

**ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD OF
1 JANUARY-31 DECEMBER 2009**

(In Compliance with Capital Markets Board (CMB) Communiqué: XI, No: 29)

Attachment: Report on Compliance with Corporate Management Principles

1. COMPLIANCE WITH CORPORATE MANAGEMENT PRINCIPLES DECLARATION

Compliance Report for the period of activities between 01.01.2009–31.12.2009 as per the Corporate Management Principles, which the Capital Markets Boards (CMB) had announced to the public, and which it required the companies to include in their activity reports is presented hereinafter.

Efforts to ensure compliance with the Corporate Management Principles – where it could not be achieved will – continue in the future, to the extent where that proves to be possible in the sector in which activities are performed.

SECTION I - SHAREHOLDERS

2. Relations with Shareholders Unit

Information on the Investors' Relations and Affiliates Unit that had been set up be in charge of relations of the company with its shareholders are presented herein below:

Ahmet DEMİR (Chief Financial Officer)

Aykan ÜRETEN (Financing Director)

Atakan ATA (Treasury and Fund Management Manager)

Bani Betül DİNÇER (Investors Relations and Affiliates Unit / Specialist)

Dilara AKÇAM (Investors Relations and Affiliates Unit / Deputy Specialist)

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Investors Relations and Affiliates Unit carries out the activities regarding the correct, safe and current keeping of the records on shareholders as well as the exercise of their rights; coordination of public announcements about special cases; answering of shareholders' written requests for information about the company, except for the undisclosed and secret information as well as the commercial secrets; ascertaining of holding of the General Assembly meeting in accordance with the current legislation, articles of associations and the other internal rules of the company, and keeping of the records of the casted votes and sending the results to the shareholders; considering and monitoring of legislation, all matters about public disclosures, including company's disclosure policy; carrying out of the procedures about increase of capital, distribution of profit, and amendment of the articles of association as well as the dematerialization procedures by using Enlightening of the Public Platform of the CMB and; the Corporate Management Principles studies.

Dematerialization of the physical share certificates of about 69 shareholders and the procedures about their receipt of dividends were carried out by the Investors Relations and Affiliates Unit in the year 2009.

3. Exercise of Their Right to Information by the Shareholders

In the year 2009, questions of about 200 shareholders, mainly on how they would claim the bonus shares and the dividends (thereof) that they hadn't claimed within the set time, and what they procedures they should follow for the dematerialization of their share certificates have been orally answered. Special care has been taken to provide full and understandable answers to the shareholders who apply for information.

Company's web site is effectively used for the announcement of the development that would affect exercise of shareholding rights.

Appointment of a private auditor has not been provided as an individual right in the articles of association of the company, and neither has there been any request from the shareholders for the appointment of a private auditor.

4. Information on General Assembly

The agenda and the invitation to the 34rd Annual General Assembly Meeting of the company which was held on the date of 31.03.2009 to discuss the activities of the year 2008 have been announced in the Trade Registry Gazette of Turkey, which has been dated 09.03.2009, and in three newspaper that were published at the date of 13.03.2009 at national level in Turkey. The meeting was held with the participation of 8 shareholders, who owned 9.968.562.045 shares of the total number of 11.761.200.000 shares represent 117.612.000 TL. issued capital.

There is no requirement as to the period regarding participation of the owners of the registered shares to the General Assembly. Annual reports are made ready for the shareholders to study latest by fifteen days before the general assembly date and; they are given to the shareholders who apply to participate to the general assembly and to those who demand them. Special care is taken to shareholders' right to ask questions in the general assembly meetings on matters that take place in the agenda. The questions that the shareholders ask at the meetings and their suggestions, as well as the answers that are given to them are entered in the minutes of the general assembly.

