

**ASELSAN ELEKTRONİK  
SANAYİ VE TİCARET ANONİM ŞİRKETİ  
AND ITS SUBSIDIARIES**

REPORT OF THE BOARD OF DIRECTORS  
FOR THE PERIOD BETWEEN  
1 JANUARY – 30 JUNE 2017

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**1. Principles of preparation**

The interim period report of the Board of Directors is prepared on the basis of Communiqué Series II, No: 14.1 “Principles of Financial Reporting in Capital Markets” dated 13 June 2013.

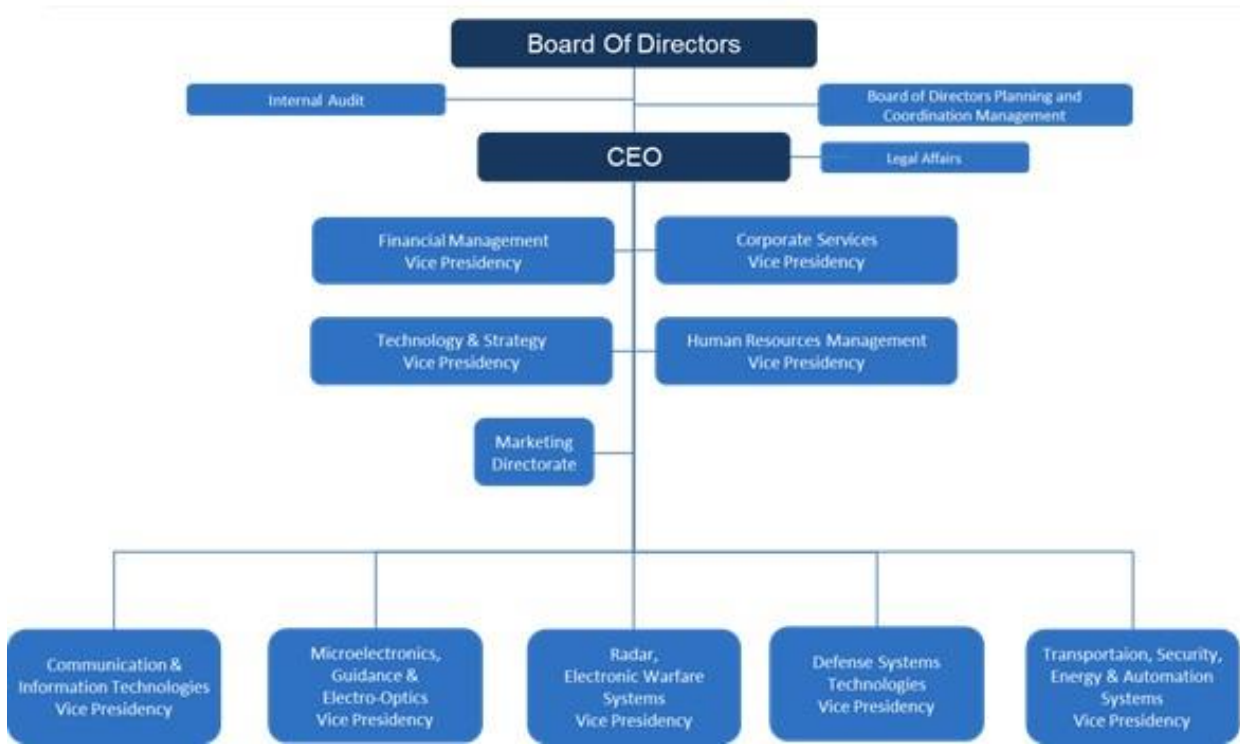
The Company and ASELSAN Bakü Şirketi (“ASELSAN Bakü”), Mikroelektronik Ar-Ge Tasarım ve Ticaret Limited Şirketi (“Mikro AR-GE”) and ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Limited Şirketi (“ASELSANNET”), which are subsidiaries of the Company operating in the same industry and whose financial statements are consolidated will be mentioned as “Group” in the report.

ASELSAN Hassas Optik Sanayi ve Ticaret Anonim Şirketi (“ASELSAN Optik”), ASELSAN Bilkent Mikro Nano Teknolojileri Sanayi ve Ticaret Anonim Şirketi (“ASELSAN Bilkent”), IGG ASELSAN Integrated Systems LLC (“IGG ASELSAN”), Kazakhstan ASELSAN Engineering LLP (“ASELSAN Kazakhstan”) and ASELSAN Middle East PSC LTD (“ASELSAN Jordan”) and Saudi Arabian Defense Electronics Corporation LLC (“SADEC LLC”) are consolidated by the equity method.

**2. Commercial title and trade registration number of the company and contact information pertaining to its headquarters, branches and its website address**

Company	Type	Country/City	Address	Telephone/Fax	Web site
ASELSAN Elektronik Sanayi ve Ticaret A.Ş.	Headquarters	Turkey/ Ankara	Mehmet Akif Ersoy Mahallesi 296. Cad. No:16 06370 Yenimahalle/Ankara	Telephone: +90 (312) 592 1000 Fax: +90 (312) 354 1302	www.aselsan.com.tr
ASELSAN South Africa Branch	Branch	Republic of South Africa/ Pretoria	Building 4, Room 005 CSIR Campus, Meiring Naude Drive, Pretoria Gauteng, 0001, South Africa	Telephone :+27 (0) 12 349 2613 Fax: +27 (0) 12 349 2544	--
ASELSAN Macedonia Branch	Branch	Macedonia/Skopje	Ankarska 29A, 1000 Skopje/Macedonia	--	--
BAE Contact Office	Contact Office	BAE/ Abu Dhabi	Industrial City of Abu Dhabi 1, Plot 22J1 PO Box: 133627 Abu Dhabi/UAE	Telephone: +971 2 550 8808 Fax: +971 2 550 8812	--
Saudi Arabia Contact Office	Contact Office	Riyadh/ Saudi Arabia	A. Building 17B, 1st Floor, The Business Gate, Riyadh, 11422, Saudi Arabia	Tel: +966 11 211 1111 Fax: +966 11 268 1111	

### 3. Organizational structure of the Company



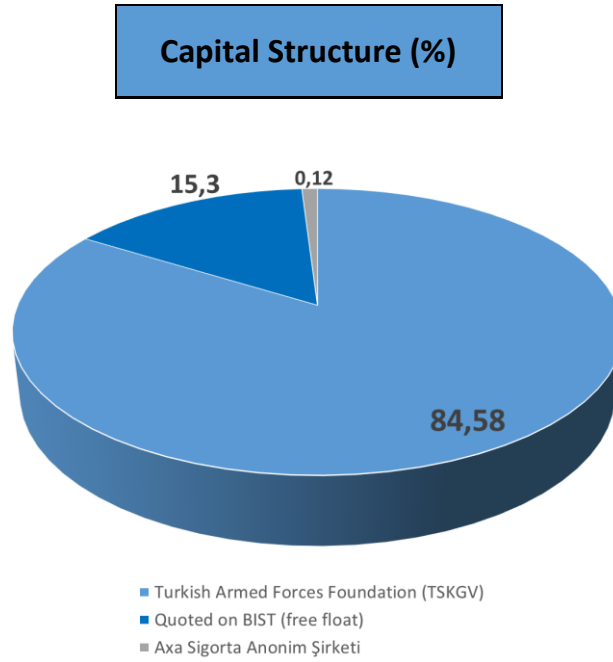
The Company has been restructured under five Vice Presidencies that will carry the production and engineering tasks, which are; Communication and Information Technologies (HBT), Microelectronics, Guidance and Electro-Optics (MGEO), Defense Systems Technologies (SST), Radar, Electronic Warfare and Intelligence Systems (REHİS) and Transportation, Security, Energy and Automation Systems (UGES).

