Zorlu Enerji as the EPC and drilling works contractor for the Alaşehir 2 geothermal, hybrid and Tekkehamam projects.

NOTE 7 - OTHER ASSETS AND LIABILITIES

a) Other current assets

	30 June 2021	31 December 2020
Insurance income accruals (*)	26,965	20,121
Other	142	374
	27,107	20,495

(*) Insurance income accruals, the Group's commercial enterprises and components, machine breakage, loss of profit, fire, etc. For insurance policies that cover all risks; related to the claims for damages collected and expected to be collected.

b) Other current liabilities

	30 June 2021	31 December 2020
Taxes and funds payable	31,162	24,477
Other	2,602	3,046
	33,764	27,523

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2021	Additions	Disposals	Transfers	Revaluation	30 June 2021
Cost:						
Land	93,225	-	-	-	-	93,225
Land improvements	299,771	-	-	-	-	299,771
Buildings	25,767	-	-	-	-	25,767
Machinery and equipment	10,591,798	4,452	-	3,293	-	10,599,543
Motor vehicles	1,211	-	-	-	-	1,211
Furniture and fixtures	25,848	1,209	(5)	-	-	27,052
Construction work in progress (*)	368,798	146,931	-	(3,293)	-	512,436
	11,406,418	152,592	(5)	-	-	11,559,005
Accumulated depreciation:						
Land improvements	58,217	6,494	-	-	-	64,711
Buildings	3,867	573	-	-	-	4,440
Machinery and equipment	1,810,927	245,966	-	-	-	2,056,893
Motor vehicles	1,072	9	-	-	-	1,081
Furniture and fixtures	15,753	1,587	-	-	-	17,340
	1,889,836	254,629	-	-	-	2,144,465
Net book value	9,516,582					9,414,540

(*) Additions to construction work in progress are mostly purchases related to improvement studies for the Kızıldere IV project, Alaşehir II and the current Kızıldere III geothermal project. The borrowing costs of TL 40,728 directly related to the investments made as of 30 June 2021 were capitalised on the relevant asset cost.

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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NOTE 8 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2020	Additions	Disposals	Transfers	Revaluation	30 June 2020
Cost:						
Land	71,641	735	-	-	16,137	88,513
Land improvements	269,840	-	-	-	31,054	300,894
Buildings	21,391	-	-	-	3,125	24,516
Machinery and equipment	8,083,120	745	-	-	1,673,682	9,757,547
Motor vehicles	1,281	-	(70)	-	-	1,211
Furniture and fixtures	25,394	119	-	-	-	25,513
Construction work in progress (*)	390,413	101,466	-	-	-	491,879
	8,863,080	103,065	(70)	-	1,723,998	10,690,073
Accumulated depreciation:						
Land improvements	46,539	5,561	-	-	-	52,100
Buildings	2,852	482	-	-	-	3,334
Machinery and equipment	1,384,482	200,171	-	-	-	1,584,653
Motor vehicles	1,067	54	(70)	-	-	1,051
Furniture and fixtures	12,469	1,665	-	-	-	14,134
	1,447,409	207,933	(70)	-	-	1,655,272
Net book value	7,415,671					9,034,801

(*) Additions to construction work in progress are mostly purchases related to improvement studies for the Kızıldere IV project, Alaşehir II and the current Kızıldere III geothermal project. The borrowing costs of TL 39,072 directly related to the investments made as of 30 June 2020 were capitalised on the relevant asset cost.

ZORLU YENİLENEBİLİR ENERJİ AŞ AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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NOTE 8 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The movements of the revaluation fund are presented in Note 10.

As of 30 June 2021, pledge on property, plant and equipment of the Group is amounting to TL 2,441,933 (31 December 2020: TL 2,093,983).

The breakdown of depreciation expenses is presented in Note 12.

“Discounted cash flows analysis” was used to determine the fair value of the Group's power plants (Level 3).