There is no provision in the articles of association pertaining to taking of important decisions by the general assembly, such as those regarding spin-offs, sale, purchase and lease of significant amount of assets. On the other hand, in Article 13 of the Articles of Association, which is titled "Duties and Powers of the Board of Directors", the following provision takes place: "...before taking decisions that puts the company under heavy burden, such as those the value of which exceeds – per each transaction and/or for that particular year – 20% of the total assets as stated in the latest published balance sheet of the company; on new fixed asset investments and; on new projects, financial and/or commercial debts, approval of the Turkish Armed Forces Foundation will be taken." The Turkish Armed Forces Foundation which had been established to meet the needs of the Turkish Armed Forces and which operates on the basis of the interests of the public does, regarding the important decisions of the company, take special care also to consider and protect the rights of other shareholders.

5. Voting Rights and Minority Rights

Shareholders have no preferred voting rights in the company; neither is there any rules pertaining to cumulative voting. As the members of the Board of Directors are, according to the provisions in the company's articles of associations, elected among the holders of Group-A registered shares or among the candidates that they nominate, minority shares are not represented in the management.

6. Dividend Distribution Policy and the Time When Dividends are Distributed

According to the Capital Markets Law and the other legislation as well as the provisions of the articles of association, and as per the resolutions of the general assembly, in the year of 2009, a total ratio of 5 % of the issued capital (net 4,25%) in cashed capital – has been distributed within the timeframe provided in the law, out of the net profits that had been obtained as the result of the operations in year 2008.

There are no privileges granted to (certain) shareholders as to the entitlement to the profits that are obtained by the company. The dividend distribution policy that has, in the annual report, been presented to shareholders' information is as follows.

DIVIDEND DISTRIBUTION POLICY

The amount of dividends shall be calculated – by taking into consideration the pertinent legislation, the provisions of the articles of association, the equity capital ratio of the company, the sustainable growth rate, market value and cash flows – as the distributable profit by referring to the annual profit that is indicated in the financial statements of the company, which had been prepared according to the laws and regulations (after subtracting therefrom the reserves that had to be set aside according to the law, tax, funds, financial liabilities and the losses from previous years). Then, the Board of Directors will prepare its recommendation on the way such dividends would be distributed, i.e. as cash on the set dates, or as bonus shares that represent the profit which would have been added to the capital, and submit it to the approval of the General Assembly.

There are no privileges in the company regarding entitlement to the company's profit.

7. Transfer of Shares

In defense industry in which the company operates, it is very important that the controlling shareholders that would have a voice in the company management are known. For that reason, transfer of Group-A registered shares which represent a part of the capital and that are not traded in İstanbul Stock Exchange is restricted as per the provision of the articles of association which reads as, "Group-A shares cannot be sold or transferred without the approval of the Board of Directors and; in the event all or some of them are sold and transferred to third persons without the approval of the Board of Directors, the Board can, without stating any cause, refrain from registering such sale (in the company books)".

SECTION II – ENLIGHTENING OF THE PUBLIC AND TRANSPARENCY

8. Company’s Disclosure Policy

Disclosure policy, about which our shareholders were informed at the Ordinary General Assembly meeting of 30.03.2007, can be accessed on the company’s internet web site.

9. Explanations Regarding Special Cases

Explanations have, under the guidelines of the CMB, been made in the year 2009 for 37 special cases. CMB or İstanbul Stock Exchange did not request any explanations and/or additional explanations within the year.

10. Company’s Internet Web Site and Its Content

Arrangements have been made to enable access to the following information on the company’s web site (www.aselsan.com.tr).

- Members of the Board of Directors/Auditors;
- Trade Registry information;
- Shareholding structure;
- Latest version of the articles of association;
- Preferred shares;
- Explanations regarding special cases;
- Annual reports;
- Corporate management compliance reports;
- Disclosure policies;
- Explanations and public offering circulars;
- General assembly meetings;
- Proxy voting form;
- Frequently asked questions;
- Periodical financial statement and private audit reports.

In the news and announcements section of the main page of the company’s internet web site, explanations regarding special cases as well as information on other matters that concern the investors take place.

11. Disclosure of Real Person(s) Who is/are Ultimate Controlling Shareholder(s)

The Turkish Armed Forces Foundation is the largest shareowner of the company, and owns 84,58% of the shares. The company does not have a mutual subsidiary relationship with the Turkish Armed Forces Foundation, or with any other company.

