



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report

**aseisan**

12 December 2014

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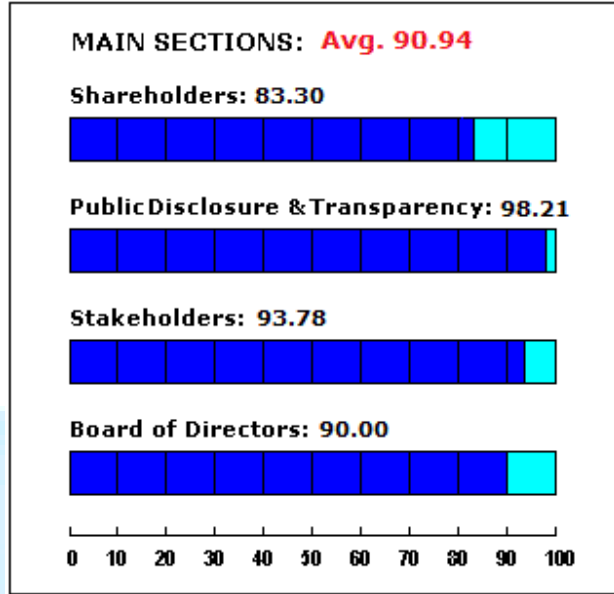
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## Rating and Executive Summary

### ASELSAN ELEKTRONİK SAN. VE TİC. A.Ş.

 SAHA  
Corporate Governance Rating:

**9.09**



### EXECUTIVE SUMMARY

This report on rating of Aselsan Elektronik San. ve Tic A.Ş.'s (Aselsan) compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the company. Our rating methodology (page 6) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Aselsan is rated with **9.09** as a result of the Corporate Governance study done by SAHA. The company's corporate governance rating is revised as above in consideration with the importance given by Aselsan to corporate governance principles, its willingness to carry out the compliance process continuously and dynamically and improvements which had been initiated in this direction.

Additionally, Aselsan takes place in the World Corporate Governance Index (WCGI) published by SAHA on July 4, 2014. Details of the World Corporate Governance Index (WCGI) published by SAHA can be accessed at <http://www.saharating.com>.

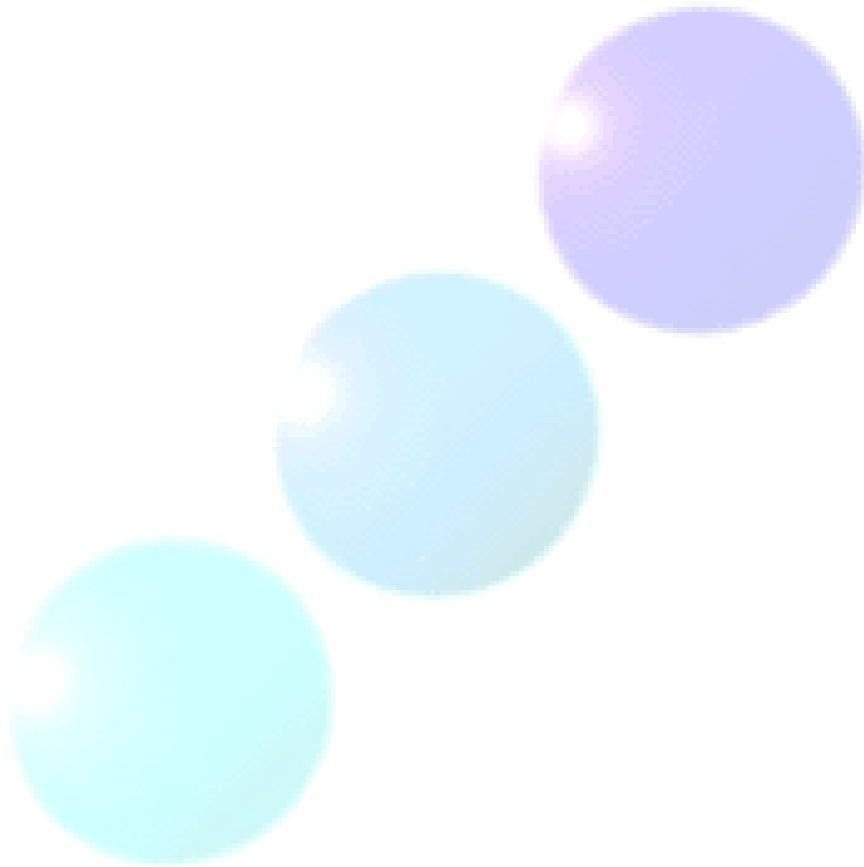
Aselsan is rated with **8.33** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation and articles of association, and measures have been taken to ensure the exercise of these rights. Shareholder relations are carried out by the "Investor Relations and Subsidiaries Department". All kinds of information about the company required by the legislation are provided in a complete, timely, honest, and diligent manner. The disclosure policy is submitted to the general shareholders' meeting and disclosed to the public. Maximum care is given to the exercise of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the company has adopted exactly the rate foreseen in the legislation for listed companies. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. There is a consistent dividend policy of the company and it is disclosed to public. The company has constituted a policy on donations and grants and announced it to public on the corporate web site. As per the articles of association of the company, holders of Group A shares have the privilege on board of directors' nominations and there are restrictions on transfer of these shares.