Property, plant and equipment	30 June 2021	31 December 2020
Level 1	-	-
Level 2	-	-
Level 3	8,892,262	9,135,565
	8,892,262	9,135,565

NOTE 9 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Long-term provisions related to employee benefits

	30 June 2021	31 December 2020
Employment termination benefit liabilities	6,913	5,466
	6,913	5,466

The provision for employment termination benefits is accounted within the framework of the explanations below:

Under Turkish Labor Law, companies incorporated in Turkey are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, who is called up for military service, who dies or who retires after completing 25 years of service (20 years for women) and reaches retirement age (58 for women and 60 for men). After the legislation change on 23 May 2002, some articles concerning the transition period for the term of service before retirement were removed. The amount payable consists of one month's salary, limited to a maximum of TL 7,639 (31 December 2020: TL 7,117) for each year of service.

The liability is not funded, as there is no funding requirement.

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NOTE 9 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees with certain actuarial assumptions.

The Group developed actuarial valuation methods to make a provision for employment termination benefits. Thus, the financial and actuarial assumptions used in the calculation of long-term provisions for employment termination benefits are as follows:

	2021	2020
Discount rate (%)	4.15	4.15
Probability of retirement for personnel (weighted average %)	90.94	88.56

Guarantees received

	Original currency	30 June 2021		31 December 2020	
		Original amount	TL equivalent	Original amount	TL equivalent
Letters of guarantee	TL	5,907	5,907	4,894	4,894
Letters of guarantee	USD	114	992	746	5,476
Letters of guarantee	EUR	163	1,689	890	8,017
Guarantee cheques	TL	426	426	436	436
Guarantee cheques	USD	45	392	114	837
			9,406		19,660

The guarantees received are guarantee letters, collateral bills and guarantee cheques received from customers and suppliers for sales related to Group activities.

Guarantees given

	Original currency	30 June 2021		31 December 2020	
		Original Amount	TL equivalent	Original amount	TL equivalent
Commercial pledge	TL	1,562,525	1,562,525	1,562,525	1,562,525
Share pledge	TL	1,265,000	1,265,000	1,045,000	1,045,000
Letters of guarantee	TL	18,234	18,234	17,965	17,965
Pledge on property	EUR	130,000	1,347,385	130,000	1,171,027
Pledge on property	USD	125,735	1,094,548	125,735	922,956
Letters of guarantee	USD	10,000	87,052	10,000	73,405
			5,374,744		4,792,878

The guarantees given consist mainly of the guarantees given to EMRA and other state institutions in relation to electricity transmission and distribution.

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NOTE 9 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Collateral/Pledges/Mortgages Given by the Group

As of 30 June 2021 and 31 December 2020, the Group's collateral/pledge/mortgage ("CPM") position is as follows:

		<u>30 June 2021</u>		<u>31 December 2020</u>	
	Original Currency	Original amount	TL equivalent	Original amount	TL equivalent
CPM's given by the Company					
A. Total amount of CPM given for the Group's own legal personality					
	TL	2,845,759	2,845,759	2,625,490	2,625,490
	EUR	130,000	1,347,385	130,000	1,171,027
	USD	135,735	1,181,600	135,735	996,361
B. Total amount of CPM given for fully consolidated companies					
		-	-	-	-
C. Total amount of CPM given on behalf of third parties for the continuity of their economic activities					
		-	-	-	-
D. Total amount of other CPM given					
i. Total amount of CPM given for the parent company of the Company					
		-	-	-	-
ii. Total amount of CPM given for other group companies which are not in scope of B and C					
		-	-	-	-
iii. Total amount of CPM given for third parties which are not in scope of C					
		-	-	-	-
Total CPM			5,374,744	4,792,878	

The ratio of other CPM's given by the Group to its equity is 0% as of 30 June 2021 (31 December 2020: 0%). Details regarding the guarantees, pledges and mortgages given by the Group within the scope of the project financing loans and on behalf of their legal entities are presented below.