12. Public Disclosure of Persons Who Can Have Access to Insider Information

Starting from the year 2004 annual report, the list of the persons who can have access to insider information are annually disclosed to the public in the Corporate Management Principles Compliance Reports that take place in the annual reports.

The list of persons who can have access to insider information as of the beginning of March 2010 are as follows.

- 1) Mehmet ÇAVDAROĞLU Chairperson of the Board of Directors
- 2) M. İhsan ONGUN Deputy Chairperson of the Board of Directors
- 3) Mehmet BALI Member of the Board of Directors
- 4) Ahmet ŞENOL Member of the Board of Directors
- 5) M. Ayhan GERÇEKER Member of the Board of Directors
- 6) Aslan KILIÇARSLAN Member of the Board of Directors
- 7) Münir ERTEN Member of the Board of Directors
- 8) Mehmet TİMUR Member of the Board of Auditors
- 9) Melih Sahir BİÇER Member of the Board of Auditors
- 10) Atilla GÜLER Member of the Board of Auditors
- 11) Cengiz ERGENEMAN General Manager
- 12) Özcan KAHRAMANGİL MGEO Division Chief Executive Officer
- 13) Fuat AKÇAYÖZ SST Division Chief Executive Officer
- 14) Faik EKEN HBT Division Chief Executive Officer
- 15) Ergun BORA REHİS Division Chief Executive Officer
- 16) Dr. Ahmet DEMİR Chief Financial Officer
- 17) Gönül TETİK Accounting and Financial Affairs Director
- 18) Aykan ÜRETEN Financing Director
- 19) Afşin AKKERMAN Supplies Logistics Director
- 20) Ali Fatih BİLGİ Information Management Director
- 21) Mustafa ERTÜRK Market Development Director
- 22) Nihat IRKÖRÜCÜ Human Resources and Support Services Director
- 23) M.Uğur KARAVELİOĞLU Military Wireless Program Director
- 24) Mehmet Atila AKAY Military Communication Systems Program Director
- 25) Sinan ŞENOL Avionic Satellite and Naval Communication Systems Program Director
- 26) Özge SAVAŞ Radar Program Director
- 27) Hayrullah YILDIZ EH Self Defense Systems Program Director
- 28) Fikri ATMACA EH Intelligence and Attack Systems Program Director
- 29) İbrahim Aybars KÜÇÜK Land and Missile Program Director
- 30) Fikret ÜLGÜT Defense Systems Program Director
- 31) Metin SANCAR Air and Naval Programs Director
- 32) Yavuz Suat BENGÜR Naval Systems Program Director
- 33) Yavuz BAYIZ Civil System Program Director
- 34) Baki ŞENSOY Strategic Planning and Assessment Analysis Director
- 35) İnci UYSAL Internal Audit and Assessment Committee Chairperson
- 36) Atakan ATA Treasury and Fund Management Manager
- 37) Murat ACAR Accounting Manager
- 38) Baran ÖZER Contracts Manager

Within the framework of Communiqué: VIII, No: 54 “Principles Regarding Public Disclosure of Special Circumstances” published at 06.02.2009 by CMB, the list of persons who have access to insider information is also prepared and kept to be presented if demanded.

SECTION III - BENEFICIARIES

13. Informing of Beneficiaries

Necessary case is taken when handling the requests of the beneficiaries for information about the company and on matters that concern them, and when answering them correctly and in an understandable manner.

In the Aselsan Inc. Magazine which is published quarterly by the company, information on the technical matters regarding the activities that are carried out and on the current social events is given. Aselsan Inc. Magazine is sent to the end users of Aselsan Inc. products, to the shareholders that had attended to the General Assembly, to the company personnel and to others who may be interested, upon publication.

Company employees are informed on the Internet, on many subjects regarding their financial and social rights. Besides, in the company there is an Employee Representation where 51 who happen to be company employees do serve, with the purpose of enabling communication between the personnel and management and to provide guidance in social activities.