Aselsan attained **9.82** under the **Public Disclosure and Transparency** chapter. There is a comprehensive web site that includes all information listed in the "Corporate Governance Principles" pertinent to public disclosure. Public announcements are made in accordance with the CMB and Borsa Istanbul A.Ş. (BIST) rules and regulations. A remuneration policy is established and disclosed to public on the corporate web site. The annual report is comprehensive and informative. In the company's capital structure, there are no ultimate controlling real person shareholders with a share higher than 5%. Benefits provided to board members and senior management is mentioned collectively in the annual report, but a list on individual basis is essential as per the Principles.

On the topic of **Stakeholders**, Aselsan scored **9.38**. Aselsan guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and speedy compensation. A written compensation policy for the employees, and code of ethics and human rights policies are effectuated and disclosed to public on the corporate web site. The company has an efficient and comprehensive human resources policy. Models have been developed to support the participation of stakeholders in the management of the company, but not included in the articles of association. Various social responsibility projects have been implemented and Aselsan qualified to be included in the BIST Sustainability Index.

From the perspective of the principles regarding the **Board of Directors**, Aselsan's tally is **9.00**. There is a well communicated company mission and vision, and the board fulfills all duties regarding company needs. Chairman of the board and the general manager are not the same person. The board consists of nine members, three of whom are independent. There are no executive members. Each member is entitled to a single vote. CMB criteria are complied with for the appointment of independent members who have each signed a declaration of independence. There are no female members on the board. The company has not prepared a policy or set a timetable to reach the Corporate Governance Principles' advisory target of 25% female board membership rate. Corporate Governance, Audit, and Early Detection and Management of Risk Committees are established within the board of directors and their working principles are disclosed to public. Our observations will continue in order to have a more precise view of the activities and the degree of functionality of

the committees. Principles of remuneration of board members and senior executives are available on the company's web site. Losses that may be incurred by the company as a result of not performing the executives' duties duly are insured. Remuneration of board members and managers with administrative responsibility as well as benefits provided is mentioned collectively in the annual report. As far as principles are concerned a list on individual basis is essential.



## Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's "Corporate Governance Principles" released on January 2014.

The CMB based these principles on the leading work of The World Bank, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose. Additionally; many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the company's governance practices in future should be mentioned in the annual report and disclosed to public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders, and the board of directors.

Based on these Principles, the SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.

SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.22).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

Shareholders: **25%**  
Public Disclosure and Transparency: **25%**  
Stakeholders: **15%**  
Board of Directors: **35%**

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.

## Company Overview

<b>Aselsan Elektronik San. ve Tic. A.Ş.</b>	
	<b>Chairman</b> Hasan Canpolat <b>General Manager</b> Faik Eken
P.K.: 1 06172 Yenimahalle, Ankara <a href="http://www.aselsan.com.tr">www.aselsan.com.tr</a>	<b>Investor Relations and Subsidiaries Department Manager</b> Pınar Çelebi Tel: (0 312) 592 12 42 <a href="mailto:Ortaklar_servisi@aselsan.com.tr">Ortaklar_servisi@aselsan.com.tr</a>

Aselsan was established as a joint stock company at the end of 1975 under the leadership of Turkish Armed Forces Foundation which is still the controlling shareholder. Aselsan is established in order to engage principally in research, development, engineering, production, tests, assembly, integration and sales, after sales support, consultancy and trading activities, to provide and conduct all sorts of activities for project preparation, engineering, consultancy, service providing, training, contracting, construction, publishing, trading, operation and internet services regarding various software, equipment, system, tools, material and platforms in the fields of electrical, electronics, microwave, electro-optics, guidance, computer, data processing, encryption, security, mechanics, chemistry and related subjects within the army, navy, air force and aerospace applications to all institutions, organizations, companies and individual consumers.

Aselsan commenced its production activities in Macunköy, Ankara facilities in early 1979. Based on the investment and production requirements of projects carried out, the company is organized in five main Business Sectors: Communication & Information Technologies; Microelectronics, Guidance & Electro-Optics; Defense Systems Technologies; Radar & Electronic Warfare Systems and Transportation, Security, Energy & Automation Systems. The company carries out its production and engineering activities in Macunköy and Akyurt facilities and the headquarters is located in Macunköy, Ankara.

Aselsan held its 15.46% initial public offering on May 21, 1990 and as of November 30, 2014 the company shares are traded on BIST with a free float ratio of 15.30%. Aselsan's controlling shareholder, with a 84.58% of the capital, is the Turkish Armed Forces Foundation.

<b>Aselsan Elektronik San. ve Tic. A.Ş. Capital Structure</b>		
<b>Shareholder</b>	<b>Amount (TL)</b>	<b>Percentage %</b>
Turkish Armed Forces Foundation	422,912,812.23	84.58%
Free Float	76,509,342.32	15.30%
Others	577,845.45	0.12%
<b>Total</b>	<b>500,000,000.00</b>	<b>100.00%</b>

The company shares are traded under "ASELS" code at BIST National Market and Aselsan is a constituent of BIST All Shares (XUTUM), BIST Technology (XUTEK), BIST 100-30 (XYUZO), BIST 100 (XU100), BIST 50 (XU050), BIST National (XULUS), BIST Dividend (XTMTU), BIST Corporate Governance (XKURY), BIST Sustainability (XUSRD) and BIST Ankara (XSANK) indices.