In order for General Management to fulfill planning at strategic level, pursuing and assessing functions in a more efficient way, four different Vice Presidencies have been constituted as Financial Management Vice Presidency, Corporate Services Vice Presidency, Technology and Strategy Vice Presidency and Human Resources Management Vice Presidency in addition to Marketing Directorate and Legal Affairs.

The Internal Audit Department and Board of Directors Planning and Coordination Management have been established under the Board of Directors.

The Company maintains engineering operations in Ankara, METU Teknokent; production and engineering operations in Macunköy, Akyurt and Gölbaşı. General Management is located in Ankara Macunköy. Furthermore, SST and REHİS Vice Presidencies management offices and Product Support Management of UGES Vice Presidency are located in Istanbul Teknopark.

## 4. The Company's capital and shareholder structure with the changes during the fiscal period



Partners	Share (%)	30 June 2017 (Thousand TL)	Share (%)	31 December 2016 (Thousand TL)
Turkish Armed Forces Foundation (TSKGV)	84,58	845.826	84,58	845.826
Quoted on BIST (Free float)	15,30	153.019	15,30	153.019
Axa Sigorta Anonim Şirketi	0,12	1.155	0,12	1.155
Paid-in capital	100	1.000.000	100	1.000.000
Share capital adjustment	-	98.621	-	98.621
Inflation adjusted capital	-	<b>1.098.621</b>	-	<b>1.098.621</b>

Registered capital ceiling of the Company is TL 1.000.000 Thousand (TL one billion). The nominal capital of the Company is TL 1.000.000 Thousand (TL one billion) and is divided into 100.000.000.000 (one hundred billion) shares, each having a nominal value of 1 kuruş (1% of 1 Turkish Lira). 60.545.454.546 (sixty billion five hundred and forty five million four hundred and fifty four thousand five hundred and forty six) of the shares are Group A shares and 39.454.545.454 (thirty nine billion four hundred and fifty four million five hundred and forty five thousand four hundred and fifty four) of the shares are Group B Shares. All shares are in the name of the holder.

Group A shares are nominative preferred shares and 6 of the Members of the Board of Directors are elected among the Group A preferred shareholders or among the candidates presented by them.

No change has occurred in the shareholders' structure and the Company's capital during the period.

**5. Reporting period, title of the partnership, names, surnames and jurisdiction of the chairman, members and the managing members who served in the board of directors during the period, the term of office of the duties (with commence and end dates)**

The report comprises the events took place during the period 1 January-30 June 2017. The title of the main shareholder in the report is ASELSAN Elektronik Sanayi ve Ticaret A.Ş.

**Members of the Board of Directors**

Within the framework of the provisions of the Company's Articles of Association, the Board of Directors consists of a total of 9 members comprising of 6 members to be elected from privileged shareholders or candidates nominated by group A and 3 independent members to be elected under Capital Markets Board (CMB) regulations.

Information regarding the Members of the Board of Directors elected during the General Assembly Meeting held on 15 March 2017 are as follows:

<b>MEMBERS OF BOARD OF DIRECTORS</b>			
<b>Name and Surname</b>	<b>Position</b>	<b>Date of Assignment</b>	<b>End of Term of Office</b>
İbrahim ÖZKOL	Chairman/Independent Member	15 March 2017	March 2018
Mustafa Murat ŞEKER	Vice Chairman/Executive Member	15 May 2013	March 2018
Ziya AKBAŞ	Independent Member	31 March 2014	March 2018
Ercümend ARVAS	Independent Member	31 March 2016	March 2018
Bayram GENÇCAN	Member	15 March 2017	March 2018
Haluk GÖRGÜN	Member	15 March 2017	March 2018
Emin Sami ÖRGÜÇ	Member	15 March 2017	March 2018
Ercan TOPACA	Member	15 March 2017	March 2018
Murat ÜÇÜNCÜ	Member/Executive Member	15 May 2013	March 2018

The Members of the Board of Directors are entitled with the authorizations stipulated in the Turkish Code of Commerce (TCC) and in article 13 of the Articles of Association of the Company.

Entitled shareholders, members of the board of directors, senior executives and to their spouses as well as relatives up to second degree are not authorized to perform transactions which may cause conflict of interest or competition with the Company and/or subsidiaries.

There is not any ban on trading for board members with the Company, which they performed on their own or on behalf of a third party. There is no operation regarding the non-compete obligation by the members of the board.

**Changes of Members of the Board of Directors during the Period 1 January – 30 June 2017:**

During the Ordinary General Assembly Meeting held on 15 March 2017, Mustafa Murat ŞEKER, Bayram GENÇCAN, Haluk GÖRGÜN, Emin Sami ÖRGÜÇ, Ercan TOPACA and Murat ÜÇÜNCÜ were elected as Member of Board of Directors for 1 year of service and İbrahim ÖZKOL, Ziya AKBAŞ and Ercümend ARVAS were elected as Independent Member of Board of Directors for 1 year of service.

**6. Main factors that affect the performance of the company, significant changes occurred in the environment where company is operating, policies implemented by the company with respect to these changes, investment and dividend policy of the company to strengthen its performance**

The Company carries on its business interests in defense industry. According to the latest data, the five countries which have the largest defense industry expenditures during 2016 are the USA, China, Russia, Saudi Arabia, and India. The declining tendency of the resources which the USA has allocated to defense in recent years has left its place to increase in 2016. Concurrently, in Europe and Asia-Oceania, an increase has been observed compared to the previous year and there has been a decrease in Africa. As of 2016 year-end, despite the fact that Turkey's annual defense expenditure has decreased from USD 17,9 Billion to USD 14,8 Billion due to the effect of foreign exchange rates within the last five years, 2,1% of the GDP is still comprised of defense expenditures. The ratio of defense expenditures over GDP stands steady while the number of Company's projects have increased by the years.

Due to the industry's nature defense projects are spread over years, furthermore a system project lasts approximately 4 to 5 years from its start to its delivery. As of 30 June 2017 long term plans which have been accordingly signed as contracts spread over years amounts to USD 6,4 Billion. The determination of target regions/countries and focusing on these markets for marketing and direct sales as well as engaging in joint productions, transfer of technology to/from international platform producers and strategic initiatives for sales to third countries are concurrent to our sustainable growth objectives. Our structure coincides with our objective to operate in civilian electronic fields which require high technology.

The Company's profit distribution policy is posted on [www.aselsan.com.tr](http://www.aselsan.com.tr) website under Investor Relations/ Corporate Governance/Policies.

At the Ordinary General Assembly Meeting held in 15 March 2017; from the remaining distributable profit obtained after subtracting taxes and statutory obligation from Company's operating profit in 2015,

- In accordance with Article 519/(1) of the Turkish Commercial Code, TL 26.703.481,27 to be allocated as General Legal Reserves,
- Net distributable profit to the shareholders for the period, calculated in the framework of the profit distribution regulations and decisions of the Capital Markets Board is proposed as:  
Gross profit, TL 75.500.000 (Kurus 7,55 per share of TL 1 and 7,55 % on the basis of the capital) (net profit TL 64.175.000 – Kurus 6,4175 per share of TL 1 and 6,4175 % on the basis of the capital) as in the form of cash,
- In accordance with Article 519/(2) of the Turkish Commercial Code, TL 2.550.000 to be allocated as General Legal Reserves,
- It has been decided that the remaining profit is to be allocated as Extraordinary Legal Reserves and distribution of the dividends to the shareholders are decreed in three equal installments on the dates of 8 June 2017, 14 September 2017 and 14 December 2017.