Zorlu Doğal:

On 27 October 2015, a loan agreement amounting to USD 815 million (USD 785 million in cash and USD 30 million guarantee limit) and having a 14 year term was signed on 27 October 2015 between Zorlu Doğal, Akbank TAŞ, Türkiye Garanti Bankası AŞ, Türkiye İş Bankası AŞ and Türkiye Sınai Kalkınma Bankası AŞ for the refinancing of Zorlu Doğal's debts and to finance the investment in the Kızıldere III geothermal power plant, which is planned to be constructed in Denizli. In addition to the said loan agreement, an account pledge, share pledge, assignment of receivables and assignment of shareholder receivables agreement were signed. Also, Zorlu Doğal signed a loan agreement amounting to USD 190 million with the European Bank for Reconstruction and Development ("EBRD"), Akbank TAŞ, Türkiye İş Bankası AŞ and Türkiye Sınai Kalkınma Bankası AŞ on 6 April 2017 for the purpose of financing the second unit (65.5 MW) of the Kızıldere III Geothermal Energy Plant. In addition to the loan contract, they also signed contracts for an account pledge, a share pledge, the transfer of receivables and stakeholder receivables transfers. Enerji Piyasaları İşletme AŞ's ("EPIAŞ") receivable transfer amount cap in the scope of the transfer of receivables agreement is TL 9,500,000. Since EPIAŞ's receivable transfer amount is the cap, it is not included in the collateral, pledges and mortgages given by the Group note. Zorlu Holding AŞ and Zorlu Enerji are guarantors for Zorlu Doğal's loan amounting to USD 975 million. The bank loans in respect of Tranche C has been prepaid early on 8 June 2021 with the proceeds of the Eurobond issuance. As at 30 June 2021, the outstanding balance after payments and with all adjustments related to reporting is amounting to USD 738 million.

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NOTE 9 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Zorlu Jeotermal:

The 14 year term loan agreement was signed on 25 November 2013 by Zorlu Jeotermal and Yapı Kredi AŞ, and has a credit line of up to USD 113 million for the financing of the project. Pursuant to the material disclosure dated 24 June 2015, project capacity was increased from 30 MW to 45MW. Hence, an amended loan agreement was signed between the aforementioned parties and the credit line were increased from USD 113 million to USD 148 million. In addition to the aforementioned credit agreement, account pledge, mortgage, share pledge, consecutive lending and takeover contracts were signed. As per the Commercial Enterprise Pledge Contract, a commercial enterprise lien equal to TL 1,060,800 was granted. As per the mortgage agreement signed by the Company and the Bank, a pledge amounting to USD 126 million has been placed on the property of the Company. As per the transfer of receivables agreement, the cap for the receivable transfer amount of EPIAŞ was determined to be TL 2,155,000. Since the EPIAŞ receivable transfer amount is the cap, it is not included in the collateral, pledges and mortgages given by the Group note. Zorlu Holding AŞ is a guarantor for Zorlu Jeotermal’s USD 148 million loan from Yapı ve Kredi AŞ. As at 30 June 2021, the outstanding balance after payments and with all adjustments related to reporting is amounting to USD 77 million.

Rotor:

On 8 May 2009 Rotor signed a long-term loan agreement related to the 135 MW electricity production power plant located in Osmaniye, and amounting to EUR 130 million, with the consortium of a group of financial institutions (EBRD, International Finance Corporation, European Investment Bank). In addition to the loan agreement, mortgage, commercial enterprise pledge, share pledge, account pledge, assignment of receivables and assignment of insurance receivables agreements were signed. As per the mortgage agreement signed by the Rotor and the Bank, a pledge amounting to EUR 130 million has been placed on the property of the Company. As per the commercial pledge agreement, a commercial pledge of to TL 501,725 was placed on the Company’s fixed assets and is included in the collateral, pledges and mortgages given by the Group note. The commercial enterprise pledge upper limit is EUR 235 million. Zorlu Holding AŞ and Zorlu Enerji are guarantors for Rotor’s aforementioned loan agreement. The bank loan has been prepaid early on 15 June 2021 with the proceeds of the Eurobond issuance.

NOTE 10 - EQUITY

a) Share Capital

As of 30 June 2021 and 31 December 2020, the share capital amounts of the Group are as follows:

	30 June 2021	31 December 2020
Share capital (*)	1,045,000	1,045,000
Capital advance (**)	1,650,000	-
Total capital	2,695,000	1,045,000

(*) Zorlu Enerji has 100% shares of the Company.