The board of directors is composed as follows:

<b>Aselsan Elektronik San. ve Tic. A.Ş. Board of Directors</b>	
<b>Name</b>	<b>Title</b>
Hasan CANPOLAT	Chairman
Murat ÜÇÜNCÜ	Vice Chairman
Ahmet Can ÇEVİK	Member
Ahmet KESİK	Member
Sedat NAZLIBİLEK	Member
Mustafa Murat ŞEKER	Member
Ziya AKBAŞ	Independent Member
Celalettin DÖVER	Independent Member
Oral ERDOĞAN	Independent Member

There are no executive members on the board of directors.

In the year 2013, in line with the Capital Markets Law and other legislation as well as the provisions of the articles of association, and as per the resolutions of the general shareholders' meeting; gross TL 78,500,000 (TL 0.157 per 1 TL share, gross 15.7% of paid up capital) and (net TL 66,725,000 - TL 0.13345 per 1 TL share, net 13.345% of paid up capital) of the profit for 2012 has been distributed to the shareholders as cash dividend.

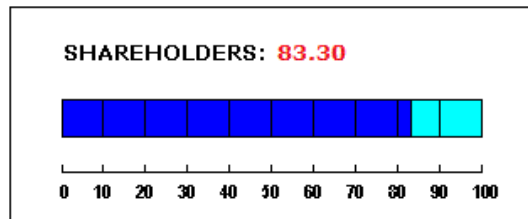
With the vision of becoming one of the top 50 global defense companies in the world, Aselsan grew steadily, becoming the 67th largest global defense company. The company's consolidated net sales reached 1.14 billion US Dollars in 2013 and registered a growth rate of 25% over the previous year.

Aselsan allocates 6% of its revenues to research and development activities. Aselsan is among the companies with the highest R&D expenditures in Turkey and houses one of the largest R&D centers. The company carries out a large number of R&D projects with leading universities and is considered as a pioneer in university-industry collaboration.

As of 31 December 2013, the average number of staff at Aselsan is 5,343. 55% of this number works for the engineering group, 32% for the technician group, and 7% for the administrative group. 3% are the office personnel and 3% belongs to the worker group.



## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	Equal treatment of shareholders
+	Unrestricted shareholder rights to review and receive information
+	Disclosure policy is submitted to general shareholders' meeting and disclosed to public
+	Voting rights are facilitated
+	General shareholders' meetings are conducted in compliance with the legislation
+	A disclosure document relating to agenda items of the general shareholders' meeting is prepared
+	Policy on donations and grants approved at the general shareholders' meeting and disclosed to public
+	A specific and consistent dividend distribution policy established
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital
-	Whether controlling shareholders, board members and managers with administrative responsibility were involved in any process that may cause conflict of interest with the company was not included in the agenda of the general shareholders' meeting
-	Holders of Group A shares have privilege on board nominations and transfer of these shares is subject to approval

### 1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

An Investor Relations and Subsidiaries Department is established in order to carry out shareholder relations activities. The department manager, Ms. Pınar Çelebi holds Capital Market Activities Advance Level and Corporate Governance Rating Specialist Licenses.

Investor Relations Department plays an active role in protecting and facilitating shareholders' rights and in particular the right to obtain and review information, and its duties are as follows:

- To ensure that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner.
- To respond to the queries of the shareholders requesting written information on the company.
- To ensure the general shareholders' meeting is held in compliance with the applicable legislation, articles of association and other company by-laws.
- To prepare the documents that might be used by shareholders in the general shareholders' meeting.
- To supervise the fulfillment of the obligations arising from capital markets legislation including all corporate governance and public disclosure matters.

Investor Relations Department submits a report to the board of directors at least once a year on its conducted activities.

Information and explanations that may affect use of shareholders' rights are available and up to date on the corporate web site.

Investors and capital market participants such as financial analysts are directed to the Investor Relations Department. The presentations and reports which are disclosed at briefings held with certain group of investors are disclosed on the corporate web site for the benefit of small investors as well and announced via material disclosures.

### **1.2. Shareholders' Right to Obtain and Evaluate Information:**

Since the Turkish Commercial Code (TCC) No. 6102 regulates shareholders' right to request from the general shareholders' meeting the assignment of a private auditor for the inspection and disclosure of a certain financial status and since the articles of association of the company dictates full compliance with the relevant legislation for those areas that are not mentioned specifically in the articles of the association, a separate clause regarding this right has not been incorporated in the articles of association. No such request was made by the shareholders during the reporting period.

All kinds of information about the company required by the legislation are provided in a complete, timely, honest, and diligent manner and there is no fine or warning received in this regard.

The company has constituted a disclosure policy and submitted it to the attention of general shareholders' meeting and disclosed it to public on the corporate web site.

### **1.3 Minority Rights:**

Maximum care is given to the exercise of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the company has adopted exactly the rate foreseen in the legislation for listed companies.

There is no evidence of any conflict of interest between the majority shareholders and that of the company.

### **1.4. General Shareholders' Meeting:**

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the general shareholders' meeting held on 31 March 2014 is performed through all means of communication available to the company on 5 March 2014 in accordance with the Corporate Governance Principles.

All announcements prior to the general shareholders' meeting included information such as the date and time of the meeting; without any ambiguity, the exact location of the meeting; agenda items of the meeting; the body inviting to the general shareholders' meeting; and the location where annual report, financial statements and other meeting documents can be examined.

Furthermore, the company has prepared an informative disclosure document on agenda items.