## **7. Financial resources of the company**

The most substantial financial resources of the Company comprise the advance and interim payments taken within the scope of the contracts signed and profits generated by the main activities.

During 1 January-30 June 2017 period, the cash requirements were met with the available cash, cash inflows from other operations and use of Türk Eximbank export discounted foreign currency loan due to low cost. Within the scope of the Eximbank Loan Program, during 1 January-30 June 2017 period, “Discounted Foreign Currency Loan” was used as USD 45 Million with 240 days of maturity and “Discounted TL Loan” was used with the following maturities respectively: TL 89 Million with 240 days of maturity. As of 30 June 2017, there is a loan balance equivalent to US \$ 70,4 Million in total which is used from Türk Eximbank.

Furthermore, loan obtained from Defense Industry Support Fund (DISF) in accordance with Defense Industry Execution Committee’s Decision Risk is USD 45,5 Million as of 30 June 2017.

## **8. Risk management policies of the Company**

The Company’s Board of Directors perform in a transparent, accountable, impartial and responsible manner. The Chairman and Vice Chairman are elected among the Board of Directors members furthermore Board of Directors Committee Presidents and committee members are elected as well.

### **a. Corporate Risk Management**

The Company's Corporate Risk Management Policy; aims to have the appropriate risk reaction against uncertainties threatening the corporate existence of the Company and protect the Company's corporate identity, its employees and the interests of its shareholders and related parties. Risk management has been an integrated part of the corporate management and information generated within the context of risk management process are integrated into decision-making mechanisms.

In order to identify the potential risks beforehand and to enable the management of these risks in compliance with the Company’s risk-taking approach, an Early Detection and Management of Risk Committee which consists of the members of Board of Directors was established in 2012.

Through Corporate Risk Management practices, “top down” and “bottom up” approaches are applied together and risks that may affect the company’s objectives are identified and evaluated along with the risk reactions and precautions to be taken. The reports prepared by the The Management and Early Detection of The Risk Committee are presented to the Board of Directors and the Independent Audit Company.

The risks which have been defined and prioritized in accordance with the opinion and suggestion companywide and in the scope of the operations carried out by the committee are explained below:

**Difficulty to Increase the Number and Variety of Customers**

World's leading defense industry companies, who provide the major portion of the defense needs of their country, face with several sectoral risks including lack of customer diversification caused by selling to mainly a single customer. The main client of the Company is the Public Institutions and Organizations, especially the Turkish Armed Forces. This situation is accompanied by the fact that the activities of the Company are generally directed towards the public demands of our country.

It is aimed to reduce this risk by working on increasing the sales abroad and carrying the existing know-how to the civilian sectors.

**Insufficiency in the Number of Qualified Subcontractors and Suppliers**

The main contractor companies play an important part in providing deepening to the industry. To build an effective supply chain; the creation of qualified subcontractors/suppliers is highly critical in terms of sector productivity and sustainability. For the Company, which works with a large number of domestic and foreign suppliers and subcontractors, it is of utmost importance to ensure material quality and supply continuity.

Having a strong subsidiary infrastructure is among the elements that will support The Company's business continuity, steady growth and global competitiveness. In order to reduce the risk arising from the failure of suppliers and subcontractors to achieve the required technical competence, expertise and performance, the Company is making great efforts to develop the subsidiary industry infrastructure and companies.

**Changes In The Global Economy and Decrease In The Defense Spending**

Global economic variations have significant impacts on the economic activities of the countries and cause changes in projected defense budgets. This situation may bring along the risks of the demands of domestic and foreign customers lower from the expected level and also may affect the operational and functional indicators.

The current and potential economic developments, the countries which the Company have either collaborated or/and exported, and the effect of these matters on the company have been followed and the projection regarding global development have been planned. Financial precautions and strategies that will minimize the negative effects of current and possible economic developments are evaluated and implemented on constant basis.

**b. Financial Risk Management**

The financial risk in the financial risk management model of the Company have been identified as foreign exchange risk, interest risk, liquidity risk, credit risk and capital risk.

Within the scope of the financial risk management, exchange risk, interest risk, liquidity risk, credit risk and capital risk which can possibly affect the assets and liabilities of the Company are defined, measured, managed and reported. Therefore, the adverse effects of the changes in financial markets on the Company's financial performance are minimized. Financial derivatives are also utilized to

minimize the risks. Moreover, financial risk management techniques have put to use in order to protect the return on the project from the effects of the inconsistency of cash inflows and outflows on the basis of currency which was formed within the projects and the deviation of the planned cash flow dates.

The Company's subsidiaries and affiliates utilize financial risk management within the scope of their own management policies.

**i. Foreign Exchange Risk and Management Policy**

The main principle of the foreign exchange management is to minimize the impact of the foreign exchange fluctuations by preventing foreign exchange short or long positions.

To define foreign exchange risks with taking the periodical foreign exchange position into consideration; loss and profits which would arise from upwards or downwards changes are calculated and the possible impacts of the foreign exchange risk incurred are measured. In this context, the possible changes in foreign currency-sensitive assets and liabilities for prospective interim financial periods are considered and the foreign currency position is estimated.

The currency of the contracts signed between the company and its clients are mainly currencies other than the functional currency which is Turkish Lira. Advances can be made in different periods of the contracts so that the work can be carried out during the contracts, and the advances received can be in currencies other than the functional currency. All order advances taken and given apart from the functional currency are not subject to valuation according to the TAS 21 "The Effects of Changes in Foreign Exchange Rates Standard".

Due to the nature of the contracts, it is inevitable that there will be no change in the currencies during the term of the contract. As a result of the exchange rate fluctuations; there could be profits/losses from delivery, advance offsetting or collection within the scope of a foreign exchange rate based contract.

Methods which are used to manage the exchange rate risk are on-balance sheet (structural) methods. On-balance sheet (structural) methods are utilized in order to manage the exchange rate risk. In order to keep foreign currency position at desired levels and to ensure currency conformity, applications such as the use of fixed rate TL denominated credit instead of foreign currency denomination, the determination of the contract currency according to the weighted currency of the contract and the signing of the contract in terms of the main contract currency with subcontractors within the scope of contracts.

All public administrations subject to Public Financial Management and Control Law dated 10 December 2003 and numbered 5018 and their revolving fund institutions, dated 8 June 1984 and numbered 233 on State Economic Enterprises State-owned enterprises and subsidiaries subject to Decree Law are subject to special legislation in the privatization program within the scope of Law No. 4046 on Customization Practices dated 24 November 1994, and more than half of the capital of

the public sector owned enterprises, Saving Deposits Insurance Fund and special laws having a direct or indirect public share ("CBRT") announced on 2 January 2017 that the liability of the borrower for domestic currency payment obligations, irrespective of the nature of the liability, until 31 December 2017, as Turkish Lira. The transactions and results within the scope of this article are not related to the budget revenues and expenditures accounts. "With this announcement published by the CBRT on 17 February 2017, Eximbank rediscount foreign currency loan repayments up to 31 May 2017 were made in TL. In addition, the repayment of loans granted by the Defense Industry Support Fund (SSDF) by the decision of the Defense Industry Executive Committee possibly be made in TL until 31 December 2017. Eximbank foreign currency denominated in USD and SSDF loans are repaid in Turkish Lira at the rate of 3,5338 USD/TL until 31 December 2017.