(**) Outstanding cash debts of Zorlu Yenilenebilir to Zorlu Enerji has been converted as capital advance amounting TL 1,650,000 with a resolution of the Ordinary General Assembly dated 29 June 2021. Therefore the Company’s share capital increased from TL 1,045,000 to TL 2,695,000. The new share capital is registered on 19 July 2021.

Paid - in capital of Zorlu Jeotermal has been increased from TL 185,000 to TL 405,000 with a resolution of the Extraordinary General Assembly dated 28 January 2021. The new share capital is registered on 1 February 2021.

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NOTE 10 - EQUITY (Continued)

b) Other comprehensive income and expenses that will not be reclassified in profit or loss

The Group’s revaluation fund and actuarial losses that aren’t reclassified in other comprehensive income and expenses are summarised below.

i. Revaluation fund

When presenting the land, land improvements, buildings, property, machinery and equipment at fair values the Group selected the revaluation model from among the application methods mentioned in IAS 16. The USD amounts determined in the valuation studies carried out after deducting the tax effects on the Zorlu Doğal, Zorlu Jeotermal and Rotor’s power plants on 30 June 2021 for at their new values in the condensed consolidated interim financial statements.

The revaluation of the power plants was carried out by Aden Gayrimenkul Değerleme ve Danışmanlık AŞ accredited by the CMB as of 31 December 2020 respectively.

As at 30 June 2021 and 2020, the movements for the revaluation fund are as follows:

1 January 2020	2,858,092
Revaluation fund	1,379,199
Transfers	(73,007)
30 June 2020	4,164,284
1 January 2021	4,455,076
Transfers	(126,689)
30 June 2021	4,328,387

ii. Actuarial losses

The provision for employment termination benefits is calculated by estimating the present value of the future probable obligation arising from the retirement of Group employees. The Group recognised all actuarial gains and losses in other comprehensive income. The actuarial loss recognised under equity in the condensed consolidated interim statement of financial position as of 30 June 2021 amounted to TL 2,863 (31 December 2020: TL 2,115).

c) Other comprehensive income and expenses that are or may be reclassified to profit or loss

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or directly included in the initial cost or other carrying amount of a non-financial asset or nonfinancial liability.

The Group’s hedge reserves that will be reclassified in other comprehensive income and expenses are summarised below:

	30 June 2021	31 December 2020
Non-derivative financial instruments	(3,820,848)	(3,104,550)
Derivative financial instruments	(156,292)	(194,839)
	(3,977,140)	(3,299,389)

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NOTE 11 - DERIVATIVES

Non-derivative financial instruments

As explained in Note 2.3, the Group uses an investment loan amounting to USD 814,949 thousand (31 December 2020: USD 865,722 thousand investment loan and other payables to Zorlu Enerji amounting to USD 90,000 thousand) as a hedging instrument against the USD spot exchange rate risk. The Group is exposed to due to highly probable YEKDEM sales income, and applies cash flow hedge accounting as a result of the effectiveness tests performed.

Alaşehir JES plant of Zorlu Jeotermal will sell electricity in scope of YEKDEM until 2025 and Kızıldere II JES plant and Kızıldere III JES plant of Zorlu Doğal will sell electricity in scope of YEKDEM until 2023 and 2027, respectively. The maturity dates of the hedging items are considered to be the end of YEKDEM sales. Also the maturity dates of the hedging instruments are considered to be the final payment dates of the investment loans and other payables to Zorlu Enerji which are subject to hedge relationships.

	<u>30 June 2021</u>		<u>31 December 2020</u>	
	Original amount (USD)	Accounted under equity (TL) (*)	Original amount (USD)	Accounted under equity (TL) (*)
Hedged amount for foreign currency risk	814,949	(3,820,848)	955,722	(3,104,550)
	814,949	(3,820,848)	955,722	(3,104,550)

(*) The amount was presented net of deferred tax in the “Hedge Reserves” account under equity.

Derivative financial instruments

Derivative financial instruments are initially recognised in the statement of financial position at cost and later re-measured at fair value. The derivative instrument of the Group consist of interest rate swap.