Commencing from the date of announcement of invitation for the general shareholders' meeting; the annual report, financial statements and reports, and all other related documents pertaining to the agenda items along with the dividend distribution proposition are made

available to all shareholders for examination purposes in convenient locations including the headquarters or branches of the company, and the electronic media.

Shareholders are informed of the following issues prior to the general shareholders' meeting via the corporate web site:

a. the total number of shares and voting rights reflecting the company's shareholding structure as of the date of disclosure, privileged share groups within the company capital, voting rights and nature of such privileges,

b. information about the fact that there were no changes in management and activities of the company and its subsidiaries in the previous fiscal year, or planned for the upcoming fiscal period which can significantly affect the company operations,

c. grounds for dismissal and replacement of board members, candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of their relationship with the company and its related parties, whether they are independent or not, and information on similar issues.

Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used. Information submitted to the shareholders prior to the conduct of the general shareholders' meeting was related to the agenda items.

Items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions. The chairman made sure that each

question was answered directly at the meeting provided that they do not constitute a trade secret.

On the other hand, shareholders were not informed at the meeting with a separate agenda item if shareholders who have control of the management, members of the board of directors, managers with administrative responsibility, their spouses and up to second degree blood relatives are granted permission to perform acts which would cause conflict of interest with the company or its subsidiaries, or to compete, and/or to involve in a transaction with an affiliate on behalf himself or someone else or to enter in an unlimited partnership with another company dealing with same type of business. As per the "Board of Directors Working Directives", however, board members' engagement in a commercial transaction on behalf of themselves or others directly or indirectly with a company in the same line of business is subject to approval at the general shareholders' meeting.

The members of the board of directors related with those issues of a special nature on the agenda, other related persons, authorized persons who are responsible for preparing the financial statements, auditors and representatives of the external audit company were present to give necessary information and to answer questions at the general shareholders' meeting.

There were no agenda items for approval due to a lack of consent of the majority of independent board members.

The company has established a policy on donations and grants and submitted it to the general shareholders' meeting for approval. Shareholders were informed that no

donations were made within the reporting period.

There is no provision in the articles of association of the company allowing the attendance of those including stakeholders and media with no voting rights.

#### **1.5. Voting Rights:**

At Aselsan, all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately.

Within the scope of the provision in the company's articles of association - Article 8 - under "Board of Directors", [The affairs and management of the Company shall be carried out by the Board of Directors comprising a total of 9 members, 6 members of which shall be elected by the General Assembly as per the provisions of the Turkish Commercial Code among the Group A preferred shareholders or the candidates nominated by them, and 3 members of which shall be elected as independent members under the regulations of the Capital Markets Board.], owners of Group A registered shares have the privilege to nominate candidates to the board.

#### **1.6. Dividend Rights:**

The dividend policy of Aselsan is clearly defined and disclosed to public on the corporate web site. It is submitted to the shareholders at the general shareholders' meeting and is incorporated in the annual report.

The company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles. A balanced policy is followed between the interests of the shareholders and those of the company. The dividend

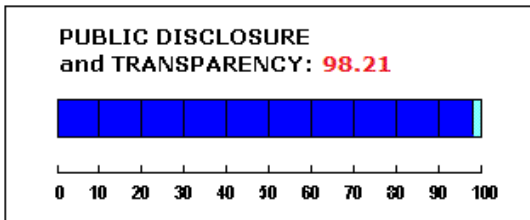
distribution proposal contained all necessary information.

The articles of association of the company contain a provision on advance dividend payments.

#### **1.7. Transfer of Shares:**

The articles of association of the company dictates that "Group A shares shall not be sold or transferred without the consent of the Board of Directors; in the event that these shares are transferred or sold to third parties partially or completely without the consent of the Board of Directors, the Board of Directors is entitled to abstain from recording this sale in the records without stating a reason."

## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	Comprehensive disclosure policy, disclosed to public on the corporate web site
+	Comprehensive web site, actively used for public disclosure
+	Annual report complies with the legislation, comprehensive and informative
+	Important events and developments disclosed in accordance with the legislation
+	No real person shareholders with a share higher than 5% within the capital structure
+	English version of the web site for international investors
+	Remuneration policy established and disclosed to public on the corporate web site
+	Dividend distribution policy disclosed to public via corporate web site
=	Benefits provided to board members and senior executives are mentioned collectively

#### 2.1. Corporate Web Site:

Company's website is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the company's web site

includes; trade register information, information about latest shareholder and management structure, information on privileged shares, the date and the number of the trade registry gazette on which the changes are published along with the final version of the company's articles of association, publicly disclosed material information, periodical financial statements, annual reports, prospectuses and circulars and other public disclosure documents, agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting, form for proxy voting at the general shareholders' meeting, disclosure policy, dividend distribution policy, ethical rules of the company, frequently asked questions including requests for information, questions and notices, and responses thereof.

In this context, information on at least the last five years can be reached on the web site.

84.58% of the issued share capital of TL 500,000,000 of Aselsan belongs to Turkish Armed Forces Foundation. The Foundation holds the management control and there are no ultimate real person shareholders with a share higher than 5% within the capital structure.

The information contained on the web site exists also in English for the benefit of international investors and is identical to the Turkish content.