**ii. Interest Risk and Management Policy**

In determining the interest risk, the difference between the interest rate sensitive assets and liabilities is analyzed and calculated in a certain condition. In the scope of fund management, sensitivity analysis is performed when the interest risk of interest sensitive assets in the portfolio is measured.

As of 30 June 2017, the sum of SSDF loans is USD 45,5 million. It is estimated that the interest rate does not constitute a risk due to the fact that the loans have fixed interest rates.

As of 30 June 2017, the loan balance of USD 70,4 million, of which USD 45 million and TL 89 million are used from Türk Eximbank. The interest rate of the loans is fixed for 240 days. Since the Company does not use floating rate loans, it is evaluated that interest rate is low.

**iii. Liquidity Risk and Management Policy**

Liquidity Risk comprises the risks when the matured liabilities cannot be fulfilled, when the increase in assets cannot be funded and the risks which arise due to the transaction realized in non-liquid markets.

Liquidity risk is managed by considering short term liabilities, assets with high liquidity, anticipated cash flows and balance sheet maturity ladder. Through this scope, sufficient level of cash and assets which may be convertible to cash is maintained, attention is paid that the Company finances its activities without using any loans and the resources of funding are varied by keeping the commercial bank credit limits ready for any cash requirement. As of 30 June 2017, 42% of the short-term and long-term liabilities comprise of advance payments received therefore as there is no discrepancy in maturity dates, therefore liquidity risk is considered to be low.

**iv. Credit Risk and Management Policy**

The substantial part of the Company's current credit balance comprises of the performance guarantees and advance payment guarantees (letter of guarantees) granted to the customers in the scope of the contracts and which are showed off-balance sheet. Within this scope, in the context of the management of the credit limits in the bank, periodically risk counterparts are followed and

transactions are carried out in order to deduct the letters of guarantees for the completed contracts without delay.

#### v. Capital Risk Management

Through the capital management of the Company, enabling a debt-equity balance that would minimize the financial risks and costs is taken care of. The objective of the Company is to guarantee a consistent growth by the means of the funds gained through its activities while providing its shareholders a regular dividend income.

#### 9. Other issues not included in the financial statements but which would be beneficial to the users

- As of 30 June 2017, the Company has a backlog of USD 6,4 Billion and these orders include the period until 2025.
- No Extraordinary General Assembly was held during the period between 1 January - 30 June 2017.

#### 10. Significant events between 1 January – 30 June 2017 fiscal period and the Board of Directors Meeting date when the corresponding financial statements shall be negotiated

The amount of contracts signed after the balance-sheet date by the Group is approximately USD 5 Million.

The company titled "ASELSAN Malaysia Sdn. Bhd." was established in order to operate in the field of remote controlled weapon systems, of which ASELSAN owns 100%. The company's capital is MYR 100, and the establishment has been registered on 19.07.2017.

#### 11. Expectations for the progress of the company, significant developments with respect to company activities and financial position, to observe whether past period targets were achieved or not, whether the general assembly resolutions were fulfilled, and in the event the targets were not achieved and the resolutions were not fulfilled, information regarding the reasons and explanations

The forecasts under the normal conditions regarding the Group's consolidated financial results for the 2017 year are presented below;

Financial Targets 2017	Ratio/ Amount
Consolidated income growth (TL)	≥ 25%
EBITDA (Consolidated and adjusted without foreign exchange rate differences)	18-20 %
Consolidated investment (property, plant and equipment) expenditure	~ TL 500 Million
Ratio of the consolidated R&D expenses financed by the Company resources to the consolidated sales	7% Level

These expectations are based on the yearly average of USD/TL parity to be 3,45 and EURO/TL parity to be 3,79.

The Company, which has been in the most prestigious list since 2006, “Defense News Top 100”, published by “Defense News” magazine, aims to increase its ranking in the list in following years.

In order to achieve the sustainable growth:

- The registration of SADEC LLC was completed on December 2016 as part of our efforts to establish a joint venture with TAQNIA DST in Saudi Arabia. The capital of the company is SAR 22.500.000(USD 6 Million) and the share of the Company in the partnership is 50%. SADEC LLC's main field of activity is going to be the production and sales of radar, electronic warfare and electro-optical systems. It is planned that the necessary infrastructure and production facility investments of the Company will be completed within two years.
- The quality and technological perspectives of the cooperation formed with the universities have been increased.
- The efforts to form an eco-system with the sub-industry companies and SME's have continued.
- Company is continuing its operations in civil electronic areas which requires high technology.
- Inorganic expansion will be also evaluated as well as organic expansion.

## **12. Compliance Report on Corporate Governance Principles**

The report will be provided with Annex-1 of the year end BOD Report.

## **13. Research and Development Activities Performed**

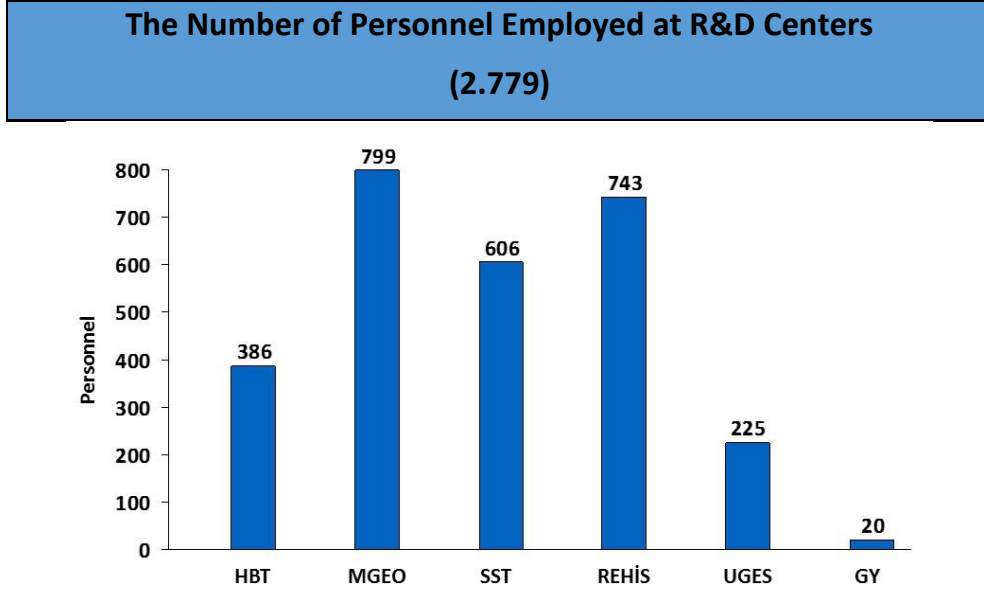
The Group, as a leading defense industry establishment, develops advanced technology system solutions on land, air, naval and aerospace platforms, places great importance to Research and Development activities and technological gains since it was founded. Besides, it aims to spend approximately 7% of the annual turnover to its Research and Development activities financed with its own resources.

By following up on all kinds of technological developments pertaining to land, air, naval and aerospace platform product/system technologies, the Company not only applies technology but also designs, develops and produces product/system technologies in order to share or sell with/to national and international collaborations.

Projects are striving at maximum level in order to benefit from the technological opportunities existing in the country aiming to increase the national contribution share. For this purpose, cooperation is made with universities and various R&D organizations and importance is given to the use of local suppliers and subcontractors.