On the date a derivative contract is entered into, the Group designates certain derivatives as either hedges of the fair value of a recognised asset or liability (“fair value hedge”) or hedges of a forecasted transaction or firm commitment (“cash flow hedge”). Interest rate swap transactions provide effective economic hedges under the Group risk management position and qualify for hedge accounting under specific rules and are therefore treated as derivatives held for hedging. Changes in the fair value of derivatives designated as cash flow hedges and qualified as effective are recognised in “Other comprehensive income/(expenses) to be reclassified to profit or loss” under “hedge reserves”, whereas the ineffective portion is recognised in the profit or loss. Amounts recognised under equity are transferred to the profit or loss in the period in which the hedged firm commitment or forecasted transaction affects the profit or loss.

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

NOTE 11 - DERIVATIVES (Continued)

Derivative financial instruments (Continued)

	30 June 2021				
	Contract amount (USD)	Total contract amount (TL)	Fair value	Carried at Fair value through profit or loss	Accounted under equity (*)
Interest rate swap agreements held for hedging	575,235	5,007,536	(259,691)	(1,596)	(156,292)
	575,235	5,007,536	(259,691)	(1,596)	(156,292)
	31 December 2020				
	Contract amount (USD)	Total contract amount (TL)	Fair value	Carried at fair value through profit or loss	Accounted under equity (*)
Interest rate swap agreements held for hedging	575,235	4,222,513	(306,278)	(19,283)	(194,839)
	575,235	4,222,513	(306,278)	(19,283)	(194,839)

(*) The amount was presented net of deferred tax in the “Hedge Reserves” account under equity.

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NOTE 12 - EXPENSES BY NATURE

	1 January - 30 June 2021	1 January - 30 June 2020
Depreciation expenses (*)	255,893	208,620
Raw materials and supplies and trade goods expenses	65,715	47,265
Personnel expenses (**)	21,239	18,433
System usage fee	18,258	19,695
Insurance expenses	15,240	5,456
Operating expense of power stations (Note 16)	14,443	24,191
Other	41,654	34,830
	432,442	358,490

(*) As of 30 June 2021, depreciation expenses are charged to cost of sales and general administrative expenses amount to TL 254,599 and TL 1,294, respectively (30 June 2020: cost of sales TL 208,366 and general administrative expenses TL 254).

(**) As of 30 June 2021, personnel expenses are charged to cost of sales and general administrative expenses amount to TL 7,588 and TL 13,651, respectively (30 June 2020: cost of sales TL 6,826 and general administrative expenses TL 11,607).

NOTE 13 - OTHER OPERATING EXPENSES

The details of other operating expenses are as follows:

	1 January - 30 June 2021	1 January - 30 June 2020
Interest expenses on operating activities	5,350	5,260
Foreign exchange losses from operating activities	8,514	2,532
Other	21,276	6,695
	35,140	14,487

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NOTE 14 - FINANCE INCOME AND EXPENSES

Finance income:

	1 January - 30 June 2021	1 January - 30 June 2020
Foreign exchange gain	73,119	78,230
Interest income	1,950	892
	75,069	79,122

Finance expenses:

	1 January - 30 June 2021	1 January - 30 June 2020
Foreign exchange loss	617,141	332,428
Interest expense	323,317	306,487
Loss on derivative financial instruments	1,596	18,169
Commission and other expenses	17,619	7,933
	959,673	665,017

NOTE 15 - INCOME TAXES

In Turkey, corporate tax is payable at a rate of 25% and 22% as of 30 June 2021 and 31 December 2020, respectively.

Corporations are required to pay advance corporate tax on their corporate income quarterly, at the rate of 25%. Advance tax is declared by the 14th and paid by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporate tax liability. If, despite offsetting, an amount of advance tax remains, it may be refunded or offset against other liabilities to the government.

The details of taxation on income for the periods ending 30 June 2021 and 2020 are as follows:

	1 January - 30 June 2021	1 January - 30 June 2020
Deferred tax income	75,140	20,001
Total tax income	75,140	20,001

Deferred taxes

The Group recognises deferred taxes based on all temporary differences arising between their financial statements as reported for IFRS and its statutory tax financial statements.