The company's web site also includes; investor presentations, the donation policy, working principles of the committees, important board resolutions, the vision/mission of the company established by the board,

information on dividend payments and capital increases for the last 5 years, disclosure area, general shareholders' meeting internal guidelines, the sustainability report, information on senior management, financial data, main ratio analysis, corporate web site privacy policy, timetable on events and developments which are of interest to investors, and the human resources policy.

## 2.2. Annual Report:

Annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the company and it covers information such as;

- a. period covered by the report, the title of the company, trade register number, contact information,
- b. the names of the chairmen and members serving on the committees and the board within the reporting period,
- c. the sectors in which the company operates and information on its position in these sectors,
- d. qualifications of the company's units, general explanations related to their activities and performances, and yearly developments,
- e. progress on investments, the eligibility status on incentives,
- f. changes and justifications thereof on the articles of association during the reporting period,
- g. Corporate Governance Principles Compliance Report,
- h. information on related party transactions,
- i. other issues not included in the financial statements, but are beneficial for users,
- j. the company's organization, capital and ownership structure,
- k. all benefits provided to staff and workers, information on number of personnel,

- l. information on privileged shares and their amount,
- m. information about the fact that no board member was involved in any transactions with the company on their behalf or someone else within the framework of permission granted by general shareholders' meeting along with their activities within the scope of restraint of trade,
- n. research and development activities,
- o. the dividend distribution policy,
- p. basic ratios on the financial position, profitability and solvency,
- q. the company's financing resources and risk management policies,
- r. information on major events occurred between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

In addition to the matters specified in the legislation, following information was also given in the annual report:

- a. external duties of board members and executives,
- b. declaration of independence of the related board members,
- c. members of the committees within the board, their meeting frequency and the working principles of the committees,
- d. the number of board meetings held during the year and participation rate of the members,
- e. major court cases against the company and possible consequences,
- f. information on the fact that there is no cross shareholding in excess of 5% of the capital,
- g. benefits and vocational training of employees, and other company activities that give rise to social and environmental results,
- h. rating results,
- i. application status of the corporate governance principles as required

by the CMB communiqué and explanations on reasons behind any non-compliance.

On the other hand, benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

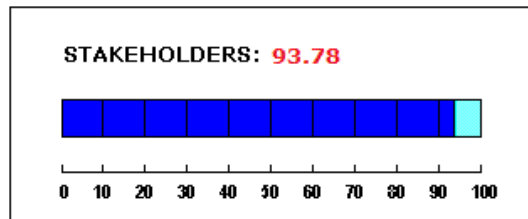
### **2.3. External Audit:**

The external audit of the company is conducted by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş..

There has not been a situation during the reporting period where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion. It has been declared by the company officials that there has been no legal conflict between the company and the external audit firm.

Independent audit firm and their audit staff did not provide consulting services for a price or free of charge during the audit period. No consulting company in which the external audit firm is in a dominant position either directly or indirectly in management or capital provided any consulting services during the same period.

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

+	Measures to safeguard stakeholders' rights are facilitated
+	Efficient Human Resources policy
+	Stakeholders' views are taken on important decisions that concern them
+	Code of ethics disclosed to the public
+	Human Rights Policy established
+	Company is socially and environmentally sensitive and respectful
+	A written employee compensation policy is disclosed to public on the corporate web site
+	Social responsibility projects implemented, a sustainability report exists
+	Inclusion in BIST Sustainability Index
=	No provision in the articles of association regarding the participation of stakeholders in the management of the company despite the existence of certain incentive models

### 3.1. Company Policy Regarding Stakeholders:

Aselsan recognizes the rights of stakeholders established by law or through any other mutual agreement. In case the rights of the stakeholders are not regulated by the relevant legislation and protected by contracts,

the company protects the interest of stakeholders under good faith principles and within the capabilities of the company. Effective and expeditious compensation is provided in case of violation of the rights.

A written employee compensation policy is established and disclosed to public on the corporate web site.

The web site is also actively used to provide adequate information on policies and procedures towards the protection of stakeholders' rights.

The resolution of the Corporate Governance Committee meeting held on 29 January 2014 dictate that the Audit Committee shall coordinate the building of necessary mechanisms through which the stakeholders could inform the corporate governance committee or the audit committee about those transactions which are in contradiction with the related regulation and are ethically inappropriate. This resolution is communicated to the related departments in writing and work is in progress.

### 3.2. Stakeholders' Participation in the Company Management:

There is no formal model included in the articles of association on establishment of direct participation of stakeholders in management.

However, the resolution of the Corporate Governance Committee meeting of June 16, 2014 proposes to the board of directors that stakeholders' opinions shall be taken into consideration before taking important decisions which give rise to consequences for them. Additionally,



the company management has adopted an open door policy for employees. In line with this policy and the Employee Representation Document, all employees can communicate their requests, demands and complaints to management.

### **3.3. Company Policy on Human Resources:**

The company has a documented human resources policy.

Recruitment and career planning policies are based on the principle of equal opportunity for equal qualifications. Recruitment criteria are documented and adhered to.

Employees are treated fairly in the benefits provided and training programs are conducted to increase their knowledge and skills. Performance and remuneration policies are communicated to all employees through company directives and employee representatives.

No complaints of discrimination have been received from employees during the reporting period. Although there is no trade union in the company, as per the Human Rights Directive, employees are free to be a member of and/or take on duties at foundations and charitable organizations, associations, scientific and social institutions, the vocational and technical institutions, arts and sports organizations, cooperatives and relief funds.