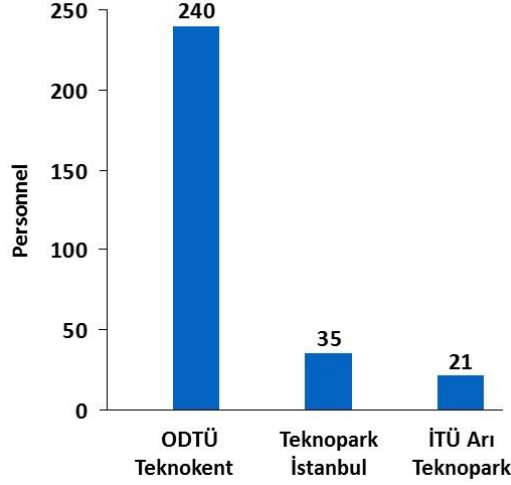
As for the projects carried out within the Group, the Research and Development incentive in compliance with the provisions of the Law on Corporate Tax numbered 5520 and Research and Development center application pursuant to the Law regarding the support of Research and Development activities numbered 5746 are being implemented together. As for non-public R&D projects, the approval of TEYDEB (Technology and Innovation Support Programs Directorate) and ARDEB (Research Support Programs Presidency) is received and are supported by the institutions.

Within the Company, there are 6 Research and Development centers within the scope of Defense System Technologies (SST), Radar Electronic Warfare and Intelligence Systems (REHİS), Microelectronics, Guidance and Electro-optics (MGEO), Communication and Information Technologies (HBT), Transportation, Security, Energy & Automation Systems (UGES) Vice Presidencies as well as ASELSAN Research Center of Vice Presidency of Technology and Strategy Management. Currently, 2.779 staff are employed at the Group’s Research and Development centers.



The Group also carry on its activities in Teknokent facility within Middle East Technical University, İstanbul Technology Development Area Teknopark and İTÜ Arı Teknopark within the scope of the Law numbered 4691 on Technology Development Regions. Group employed 296 staff within this region.

**The Number of Personnel Employed at Technopark  
(296)**



**14. Amendments to the Articles of Association during the period along with the reasons**

There has not been such an event within the period.

**15. The kinds of issued capital market instruments and their amounts, if any**

There has not been such an event within the period.

**16. The industry that the Company operates in and its position within the sector**

The Company is a leading defense industry establishment developing advanced technology system solutions within land, air, naval and aerospace platforms.

The Company, being an establishment of TSKGV, stands in a position of a technology center within the fields of design, development, manufacturing, system integration, modernization and after sales services of military and civil communication systems, avionics systems, electronic warfare and intelligence systems, radar systems, command and control systems, naval warfare systems, security systems, transportation systems, energy systems, traffic and automation systems electro-optic systems and products.



Ranking of Company's international, country-wide, sectorial rating systems is showed at table below:

Corporation	Research/Study	Related Period <sup>1</sup>	Ranking	
			Current	Prior
<b>International Ranking</b>				
Defense News Dergisi	Defense News Top 100	2017	57	58
SIPRI	SIPRI Top 100	2016	69	74
European Commission	World R&D Expense Top 2500 Company	2016	1.228	1.178
Mentor Graphics	PCB Technology Leadership Awards (TLA)-2015 - Printed Wiring Board Technology The category of Defence, Aviation and Space	2016	2	--
<b>National Ranking</b>				
Istanbul Chamber of Industry	ICI 500 Top Industry Companies	2017	20	23
	ICI 500 - Private Companies	2017	19	21
Fortune Magazine	The Top 500 Companies	2017	41	54
Capital Magazine	The Top 500 Private Companies	2016	65	66
BIST (Borsa Istanbul)	Sustainability Index	2017	No Ranking	
BIST (Borsa Istanbul)	Corporate Management Index	2017	No Ranking	
BIST (Borsa Istanbul)	BIST Top 30 Sequence	2017	10	
TEA (Turkey Exporters' Assembly)	Top 1000 Exporters	2017	108	101
Turkish Time Journey	Study of Research and Development Top 100	2017	1	1
Deloitte	Technology Fast 50 / Big Star Category	2016	1	-
Brand Finance	Most Valuable Firms (100 Brands)	2017	33	46
Bloomberg Businessweek	Top 50 Firms (Between Universities)	2017	4	9
Universum	Ideal Employers (Engineering and Information Technologies- 100 Companies)	2016	4	1
Ministry of Science, Industry and Technology	Top of the Private Sector R&D Centers / R&D Centers Performance Index / Defence Industry Sector	2016	1	1
CDP (Carbon Disclosure Project)	Firms Which Have Well Management of Climate Changes and Highest Greenhouse Gas Emission Performance (Turkey)	2016	No Ranking	
TESİD	Innovativeness and Creativeness Awards, Innovative Product Awards Between Big Firms	2017	No Ranking	

## 17. Progress in investments and degree of incentive utilization if any

### Progress in Investments

Directing the Company's resources to profitable, high value added fields, where advanced technology is used, is anticipated in the first place by considering the global tendencies, technological developments and the actual and prospective requirements of all customers, particularly Turkish Armed Forces. The investments within the Company are carried out after detailed consideration of the technological plans, strategic plans and project requirements.

<sup>1</sup> "Related period" is the year which rankings have been explained.

During the current period, the investments, which will meet the needs of substructure and equipment in order to be used in research and development project have been sustained in compliance with the investment scheme in accordance with the policy of efficient use of resource.

**Incentives that Company has benefitted**

Income tax withholding incentive, insurance premium support, stamp tax exemption and Research and Development incentive are utilized within the scope of the Law numbered 5746. In accordance to the Law regarding the Incentive of Research and Development Activities numbered 6676 published on Official Gazettes numbered 29636 on 26 February 2016 and The Law Regarding the Amendments on Delegated Legislation, the content of the law and incentives has been broadened and additional exceptions has been given. Income tax withholding incentive, insurance premium support and stamp tax exemption is utilized by being calculated over the salaries of the Research and Development personnel and not being paid to the relevant institution and the Research and Development discount is utilized by means of applying a discount on the corporate tax return. Aforesaid law is valid until the date of 31 December 2023.

Within the scope of the Teknokent Law numbered 4691, incentive on withholding income tax, insurance premium support and stamp tax exemption is applied. These are utilized by making calculations on Research and Development and software personnel wages and not being paid to the related institution. The gain obtained with reference to the execution of Technology Development Zones Law numbered 4691 is exempted from the corporate tax of 31 December 2023.

Between the period 1 January-30 June 2017 because of having Research and Development centers, TL 43.602 Thousand within the scope of income tax withholding incentive, promotion of insurance premium, stamp duty exception; as a result of being active at ODTÜ Teknokent, İstanbul Technology Development Area Technopark and ITU Arı Technopark TL 6.461 Thousand incentives have been used.

Within the scope of the Research and Development Law No 5746 and Teknokent Law No 4691, TL 68.273 Thousand Corporate Tax advantage has been gained as of 1 January-30 June 2017 period.

At periods when Group's Research and Development expenses, which is subject of Research and Development discount, is higher than the principal amount of Research and Development discount which is indicated at corporate tax return, Corporate Tax ratio 20% of distinction amount is evaluated as deferred tax income at financial tables.

The 1501 Industrial Research and Development Projects Support Programme has been established in order to encourage the Research and Development operations of the companies creating added values at company level and to contribute to the enhancement of the Research and Development ability of the Turkish industry by this means. Projects within the scope of 1511-Prioritized fields' research technologies development and innovation programme came into force as of 2013. The support process of the projects have been initiated as of July 2010 by 1509 EUREKA-International Industrial Research and Development Projects Support Program where market oriented projects for developing products and processes to be commercialized in short term are supported the Group

have benefited from the incentives. In addition to these, TÜBİTAK 1003 Research Support programs were implemented within the scope of the projects entered into implementation in 2017 and the Company benefited from the incentives. (TL 7.045 Thousand)

Within the scope of SAN-TEZ Research and Development support programme aimed at supporting the postgraduate and/or doctorate thesis works which shall contribute to increasing the competitiveness in international markets by means of commercializing the scientific studies at the universities and institutionalizing the University – Industry cooperation, 4 Projects are ongoing.