“The Law On Collection Procedure of Public Receivables” which has been published on the Official Gazette numbered 31462 and dated 22 April 2021, Article 11 of “the Law on the Amendment of Some Laws” and the provisional article 13 which has been added to the Law No 5520 Corporate Tax, the income tax rate will be applied as 25% for the corporate income related to the 2021 taxation period and 23% for the corporate income related to the 2022 taxation period. This change will be applicable for the taxation of corporate income for the taxable periods beginning from 1 January 2021, beginning with the declarations that must be submitted as of 1 July 2021.

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NOTE 15 - INCOME TAXES (Continued)

	30 June 2021	31 December 2020
Deferred tax liabilities, net	(173,744)	(418,509)
	(173,744)	(418,509)

The breakdowns of cumulative temporary differences and the resulting deferred tax assets/(liabilities) at 30 June 2021 and 31 December 2020 are as follows:

	<u>Temporary differences</u>		<u>Deferred tax assets/(liabilities)</u>	
	30 June 2021	30 December 2020	30 June 2021	31 December 2020
Carryforward tax losses	(2,726,672)	(2,145,172)	569,058	429,034
Derivative financial instruments	(259,691)	(306,278)	59,729	61,255
Financial liabilities	123,682	110,176	(13,009)	(22,035)
Property, plant and equipment and intangible assets	3,942,644	4,417,220	(788,529)	(883,444)
Provision for employment termination benefit	(6,913)	(5,466)	1,383	1,093
Insurance income accruals	6,844	12,242	(1,575)	(2,448)
Other	4,005	9,821	(801)	(1,964)
Deferred tax assets/(liabilities), net			(173,744)	(418,509)

The Group has carry forward tax losses amounting to TL 3,002,097 as of 30 June 2021 (31 December 2020: TL 2,433,672). As per assessments, the Group has recognised deferred tax assets of TL 569,058 (31 December 2020: TL 429,034) for its TL 2,726,672 (31 December 2020: TL 2,145,172) of carry forward tax losses, which the Group is considering offsetting in the future.

The expiration dates of recognised carryforward tax losses are as follows:

Due date	30 June 2021	31 December 2020
2021	42,331	19,805
2022	162,507	158,583
2023	1,045,463	1,045,463
2024	239,381	239,381
2025	681,941	681,940
2026	555,049	-
	2,726,672	2,145,172

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NOTE 15 – INCOME TAXES (Continued)

The Group did not recognise deferred tax assets for the TL 275,425 of carry forward tax losses (31 December 2020: TL 288,500). The expiration dates of the Group's unrecognised carry forward tax losses are as follows:

Due date	30 June 2021	31 December 2020
2021	238,882	261,408
2022	-	3,925
2023	23,167	23,167
2025	635	-
2026	12,741	-
	275,425	288,500

NOTE 16 - RELATED PARTY DISCLOSURES

i) Related party balances:

a) Short-term trade receivables from related parties

	30 June 2021	31 December 2020
Zorlu Elektrik Enerjisi İhracat ve Toptan Ticaret AŞ ("Zorlu Elektrik Toptan")	27,704	7,847
Other	150	1,921
	27,854	9,768

b) Short-term other receivables from related parties

	30 June 2021	31 December 2020
Zorlu Trade Elektrik Toptan Satış AŞ ("Zorlu Trade")	2,196	-
	2,196	-

c) Advances given to related parties

	30 June 2021	31 December 2020
Zorlu Enerji	347,993	-
	347,993	-

d) Short-term trade payables to related parties

	30 June 2021	31 December 2020
Zorlu Enerji	375	16,859
Zorlu Elektrik Toptan	287	7,730
Zorlu O&M Enerji Tesisleri İşletme ve Bakım Hizmetleri AŞ ("Zorlu O&M")	1,525	7,279
Zorlu Trade	-	3,205
Other	129	731
	2,316	35,804

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NOTE 16 - RELATED PARTY DISCLOSURES (Continued)

e) Short-term financial liabilities due to related parties

	30 June 2021	31 December 2020
Zorlu Enerji (*)	-	597
	-	597

(*) As of 30 June 2021, there is no financial natured debts owed to Zorlu Enerji (31 December 2020: USD 81 thousand with 7% interest rate).