### **3.4. Relations with Customers and Suppliers:**

Aselsan has taken all necessary precautions to attain customer satisfaction in the sales and marketing of its products and services. Verbal and written communication channels are always available to meet customer needs and demands in the shortest

delay and in the most effective manner. In accordance with the risk management process, risks which may cause delays in product or service deliveries are constantly monitored and reported to customers and solutions are developed in cooperation with customers to meet their demands.

Products are designed and produced in accordance with the military, civil and international standards. Starting with the design phase, these quality standards are fulfilled throughout the life-cycle of high-end technology products and strict tests and controls are applied in every stage of production starting at the material procurement stage in order to guarantee that all products are produced in the same quality. Practices and regulations to be applied before and after delivery of the products that are below standards are put in effect in accordance with contract requirements and relevant quality standards, and implemented with customer approval. Defective products are repaired and re-activated free of charge during the warranty period. Post-warranty service is provided by service agreements covering the entire life-cycle of the product. Necessary organization, the quality management system, production, testing and controlling processes are established along with the required equipment and qualified personnel are assigned to ensure the continuity of these measures. Products and services have been certified by internationally accepted standards such as AS9100, ISO 9001 and AQAP. The conformity of the products and services are approved every year with the audits performed.

Within the framework of protection of trade secrets, care is taken on the confidentiality of information about customers and suppliers.

### **3.5. Ethical Rules & Social Responsibility:**

The ethical rules of Aselsan is publicly disclosed through the corporate web site.

Aselsan is a member of various local and international professional associations. Company executives and employees participate to local organizations' sectoral and social activities as well as projects and also occasionally represent the company at board level.

Since 2009, Aselsan has collaborated with 24 universities in 240 projects worth a total of US\$ 132 million and carries out a scholarship program for PhD students. The program has started in 2008 and 11 students have benefited from the program since then. 3 of these students have graduated from this program, 8 of them are continuing. The scholarship is given for a maximum of 4 years . In addition, 700-800 students enroll as summer interns in the company between June and September every year and 200-250 high school students in their last year of education are accepted in Aselsan's vocational training program.

Aselsan supports Turkey's first and largest technology based entrepreneurship contest, "New Jobs and New Ideas", and presents the Special Prize of the Defense Industry Category award. The company has also built a school in 2012 for the earthquake victims of city of Van. The Ministry of Health awarded Aselsan as a baby friendly organization because of the breastfeeding facilities offered to mothers. The company is perennially voted as one of the best companies to be employed at in IT and engineering fields.

Aselsan complies with the laws and environmental values in all its

activities. No lawsuits were filed against the company on account of any harm done to the environment during the reporting period.

### **3.6. Sustainability:**

Aselsan has an Environmental Management Policy approved by senior management. An Environmental Safety Board (ESB) is established for the purpose of determining measures to be taken in connection with environmental safety at Aselsan Macunköy Facility and assessing results of environmental problems caused.

The Environmental Safety Board enables the calculation of carbon footprint value of the facility annually in compliance with ISO 14064 standard and informs national and international initiatives in connection therewith. Within this framework, Aselsan took part in the Carbon Disclosure Project (CDP) in 2012, which is regarded as the world's most comprehensive environmental initiative. Aselsan has qualified to be included in the "highest" category following due inspections.

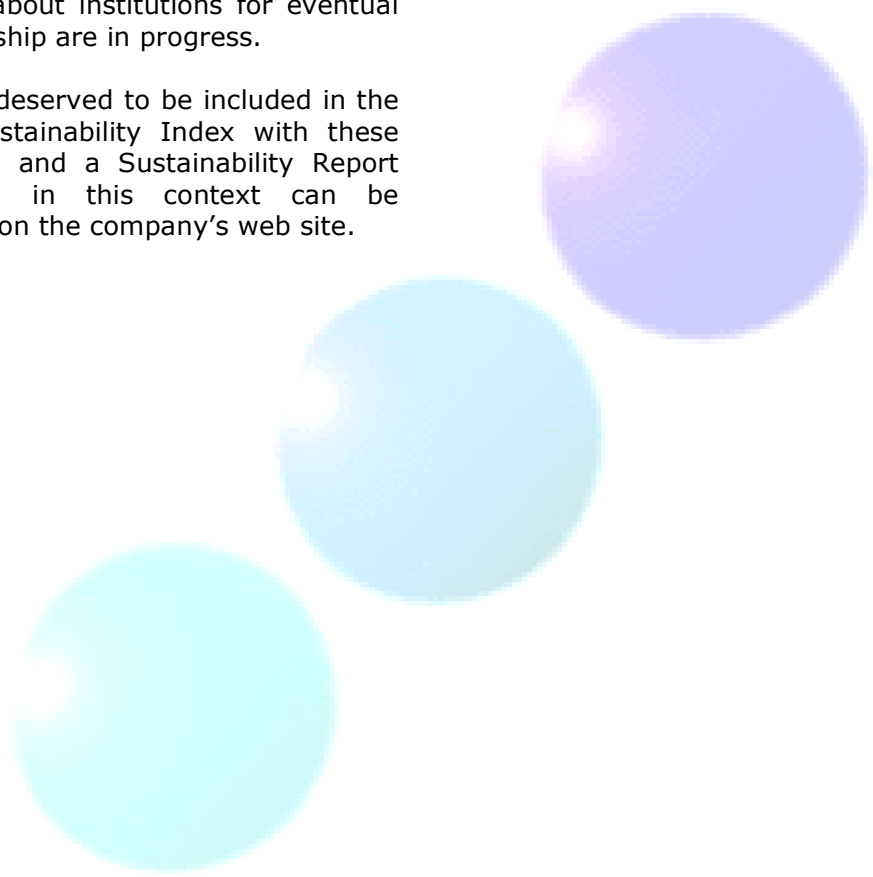
The company's greenhouse gas emissions are calculated and constantly monitored with reference to ISO TS 14064 standards and Green House Protocol. Aselsan is the holder of ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Integrated Management System certificates. The company has also established a Human Rights Policy and disclosed it to public on the corporate web site.