Periodical meetings that are held with the representatives of the employees are platforms where the employer and the employees exchange their views and wishes regarding the (current) practices. The minutes that are kept at such meetings are communicated to all personnel on the employee representative's page of the company intranet.

14. Participation of Beneficiaries in the Management

Company employees can communicate their expectations and demands to the top management through their representatives. Studies on the participation of the beneficiaries other than the employees and the shareholders will be (re)considered in accordance with the amendments to the Turkish Commercial Code.

15. Human Resources Policy

Arrangements were made regarding working conditions of the personnel according to the vision, mission and principles of the company, hiring, promotions, remuneration, awarding, layoffs, leaves, disciplinary procedures, rights, duties and responsibilities and other personal rights of the employees.

There are, among the employees of the company, 51 employee representatives; 8 of which representing the engineers, 7 representing the administrative personnel, 30 representing the technical personnel, 1 representing the office personnel, and 5 representing the workers.

In the year 2009, there have been no complains of from among the employees.

16. Information About the Relations Between Customers and Suppliers

The basic principle of the company is to always and promptly present flawless products and services to its customers, and to continuously develop and correct the processes, services and products in order to fully meet their needs. For this purpose, and to meet the requirements of quality standards, a quality system that is documented with quality handbook, directives, quality

plans, standards, auditing and test directives, and according to which all the operations provided therein are implemented has been created.

For the purpose of procuring the materials and software that are used in the products, as well as the services regarding such products, from reliable suppliers, so that possible quality issues would be reduced, the suppliers are checked for their technical, commercial and quality efficiency and capacity. The results of such assessments are communicated to the supplier firm, and suppliers that meet the required conditions are contracted. Within this context, in the year of 2009, orders were placed with 3.036 supplier firms, 131 of which being subsidiary industry firms.

Information about customers and suppliers are classified under appropriate confidentiality levels, and treated according to such classification. Information on the offers received from the suppliers and the correspondence with them are treated as confidential, and are not given to unauthorized persons or to third party firms. In the directives that are created, guarantees are provided to ensure that unfair advantages are not obtained from the customers and suppliers.

17. Social Responsibility

The company has, until today, taken steps with social responsibility in various occasions; building an elementary education school in the province of Sakarya following the Marmara earthquake, and building an elementary school in Pakistan to replace the school that was heavily damaged in the earthquake. The requirements of Aselsan Elementary Education School, which is located within the boundaries of the district in which also the company is located, are met (by us).

SECTION IV – BOARD OF DIRECTORS

18. Structure and Formation of the Board of Directors and Independent Members

Members of the Board of Directors;

Mehmet ÇAVDAROĞLU	Chairperson of the Board of Directors (Managing Director)
M. İhsan ONGUN	Deputy Chairperson of the Board of Directors / Managing Director
Mehmet BALI	Member of the Board of Directors (Member of the Corporate Management Committee)
M. Ayhan GERÇEKER	Member of the Board of Directors (Member of the Corporate Management Committee)
Ahmet ŞENOL	Member of the Board of Directors (Member of the Committee in Charge of Auditing)
Aslan KILIÇARSLAN	Member of the Board of Directors (Member of the Committee in Charge of Auditing)
Münir ERTEN	Member of the Board of Directors

There is no board member who has an assignment in the executive.

Due to the characteristics of the defense industry (sector) to which the company belongs, there is no independent member of the Board of Directors. The Board of Directors of the company consists of members who had served at various echelons of the armed forces and the professionals who are experienced in this sector, and they serve as the representatives of Turkish Armed Forces Foundation.

The members of the Board of Directors of the company serve without receiving any interest or benefit, with the responsibilities and powers bestowed upon them according to the Capital Markets Law and Turkish Commercial Code.

Members of the Board of Directors are, according to the “Operating Directives of the Board of Directors”, obliged not to engage in any commercial transaction with the company or regarding any field that fall within the scope of the company’s (activities), either personally or indirectly.

19. Qualifications of the Members of the Board of Directors

Members of the Board of Directors who would serve in the company are briefed for two weeks by the Turkish Armed Forces Foundation. Some of the subjects on which they were briefed in the year 2009 are as follows.