The 1007 Public Institutions Research and Development Project Support Program has been formed in order to meet the requirements of the Public Institutions with Research and Development or to support the projects aimed at solving their problems. In scope of this support 8 Research and Development projects are still ongoing.

Within the context of the European Commission 7<sup>th</sup> Cooperation Framework Programs, 6 integration projects were executed. In the “Circulation of the Researchers, Return Grants; Individual Support Private Programme” within the scope of the European Commission 7<sup>th</sup> Cooperation Framework Programmes, 4 projects have gone into effect in the years 2010 and 2011.

Expenses regarding the foreign market research travels realized with respect to the products and the foreign office expenses are used up by the rate and amount of subsidies implemented within the scope of Governmental Grants for Export. (TL 404 Thousand)

Within the Decision Regarding the Governmental Grant in Investments, there are 6 Investment Incentive Certificates taken from the Turkish Republic Prime Ministry Under secretariat for Treasury General Directorate of Incentives and Implementation. With such incentive certificates, VAT exemption and customs tax exclusion are utilized. (TL 1.527 Thousand)

VAT exemption is applied in domestic and foreign purchases and customs tax exemption is used in foreign purchases. (TL 20.193 Thousand)

In order to increase exports and gaining competitive power in international area within the context of Export Incentive Applications, the Company uses the exemption of contract stamp tax and decision stamps in the scope of Taxation, and Duty Exemption Certificate (VRHİB) and Outbound Processing Permit. (TL 7.356 Thousand)

The sources, amounts and types of the incentives utilized are summarized in the table below collectively.

The Source of Incentives	Type of Advantage	30 June 2017 The Amount (Thousand TL)
Research and Development Promotion Law numbered 5746 and Teknopark Law numbered 4691	Income tax withholding, Insurance Premium, Stamp Tax	68.273
Research and Development Promotion Law numbered 5746	Corporate Income Tax	43.602
VAT Law numbered 3065	VAT Return	20.193
Stamp Duty Law numbered 488	Export Incentive Applications	7.356
Support Programme (TÜBİTAK 1501,1511,1509)	Monetary Support	7.045
Teknopark Law numbered 4691	Income tax withholding, Insurance Premium, Stamp Tax	6.461
Ministry Of Economy Investment Incentive	VAT and Customs Duty Exemptions	1.527
Ministry Of Economy Fair and Market Research Incentives	Monetary Support	404
<b>TOTAL</b>		<b>154.861</b>

**18. Explanations including the qualities of the production units of the company along with the capacity utilization rates and their developments, general capacity utilization rate, developments in the manufacturing of the products and services which are subjects to activity, amounts, quality, circulation and the prices compared with the previous period figures**

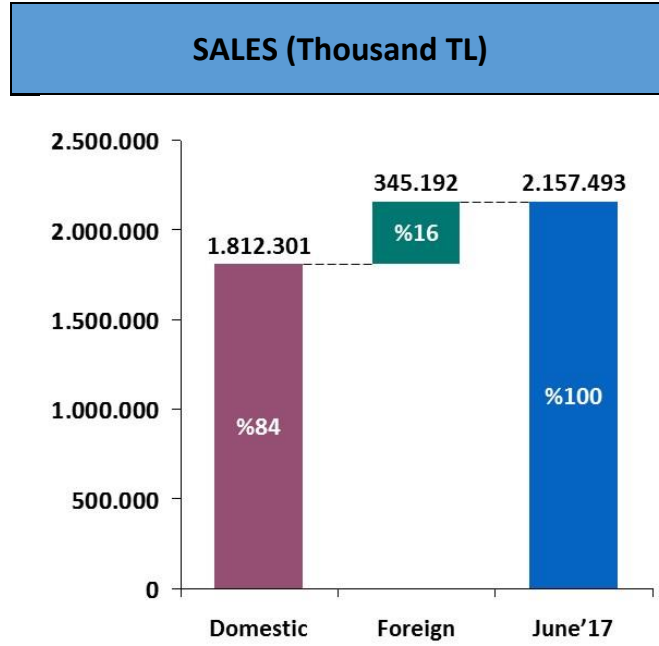
The capacity utilization for the period 1 January - 30 June 2017 was realized at the level of 101%. Substantial part of the production has occurred as order based production. Research and Development activities are carried out for the products designed to be tailored through customer requirements. There is variation between qualities, quantities and prices between the systems and the products. The production processes have been managed more efficiently upon the usage of Enterprise Resource Planning System (ERPS).

**19. The prices, sales revenues, sales conditions of the products and services which are subjects of activity with their improvements within the year, developments in the yield and productivity parameters and the reasons of the substantial changes in these compared to the previous years**

The Company carries out its operations in the basic fields of: "Communication and Information Technologies", "Defense System Technologies", "Radar, Electronic Warfare and Intelligence Systems", "Microelectronics Guidance and Electro-Optics" and "Transportation, Security, Energy and Automation".

According to the relevant sales agreement terms and conditions, the Company's revenue from projects contains order based production, mass production product sales, services, commodities and progress billing sales. Sales terms and conditions are subject to change as for the respective agreements.

As for the consolidated amount of the Group's realized net sales during the period 1 January - 30 June 2017; TL 1.812.301 Thousand of this realized as domestic sales and TL 345.192 Thousand of it realized as foreign sales.



**20. The basic ratios regarding profitability and liabilities, as calculated on the basis of the financial statements, sales, efficiency, income generation capacity, profitability and liabilities/equity ratios in comparison basis with prior period and information about other matters and future expectations and risks that have been prepared in accordance with Capital Markets Board Communiqué Series: II and No:14.1**

As of 30 June 2017, the Group's financial statements prepared in accordance with the Communiqué Series II, No: 14.1 "Communiqué on Capital Market Financial Reporting Standards" issued by Capital Markets Board, Gross margin is 24%, Operating profit margin (EBIT) is 16%, EBITDA margin is 19% and Net Profit margin is 26%. At the end of the 2<sup>nd</sup> Quarter, Return on Equity (ROE) is 31% and Average Net Working Capital/ Net Sales is 39%.

<b>BASIC RATIOS / CONSOLIDATED FINANCIAL STATEMENT</b>	<b>30 June 2017</b>	<b>31 December 2016</b>
Current Ratio	1,9	2,3
Liquidity Ratio	0,9	1,5
Short Term Current Liabilities / Total Financial Liabilities	80%	75%
Total Financial Liabilities / Total Assets	5%	6%
<b>BASIC RATIOS / CONSOLIDATED BALANCE SHEET</b>	<b>30 June 2017</b>	<b>30 June 2016</b>
Gross Profit Margin	24%	26%
Operating Profit Margin (EBIT)	16%	16%
EBITDA Margin	19%	19%
Net Profit Margin	26%	17%
Return On Equity (ROE)	31%	12%
Average Net Working Capital / Net Sales	39%	58%
EBITDA / Average Net Working Capital	50%	34%

The liabilities of the Group are mainly consist of the short and long term order advances received.

## 21. Measures planned to be taken to improve the financial structure of the company

As for the annual budgets and implementations for the period 2017-2019, the Group has adopted the principles as the basis to take care of savings in all kinds of expenditures, to follow up the advances and receivables closely, to pay attention to the proportion of the term and currency in purchasing and sales agreements and the risk status of the domestic/foreign suppliers and sub-contractors.