The company works in collaboration with the Portable Battery Manufacturers and Importers Association (TAP) for waste batteries, with Accumulator Importers and Producers Association (TÜMAKÜDER)

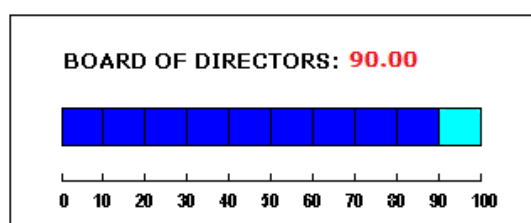
for waste accumulators and with Packaging Waste Recovery and Recycling Foundation (ÇEVKO) for packaging waste.

Furthermore, the Corporate Governance Board meeting held on 16 June 2014 resolved to examine BIST-30 companies' supply chain memberships and investigate national supply chain organizations. To this end, negotiations with and further studies about institutions for eventual membership are in progress.

Aselsan deserved to be included in the BIST Sustainability Index with these practices and a Sustainability Report prepared in this context can be reached on the company's web site.



## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The company's vision, mission and strategic goals are defined
+	The board works efficiently and staffed with qualified members
+	Three independent and no executive members on the board
+	Corporate Governance, Audit, and Early Detection and Management of Risk Committees are established and functional
+	Principles of remuneration of board members and senior executives established and disclosed to public
+	Board chairman and general manager is not the same person
+	Each member has a right to a single vote
+	Conduct of board meetings defined in internal regulations and meeting/decision quorums are in the articles of association
+	Losses incurred by the company, and third parties, as a result of not performing the executives' duties duly are insured
=	Same board member taking part in two committees
-	No female board members and no policy established, no target or timing set for a minimum 25% female board membership rate
-	Remuneration and benefits provided to board members and to managers with administrative responsibility is not explained on individual basis

### 4.1. Functions of the Board of Directors:

Strategic decisions of the board of directors aim to manage the company's risk, growth, and return balance at an appropriate level and conduct a rational and cautious risk management approach with a view to the long-term interests of the company. The board administers and represents the company within these parameters.

The board of directors has defined the company's strategic goals and identified the needs in human and financial resources, and controls management's performance. The board also oversees that company activities are managed in compliance with the legislation, articles of association, internal procedures and established policies.

### 4.2. Principles of Activity of the Board of Directors:

Board of directors performs its activities in a transparent, accountable, fair and responsible manner.

Distribution of tasks between the members of the board of directors is explained in the annual report. The board of directors established internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the committees. In this context, the board reviews the effectiveness of risk management and internal control systems with sufficient frequency.

The presence, functioning, and effectiveness of internal controls and

internal audit are explained in the annual report. Chairman of the board and general manager's executive powers are separated and this separation is documented in the articles of association. There is no individual in the company who has unlimited authority to take decisions on his/her own.

The board of directors plays a leading role in maintaining effective communication between the company and the shareholders and settling any disputes which may arise and works in close coordination with the Corporate Governance Committee and "Investor Relations and Subsidiaries Department".

Losses incurred by the company as a result of possible misconduct by the executives are insured with a rate exceeding 25% of the company's capital and this is disclosed on the Public Disclosure Platform.

#### **4.3. Structure of the Board of Directors:**

The company's board of directors is composed of nine members and none of them are executive. There are three independent members who have the ability to execute their duties without being influenced under any circumstances.

No upper limit for the number of independent board members is mentioned in the articles of association. Tenure of office for independent members is designated as 1 year.

The Corporate Governance Committee has prepared a report on the candidates for independent board membership by taking into consideration whether or not the candidate meets the independency criteria and submitted this assessment as a report to the board for its

approval. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There are no female members on the board. The company has not yet prepared a policy or set a timetable to reach the Corporate Governance Principles' advisory target of minimum 25% female board membership rate.

#### **4.4. Conduct of the Meetings of the Board of Directors:**

Board meetings take place with sufficient frequency. Members allocate sufficient time for company business and show utmost care to participate in each meeting.

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and the general manager. Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date.

Each member is entitled to a single vote.

The conduct of the board of directors meetings is documented in internal regulations and meeting and decision quorums have been included in the articles of association of the company

There are no certain rules or limitations for board members taking on additional duties as executives and/or board members outside the company. However, as per the provisions of the articles of associations, it has been declared that regulations of the Turkish Commercial Code, Capital Markets Law and the Capital Markets Board relating to

corporate governance, and other relevant legislations will be respected.