- a. Briefing of Turkish Armed Forces Foundation;
- b. Strategic plans of the Turkish Armed Forces Foundation;
- c. Defense industry in Turkey and in the world;
- d. Introduction of Undesecretariat for Defense ;
- e. The role of the foundation of subsidiaries in the defense industry;
- f. Cooperation fundamentals between the foundation subsidiaries and conflicts, anti-conflict principles;
- g. Legal status and responsibilities of the members of the Board of Directors and Auditors; Articles of Association and the General Assembly;
- h. Strategic management and company’s strategic plans;
- i. Corporate management principles of the CMB;
- j. Corporate management principles of the Turkish Armed Forces Foundation;
- k. Financial statements and how to interpret them;
- l. Macroeconomic indicators;
- m. Effects of changes in the macroeconomic indicators to the company;
- n. Internal auditing and assessment activities;
- o. Management of project.

20. Company’s Mission and Vision and Strategic Objectives

Board of Directors is the highest level strategic decision making, executive and representative body. According to the articles of association of the company, the board of directors is responsible for deciding the strategic plans and supervising their implementation. In this context, the mission, vision and strategic objectives are set by the board of directors, which of them are included in the strategic plan. The level of achievement of these objectives are followed up by using the Information Management System, and checked by the Board of Directors and the General Manager on monthly basis. Current version of mission and vision is made available to the public on the company’s web site.

The Company's Mission:

“To design, develop, produce and vanguard, under all circumstances, the continuity of quality and cost efficient product and system solutions which are in harmony with the current and developing technologies, and which would minimize Turkish Armed Forces' dependence on foreign resources in all electric, electronic, electronic warfare, communication, microwave, electro-optic, guidance, computer, informatics, software, crypto and security fields, encompassing land, air, naval, space and civilian spheres; to increase the assets and resources of Aselsan Inc. and to always increase their worth.”

The Company's Vision:

Has been set as “Being one of the largest fifty defense industry firms of the world, by creating high, original and national technological means and capabilities.”

21. Risk Management and Internal Control Mechanism

The Internal Audit and Assessment Committee, which has been created under the Board of Directors, with the purpose of managing the company's risks, and assessing the control and corporate management processes, audits the units and the processes of the company according the plans that had been prepared, and regularly reports its findings to the Board of Directors. Continuous studies are made to increase and improve the effectiveness of the systems.

22. Members of the Board of Directors and the Powers and Responsibilities of the Directors

Powers and responsibilities of the Board of Directors are stated in Article 13 of the articles of associations of the company, which is titled “Duties and Powers of the Board of Directors”. Besides, duties and powers of the Board of Directors are also explained in the Operating Directives of the Board of Directors, which has been prepared in the company. In Article 14 of the articles of association, which is titled “Transfer of the Powers to the general Manager” the rules on the transfer of the powers of the Board of Directors to the General Manager are set. Managers' powers and responsibilities are explained in the “Duties and Responsibilities Directive” that has been prepared in the company.

23. Principles on the Activities of the Board of Directors

Agenda of the meetings of the Board of Directors are decided by the Chairperson, in a way that would include the subjects that were suggested by the members of the Board of Directors. The matters that the members of the Board of Directors wish to be included in the agenda as well as the suggestions of the General Management regarding the agenda are reported to the Chairperson of the Board of Directors. The Chairperson of the Board of Directors reviews the opinions of the members of the Board of Directors and of the General Management, and finalizes the agenda. Matter that the members of the Board of Auditors wish to be discussed will also be included in the agenda. Matters or urgency that emerge and discussion of which are deemed useful can also be included in the agenda during the meeting of the Board of Directors.

According to Article 10 of the articles of association, the Board of Directors convenes as necessary, and at least once a month. The number of meeting in the year 2009 was 31.