**22. Changes in the top management within the period and the names and surnames of those on duty**

Changes in the top management within the period 1 January - 30 June 2017 and information regarding the ones on duty are given in the below table:

LIST OF UPPER MANAGEMENT IN SERVICE			
No	Name Surname	Duty	Date of Appointment
1	İbrahim ÖZKOL	Chairman/Independent Member of the Board of Directors	15 March 2017
2	Mustafa Murat ŞEKER	Vice Chairman/Executive Member of the Board of Directors	15 May 2013
3	Ziya AKBAŞ	Independent Member of the Board of Directors	31 March 2014
4	Ercümend ARVAS	Independent Member of the Board of Directors	31 March 2016
5	Bayram GENÇCAN	Member of the Board of Directors	15 March 2017
6	Haluk GÖRGÜN	Member of the Board of Directors	15 March 2017
7	Emin Sami ÖRGÜÇ	Member of the Board of Directors	15 March 2017
8	Ercan TOPACA	Member of the Board of Directors	15 March 2017
9	Murat ÜÇÜNCÜ	Executive Member of the Board of Directors	15 May 2013
10	Faik EKEN	CEO/President	24 July 2014
11	Okan TURAN	CFO/Vice President (Financial Management)	4 January 2016
12	Yavuz BAYIZ	Division CEO/Vice President (Communication & Information Technologies Business Sector)	1 September 2014
13	Alper ÜNSOY	Division CEO/Vice President (Microelectronics, Guidance & Electro-Optics Business Sector)	25 May 2017
13	Baki ŞENSOY		1 September 2014
14	Oğuz ŞENER	Division CEO/Vice President (Radar & Electronic Warfare Systems Business Sector)	1 September 2014
15	Mustafa KAVAL	Division CEO/Vice President (Defense Systems Technologies Business Sector)	1 September 2014
16	Yavuz Suat BENGÜR	Division CEO/Vice President (Transportation, Security, Energy & Automation Systems Business Sector)	1 September 2014
17	Hezarfen ORUÇ	Division CEO/Vice President (Support Services)	1 September 2014
18	Mehmet Çelik	Division CEO/Vice President (R&D and Technology Management)	14 May 2017
19	Hüseyin YAVUZ	Division CEO/Vice President (Human Resource Management)	1 September 2014
20	Abdülkadir GÖKTAŞ	Internal Audit President	1 September 2014

**23. Total amounts of the financial benefits such as attendance fee, remuneration, premium, bonus payments, share profit provided to the managing members and senior executives**

The total amount of the remuneration and similar benefits paid to the senior executives by the Company as for the period that ended on 30 June 2017 is TL 4.972 Thousand.

In the table below, the annual gross total amount of the wages paid to the members of the Company's Main Shareholder Board of Directors and the interests of private health insurance are given.

<b>ASELSAN ELECTRONICS INDUSTRY AND TRADE INC. LIST OF TOTAL AMOUNT OF FINANCIAL BENEFITS PROVIDED TO THE BOD MEMBERS AND HIGHER LEVEL EXECUTIVES</b>			
<b>No</b>	<b>Name Surname</b>	<b>Duty</b>	<b>Total Amount Paid Thousand TL (Wage and Health Insurance)</b>
1	İbrahim ÖZKOL	BOD Chairman/Executive Member (Assignment Date 15.03.2017)	13
2	Mustafa Murat ŞEKER	BOD Vice Chairman/Executive Member	22
3	Ziya AKBAŞ	BOD Member	23
4	Ercümend ARVAS	BOD Member	25
5	Bayram GENÇCAN	BOD Member (Assignment Date 15.03.2017)	13
6	Haluk GÖRGÜN	BOD Member (Assignment Date 15.03.2017)	13
7	Emin Sami ÖRGÜÇ	BOD Member (Assignment Date 15.03.2017)	13
8	Ercan TOPACA	BOD Member (Assignment Date 15.03.2017)	13
9	Murat ÜÇÜNCÜ	BOD Executive Member (End of Assignment Date 15.03.2017)	23
10	Nazım ALTINTAŞ	BOD Member (End of Assignment Date 15.03.2017)	9
11	Mehmet Celalettin LEKESİZ	BOD Member (End of Assignment Date 15.03.2017)	14
12	Turan EROL	BOD Member (End of Assignment Date 15.03.2017)	9
13	İsmail GÜMÜŞTEKİN	BOD Member (End of Assignment Date 15.03.2017)	9
14	Sedat NAZLIBİLEK	BOD Member (End of Assignment Date 15.03.2017)	9
15	CEO/President and Vice Presidents	Higher Level Executives	3.022
<b>TOTAL</b>			<b>3.230</b>

**24. Information regarding the allowances granted to the managing members and the senior executives with the travel, accommodation and representation expenses and financial benefits in kind, insurances and total amounts of the similar benefits**

Total amount of domestic and foreign allowances, travel, accommodation and representation expenses and financial benefits in kind and total amounts of insurances granted to the senior executives and members of the Board of Directors of the Group for the period ended by 30 June 2017 is TL 955 Thousand.

**25. Personnel and workers turnover, collective agreement implementations, rights and benefits provided to the personnel and workers**

The Group recruited a total number of 246 people (111 with fixed term contract) as the personnel including fixed-term contracted personnel, disabled and terror-stricken personnel during the period



1 January - 30 June 2017 and the number of people quit for the same period is 186 (11 with fixed-term contracted).

The rights and benefits provided to the personnel by the Company are bonus payments, meal allowances, marriage benefits, maternity benefits, death allowances, transportation, private health insurance, childcare, and kindergarten benefits. The average number of personnel employed by the Group as of 30 June 2017 is 5.358. There is no collective bargaining agreement in the Company.

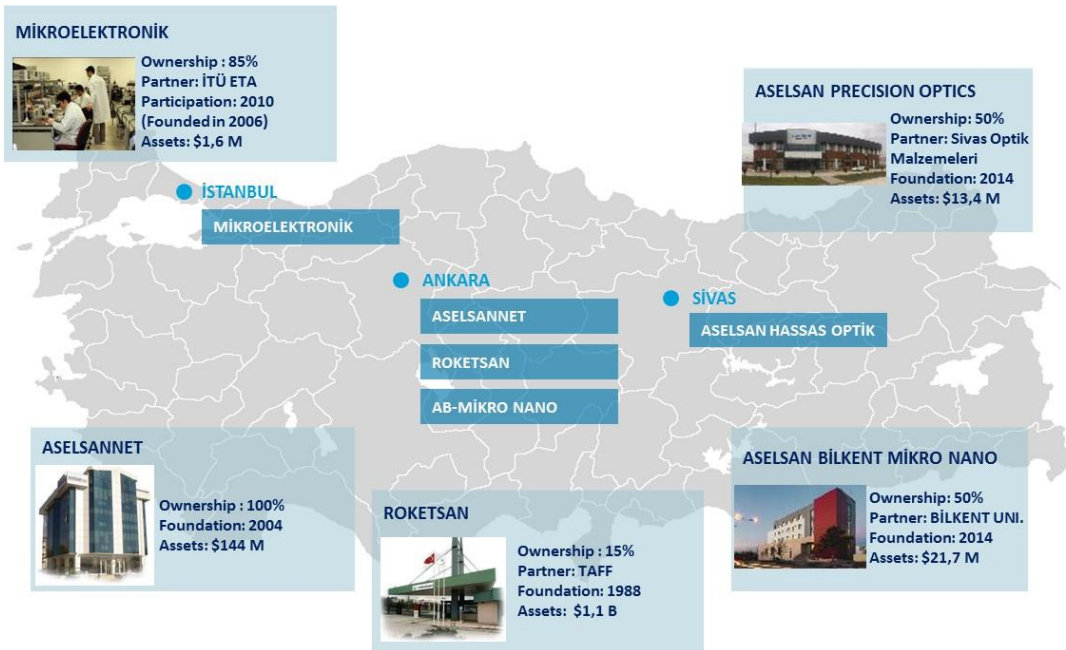
## 26. Information regarding the donations within the year and social responsibility

Within the period of 1 January 2017 - 30 June 2017, the Group donated TL 10.000 in total.