f) Long-term financial liabilities due to related parties

	30 June 2021	31 December 2020
Zorlu Enerji (*)	-	1,462,442
	-	1,462,442

(*) As of 30 June 2021, there is no financial natured debt owed to Zorlu Enerji (31 December 2020: USD 169,881 thousand, EUR 23,058 thousand and TL 7,730, interest rates are 9.53%, 5% and 20%, respectively).

ii) The details of major sales and purchase transactions between related parties for the periods between 1 January - 30 June 2021 and 2020 are as follows:

a) Sales to related parties

	1 January - 30 June 2021	1 January - 30 June 2020
Zorlu Elektrik Toptan	73,398	39,664
Zorlu Enerji	3,947	8,815
Other	1,861	426
	79,206	48,905

Sales to related parties are generally electricity sales transactions within the framework of core business.

b) Purchases from related parties

	1 January - 30 June 2021	1 January - 30 June 2020
Zorlu O&M (*)	(14,443)	(24,191)
Zorlu Trade	(3,153)	-
Zorlu Elektrik	(486)	(2,312)
Zorlu Enerji	(19)	(8,648)
Other	(42)	(921)
	(18,143)	(36,072)

(*) The amount consists of repair and maintenance services obtained for power plants.

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NOTE 16 - RELATED PARTY DISCLOSURES (Continued)

c) Finance income/(expense) from related parties

	1 January - 30 June 2021	1 January - 30 June 2020
Zorlu Enerji (*)	(288,347)	(149,866)
Other	(2,005)	(1,060)
Finance expenses, net	(290,352)	(150,926)

(*) Finance expenses and income from Zorlu Enerji consist of foreign currency income/ (expense) and interest income/ (expenses) arising from financing loans and receivables, respectively.

iii) Key management compensations for the periods between 1 January - 30 June 2021 and 2020 are as follows:

For the purpose of these condensed consolidated interim financial statements, key management compensation consists of payments to Group shareholders and top management (general managers, vice general managers and directors).

	1 January - 30 June 2021	1 January - 30 June 2020
Salaries and benefits	1,777	1,945
	1,777	1,945

NOTE 17 – SUPPLEMENTARY INFORMATION ON STATEMENT OF CASH FLOW

Supplementary information for the details included in the condensed consolidated statement of cash flow as at 30 June 2021 and 2020 are shown below:

Other adjustments related to net profit/ (loss) reconciliation

	1 January - 30 June 2021	1 January - 30 June 2020
Commission amortization	13,623	6,005
Change in insurance accrual	(6,844)	5,533
	6,779	11,538

Other cash (outflows) / inflows from financing activities

	1 January - 30 June 2021	1 January - 30 June 2020
Cash (outflows) / inflows due to related parties	(118,406)	49,467
Commissions paid	(15,616)	(4,975)
Change in restricted cash	(1,049)	27
	(135,071)	44,519

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NOTE 18 - EVENTS AFTER REPORTING PERIOD

On 14 July 2021, mortgage agreement, commercial enterprise pledge, share pledge, account pledge, assignment of receivables and assignment of insurance receivables agreements and guarantees for the project financing of Rotor have been released after the bank loan has been paid early.

The outstanding project financing loan amount of Zorlu Jeotermal has been paid early on 13 July 2021 with the proceeds of Eurobond issuance.

On 16 July 2021, assignment of EPİAŞ receivables, assignments of receivables, account pledge, share pledge, assignment of receivables under the subordinated loan agreement, guarantees and on 29 July 2021, mortgage agreement and commercial enterprise pledge for the project financing of Zorlu Jeotermal have been released after the bank loan has been prepaid early.

On 30 July 2021, after the project finance loans have been prepaid account pledge share pledge agreements, and on 06 August 2021, assignment of EPİAŞ receivables and assignment of trade receivables agreements are signed by Zorlu Jeotermal and Rotor as the collateral for the Eurobond issuance.

On 31 July 2021 offshore account pledge, on 30 July 2021 account pledge, share pledge agreements and on 6 August 2021 assignment of trade receivables agreements are signed by Zorlu Yenilenebilir as the collateral for the Eurobond issuance.

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