The place, date, time and the agenda of the next meeting are decided in every meeting of the Board of Directors. General Management does, in accordance with the directive of the Chairperson of the

Board of Directors, or of the Deputy Chairperson or else of a Managing Director, and at least 5 workdays before, send the documents regarding the items of the agenda to the members of the Board of Directors and of the Board of Auditors. Invitations cannot be made by telephone, and the members of the Boards of Auditors are also invited to the meetings.

Members of the Board of Directors must attend the meetings unless they have an important excuse. The members that do not attend must notify their excuses.

There is a secretary to provide information to and communicate with the members of the Board of Directors. Furthermore, a reporter is also assigned to carry out the necessary work in this manner.

When entering the resolutions of the meeting, the reporter of the board of directors must observe the provisions of Article 78 of Turkish Commercial Code on the Book of Resolutions and of Article 330 on the resolutions of the board of directors.

Accordingly, the reporter ensures that the date and number of the resolution, the names and surnames of those who has attended, the names and surnames of those who has not attended as well as their excuses, the meeting agenda, suggestions for and discussions on the agenda, the text of the resolution, and if any the dissenting opinions are entered in the resolution book and; that the signature of the attending members are affixed under it.

Every member of the Board of Directors, including the Chairperson, has one vote. In case of a tie, Chairperson's vote will not make any difference. Members cannot abstain; they must vote either aye or no. The member who abstains will be deemed to have voted no. The member who votes no will also ensure that his/her arguments are entered into the minutes, and then signs under it.

The undersigned resolutions as well as the Preparatory File of the Board of Directors are sent to the members of the Board of Directors and of the Board of Auditors.

24. Restraint of Trade

The General Assembly did not pass any resolution regarding the "Prohibition of Engaging into Transaction with the Company" and the "Restraint of Trade" for the members of the Board of Directors of the Company, which are stated in Articles 334 and 335 of Turkish Commercial Code.

25. Ethical Rules

The Ethical Rules that the Board of Directors laid down for the employees of the company have been printed and announced to the public in the year 2007. They can be read on the company's internet web site.

26. The Numbers, Structures and Independence of the Committees set by the Board of Directors

a) The committee that is responsible for auditing

Ahmet ŞENOL	- Member – Member of the Board of Directors
Burcu GÜRAN (until 29.01.2009)	- Member – Member of the Board of Directors
Aslan KILIÇARSLAN (starting from 29.01.2009)	- Member – Member of the Board of Directors

The duties of the Committee that is responsible for auditing as stated in the “Working Directive of the Committee of the Board of Directors of Aselsan Inc. that is Responsible for Auditing” are in general as follows:

- The Committee that is responsible for auditing is in principle responsible for the operation and supervision of Aselsan Inc.'s accounting system, disclosure of financial information, independent audit and internal control (internal audit).
- The Committee that is responsible for auditing convenes quarterly, and at least four times a year. The minutes of the meeting will be submitted to the Board of Directors.

b) Corporate Management Committee

M. Ayhan GERÇEKER - Member – Member of the Board of Directors
Mehmet BALI - Member – Member of the Board of Directors

The directive on the operating principles of the Corporate Management Committee, which has been created in order to work on the Compliance Report that would be prepared as part of compliance with corporate management principles was approved in February 2006.

The duties of the Committee that is responsible for auditing as stated in the “Working Directive of the Committee of the Board of Directors of Aselsan Inc. that is Responsible for Auditing” are in general as follows;

- Corporate Management Committee does in principle work on the implementation of the corporate management principles.
- Identifies if the corporate management principles are or are not implemented and; if they are not implemented, identified the causes. Discovers the conflicts of interest that are caused for failure of its implementation. Advises the board of directors on improvements and remedies.

27. Financial Benefits of Granted to the Board of Directors

Monthly remuneration of the members of the Board of Directors are decided by the General Assembly and no other benefits are granted. According to the decision of the 34rd Ordinary General Assembly of 31.03. 2009, a monthly payment of TL 1.600 is made to the members of the Board of Directors, to the Managing Directors and to the members of the Board of Directors. No financial rewarding system for the performance of the members of the board of directors that reflect of the performance of the company is implemented.

No loans were given by the Company to any member of the Board of Directors of to any manager.