## 27. Information on Business Partnerships, Associates, Subsidiaries, Joint Ventures and Branches

- The Republic of Turkey, Sivas, ASELSAN-Optics Joint Venture
- The Republic of Turkey, ASELSAN-Bilkent Joint Venture
- Jordan, Amman, ASELSAN-Jordan Joint Venture
- Kazakhstan, Astana, ASELSAN-Kazakhstan Joint Venture
- United Arab Emirates; Abu Dhabi, IGG ASELSAN Joint Venture
- Saudi Arabia; Riyadh, SADEC LLC Joint Venture
- Republic of South Africa; Pretoria Branch
- Republic of Macedonia; Skopje Branch
- United Arab Emirates; Abu Dhabi Office
- Saudi Arabia, Riyadh Office

### • Domestic Associates and Subsidiaries



- **Foreign Associates and Subsidiaries**



## 28. Information regarding the shares of the companies subject to consolidation in the parent company

There is no cross ownership relation between the companies subject to full consolidation (ASELSAN NET, ASELSAN BAKU and Mikro AR-GE) and equity pick-up method consolidation (ASELSAN Bilkent, ASELSAN Optik, IGG ASELSAN, ASELSAN Kazakhstan, ASELSAN Jordan and SADEC LLC) and the Company.

## 29. As for the preparation process of the consolidated financial statements; comments with respect to the principal factors of the internal audit, internal control and risk management systems of the Group and opinion of the managing body

The controls are carried out by the Internal Audit Presidency (IAP), Audit Committee and members of the Board of Auditors within the parent company in order to minimize the substantial error risk on the financial statements of the Group. IAP and Audit Committee carry out their duties independent from each other but within the guidance of common objectives and targets, with the aim of maintaining an internal control system, which provides required controls in matters such as the reliability of the financial reporting system, the efficiency of the activities in order to eliminate the operational risks and compliance with the law. Furthermore, the efficiency and sufficiency of the internal control are supported with the directives in effect.

The Committee for Early Determination and Management of Risks' mission is to determine and manage the potential risks which may affect the Company. The committee meets on a periodical basis and directly reports in every two months to the Board of Directors. The report is also shared with the independent audit firm. The Corporate Risk Taking and Internal Control Department operates under the Financial Management Vice Presidency with a mission to coordinate the work of

committee and to carry on a comprehensive and integrative internal control process in order to manage the potential risks effectively. The activities are defined in the company by the guidelines.

**30. Direct and indirect affiliates of the company and information regarding the share ratios**

The Group own 100% of ASELSANNET and ASELSAN Bakü and 85% of Mikro AR-GE, thus these companies are subject to the full consolidation.

The affiliated partnerships, subsidiaries subject to joint management and affiliates of the Group recorded as financial investments with their participation ratios and amounts are as follows:

Company	Main Activity Area	Share (%)	30 June 2017 (Thousand TL)
ROKETSAN-Roket Sanayi ve Ticaret A. Ş.	All kinds of missiles, rockets, guided ammunition and their launch systems and propulsion systems and rocket fuels, guidance and control systems, algorithms and softwares related to these systems, warheads and other parts of these systems, all kinds of plugs and all kinds of ballistic protection (armor) system	14,897	516.032
ASELSAN Kazakhstan	Manufacture, sale and technical service of electronic and electro-optical devices and systems	49	36.494
ASELSAN Jordan	Marketing sales and joint production of group products	49	12.629
SADEC LLC	Manufacture and sale of radar, electronic warfare and electrooptic products	50	9.627
ASELSAN Bilkent	Manufacture of micro and nano-sized devices containing semiconductors and similar technological materials	50	8.869
ASELSAN Optik	Precision optic technology	50	6.810
ASPILSAN Askeri Pil Sanayi ve Ticaret A. Ş.	Manufacture and sale of Ni-Cd, Ni-MH, Li-Ion battery / battery blocks and aircraft battery systems	1	147
IGG ASELSAN <sup>1</sup>	Production, integration, sales and technical service of high technology products	49	--

**31. Information regarding the company's own shares acquired by itself**

There has not been such an event within the period.

**32. Comments with respect to the private audit and governmental audit realized within the activity period**

There has not been such the private and governmental audit within the period.

<sup>1</sup> As of 30 June 2017, IGG ASELSAN's equity is of negative value therefore subsidiary capital share amounts have not been disclosed.

**33. Information regarding the lawsuits filed against the company which would have an impact on the financial position and activities of the Group and their possible outcomes**

The lawsuits and execution proceedings filed by or against the Group as of 30 June 2017 are summarized below:

Description	30 June 2017 (Thousand TL)
Ongoing lawsuits filed by the Group	854
Execution proceedings carried on by the Group	8.533
Lawsuits proceedings carried against the Group	6.851
Lawsuits finalized in favor of the Group within the period	916
Lawsuits finalized against the Group within the period	100

**34. Explanations with respect to the administrative and judicial sanctions applied to the company and the managing members due to the acts contrary to the legislation provisions**

No penalties with substantial amounts were paid by the Group within the period.

**35. If it is an affiliate company, the legal transactions carried out in favor of the parent company or its affiliate with the parent company, with an affiliate company connected to the parent company with the direction of the parent company and all other measures taken or avoided to be taken in favor of the parent company or its affiliate in the previous activity year**

There has not been such an event within the period.

**36. If it is an affiliate company, whether any counter performance was realized for each legal transaction according to the known status and conditions at the time the legal transaction mentioned in article 35 was realized or at the time the measures were taken or avoided to be taken and whether the company incurred losses due to the taken or avoided measure and if the company incurred losses to observe whether this was equalized or not**

There has not been any material event that affects the Company's financial statements within the period.

**37. The determination and management's assessment with respect to the company's unpaid capital or whether the company is deeply in debt**

There has not been such an event within the period.

**38. The status of owning directly or indirectly five, ten, twenty, twenty five, thirty three, fifty, sixty seven or one hundred percent of the shares representing the capital of an equity company or in the event that the proportions go below these percentages and ground for this**

There has not been such an event within the period.

**39. Related party transactions**

Detailed table is disclosed in Note 4 in condensed Consolidated Financial Statements of 30 June 2017.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.**

**SIGNATURE SECTION OF ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD  
BETWEEN 1 JANUARY – 30 JUNE 2017**

İbrahim ÖZKOL  
Chairman of the Board of  
Directors

Mustafa Murat ŞEKER  
Vice Chairman of the Board of  
Directors

Ziya AKBAŞ  
Member of the Board of  
Directors

Ercümend ARVAS  
Member of the Board of  
Directors

Bayram GENÇCAN  
Member of the Board of  
Directors

Haluk GÖRGÜN  
Member of the Board of  
Directors

Emin Sami ÖRGÜÇ  
Member of the Board of  
Directors

Ercan TOPACA  
Member of the Board of  
Directors  
(Not Attended)

Murat ÜÇÜNCÜ  
Member of the Board of  
Directors