Shareholders are informed of external duties of the board members through the annual report and the Corporate Governance Compliance Report

#### **4.5. Committees Established Within the Board of Directors:**

Corporate Governance, Audit, and Early Detection and Management of Risk Committees are established from within the board of directors in order to fulfill its duties and responsibilities. In addition to these, Investment and Strategic Management and Technology and R&D Management Committees are established again with the participation of board members.

Functions of the committees, their working principles, and members are designated by the board of directors and disclosed to public on the company's web site and on the Public Disclosure Platform.

All members of the Audit Committee are elected among the independent board members. Also the chairmen of the Corporate Governance and Early Detection and Management of Risk Committees are elected among the independent board members. The Corporate Governance Committee has four members, while the other committees are composed of three members each. The chairman of the board and the general manager are not on the committees. With the exception of "Investor Relations Department" manager who serve on the Corporate Governance Committee, as per corporate governance principles there are no other executive members on the committees. A non-independent member of the board serves on two committees.

All necessary resources and support needed to fulfill the tasks of the

committees are provided by the board of directors. Committees can invite any manager as they deem necessary to their meetings and obtain their views.

The frequency of committee meetings is sufficient, all activities are documented and records are kept. Reports containing information about the activities and the resolutions of the meetings are submitted to the board of directors.

Audit Committee supervises the operation and efficiency of the company's accounting system, public disclosure, external audit and internal audit systems, reviews complaints that are received by the company regarding company accounting, internal and external independent audit systems, within the framework of the principle of confidentiality and finalizes them, notifies the board in writing on findings related to their duties and responsibilities and the related assessment and recommendations, following taking the opinion of responsible managers of the company and the external auditor notifies the board in writing on whether the annual and interim statements disclosed to the public is in accordance with the company's accounting principles, true and accurate. The committee has convened four times during the course of reporting period.

Audit Committee members possess the qualifications listed in the Corporate Governance Principles communiqué.

The annual report contains information on activities and meeting resolutions of the Audit Committee and number of written notices given to the board of directors in the reporting period.

The nomination and election process of the external audit firm, taking into account its competence and

independence, starts with a proposal from the audit committee to the board.

The Corporate Governance Committee is established in order to determine whether or not the corporate governance principles are being fully implemented by the company, if implementation of some of the principles are not possible, the reason thereof, and assess any conflict of interests arising as a result of lack of implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the "Investor Relations Department". Investor Relations Department manager is on the Corporate Governance Committee which has convened four times during the reporting period.

The Corporate Governance Committee carries out the duties of the Nomination Committee and Remuneration Committee, since they are not established. The proposals for independent board membership candidacy are evaluated by taking into consideration whether the candidates possess the criteria for independence under the applicable legislation and these assessments are documented.

Creation of a transparent system for identification, evaluation and training of suitable candidates for the board of directors and determination of policies and strategies in this respect as well as regular evaluation of the structure and productivity of the board of directors and submission of its recommendations to the board members on changes that can be implemented on these matters have all been designated as the responsibilities of the committee in its charter. We will continue observing the level of functionality and efficiency of the committee regarding such responsibilities.

Similarly, functions such as determination and supervision of remuneration of board members and senior executives on the basis of principles, criteria and applications used by taking into consideration company's long-term objectives as well as submission of recommendations to the board about the remuneration of board members and managers with administrative responsibility with regard to the level of compliance with the above criteria are also included in the working principles of the committee. Our observations will continue to determine whether these functions are implemented or not.

The Early Detection and Management of Risk Committee carries out its tasks towards early detection of risks which may jeopardize the company's assets, its development and progression, and measures taken to mitigate and manage those risks. It reviews risk management systems and finalizes "Annual Evaluation", "Annual Corporate Risk Inventory" and "Corporate Risk Evaluation" reports. The committee has met five times during the reporting period.

#### **4.6. Remuneration of the Board of Directors and Senior Management:**

The board of directors explained in the annual report whether the operational and financial targets disclosed to the public are met or not, along with reasons behind possible shortcomings. The principles of remuneration of board members and senior executives have been documented in writing and submitted to the shareholders' attention as a separate item at the general shareholders' meeting. A remuneration policy prepared for this purpose can be found on the company's web site.

Stock options or performance based payments are not included in the

remuneration package of the independent board members. Their remuneration is designated at a level to maintain their independence

Aselsan does not lend any funds or extend any credits to a member of the board or to senior executives, or grant any personal loans through a third party, or extend any guarantees.

The executives have the required professional qualifications in order to perform the assigned duties. The executives comply with the legislation, articles of association, and in-house regulations and policies in fulfilling their duties.

There has been no cases where the executives used confidential and non-public company information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the company's affairs, and provided unfair advantage.

Losses that may be incurred by the company, and third parties, as a result of misconduct by managers with administrative responsibility are insured

Remuneration of board members and managers with administrative responsibility as well as benefits provided are mentioned collectively in the annual report. Full implementation of Corporate Governance Principles dictates reporting on an individual basis.



## Rating Definitions

Rating	Definition
9 - 10	The company performs <b>very good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated. Deserved to be included in the BIST Corporate Governance Index on the highest level.
7 - 8	The company performs <b>good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated. Deserved to be included in the BIST Corporate Governance Index.
6	The company performs <b>fair</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Deserved to be included in the BIST Corporate Governance Index and management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
4 - 5	The company performs <b>weakly</b> as a result of poor corporate governance policies and practices. The company has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The company performs <b>very weakly</b> and its corporate governance policies and practices are overall very poor. The company shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.

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