

aselsan

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

**REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN
1 JANUARY – 30 SEPTEMBER 2020**

Content

Page Number

1.	Principles of Preparation.....	1
2.	Company Information and Organizational Structure.....	1
3.	The Company's Shareholder Structure	3
a.	Members of the Board of Directors and Senior Executives.....	4
b.	Information on Business Partnerships, Associates, Subsidiaries, Joint Ventures and Branches	7
4.	Main Factors That Affect the Performance, Investment and Dividend Policy of the Company	9
5.	Enterprise Risk Management	11
a.	Main Risk Categories.....	11
b.	Early Detection and Management of Risk Committee Works	12
6.	Financial Information of the Company	12
a.	Financial Resources of the Company.....	13
b.	Research and Development Activities	13
c.	Progress in Investments and Degree of Incentive Utilization.....	14
i.	Investments	14
ii.	Incentives.....	14
d.	Revenue.....	16
e.	Financial Ratios	16
7.	Changes in the Legislation Which Would Have Significant Impact on the Activities of the Company ...	16
8.	Compliance Report on Corporate Governance Principles	17
9.	Information Regarding the Lawsuits of the Group	17
10.	Information Regarding the Transactions Made within the Reporting Period.....	17
a.	Changes in the Articles of Association.....	17
b.	Collective Agreement Implementations, Rights and Benefits Provided to the Personnel and Workers	17
c.	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.....	17
d.	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 iii 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.....	18
e.	Information Regarding the Donations and Social Responsibility	18
11.	Events After the Reporting Period.....	18

1. Principles of Preparation

The interim 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 report comprises the events took place during the period 1 January – 30 September 2020. The title of the main shareholder in the report is ASELSAN Elektronik Sanayi ve Ticaret A.Ş and will be referred as “the Company” in the accompanying notes.

The Company’s consolidated subsidiaries are ASELSAN Baku (“ASELSAN Baku”), Mikroelektronik Ar-Ge Tasarım ve Ticaret Ltd. Co. (“Mikro AR-GE”), ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Ltd. Co. (“ASELSANNET”), ASELSAN Malaysia Sdn. Bhd. (“ASELSAN Malaysia”), ASELSAN Konya Silah Sistemleri Anonim Şirketi (“ASELSAN Konya”), BITES Savunma Havacılık ve Uzay Teknolojileri Yazılım A.Ş. (“BITES”), ASELSAN Global A.Ş. (“GLOBAL”), ULAK Haberleşme A.Ş. (“ULAK”) and ASELSAN Ukraine LLC (“ASELSAN Ukraine”). Three branch offices; Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi EP Co. (“ASELSAN South Africa”), ASELSAN Makedonya Corridor-10 Highway Toll Collection System Project (“ASELSAN Macedonia”) and ASELSAN Kıbrıs İleri Teknolojiler Araştırma Merkezi (“ASELSAN Cyprus”) located in South Africa, Macedonia and Turkish Republic of Northern Cyprus (“TRNC”), respectively.

They are collectively referred as the “Group” in the accompanying notes.

2. Company Information and Organizational Structure

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 Turkish Armed Forces Foundation (“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, medical systems, electro-optic systems and products.

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, Automation and Medical 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 Management Vice Presidency, Technology and Strategy Vice Presidency and Business Development and Marketing Vice Presidency; in addition to these Vice Presidencies there are also Legal Affairs and Office Of The Private Secretary.

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

The Company maintains production and engineering operations in Ankara, Macunköy, Akyurt and Gölbaşı campuses and engineering operations in METU Teknokent, Hacettepe Teknokent, Teknopark Ankara and Teknopark İstanbul. General Management is located in Ankara Macunköy campus.

Rankings of Company's international, nation-wide, sectorial rating systems are shown below;

Corporation	Research / Study	Related Period	Ranking	
			Current	Prior
• International Rankings				
Defense News Magazine	Defense News Top 100	2020	48	52
SIPRI	SIPRI Top 100	2019	54	62
European Commission	Industrial R&D Investment Scoreboard Top 2500	2019	1.356	1.111
• National Rankings				
Istanbul Chamber of Industry	ICI 500 Top Industrial Entreprises	2020	11	15
	ICI 500 - Private Entreprises	2020	11	15
Fortune Magazine	Top 500 Companies	2020	25	32
Capital Magazine	Top 500 Private Companies	2020	35	42
BIST (Borsa Istanbul)	Sustainability Index	2020	No Ranking	
	Corporate Management Index	2020	No Ranking	
	BIST Top 30 Index	2020	No Ranking	
	BIST Top 30 Market Value Ranking	2020	1	12
TEA (Turkish Exporters Assembly)	Top 1000 Exporters	2020	81	108
Turkish Time Journal	Research and Development Expenditures Turkey Top 100	2020	2	1
Deloitte	Technology Fast 50 / Big Star Category	2019	No Ranking	
Brand Finance	Most Valuable Firms (100 Brands)	2019	30	33
Bloomberg Businessweek	Top 50 Firms (Between Universities)	2020	5	7
Universum	Ideal Employers (Engineering and IT)- 100 Companies)	2020	1	1
CDP (Carbon Disclosure Project)	Climate Change Ranking (Turkey)	2020	Our Company is among the first 5 companies in "CDP Turkey Leaders"	

Commercial title and trade registration number of the company and contact information pertaining to its headquarters, branches and its website addresses are shown below;

Company	Type	Country/City	Trade Register No	Address	Telephone/Fax	Web site
ASELSAN Elektronik Sanayi ve Ticaret A.Ş.	Headquarters	Turkey /Ankara	31177	Mehmet Akif Ersoy Mahallesi 296. Cad. No:16 06200 Yenimahalle/Ankara	Tel: +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	Tel: +27 (0) 12 349 2613 Fax: +27 (0) 12 349 2544	--
ASELSAN Macedonia Branch	Branch	Macedonia/ Skopje	--	Ankarska 29A, 1000 Skopje/Macedonia	--	--
ASELSAN Cyprus Advanced Technology Research Center	Branch	TRNC/ Güzelyurt	--	Orta Doğu Teknik Üniversitesi Kuzey Kıbrıs Kampüsü ODTÜ KALTEV AR-GE Binası No: E-19 99738 Kalkanlı/Güzelyurt/Turkish Republic of Northern Cyprus	--	www.aselsan.com.tr

3. The Company's Shareholder Structure

Registered capital ceiling of the Company is TL 2.000.000.000 (TL two billion). The nominal capital of the Company is TL 2.280.000.000 (TL two billion, two hundred and eighty million) and is divided into 2.280.000.000 (two billion, two hundred and eighty million) shares, each having a nominal value of 1 TL.

1.210.909.090 (one billion, two hundred and ten million, nine hundred and nine thousand and ninety) of the shares are Group A shares and 1.069.090.910 (one billion, sixty nine million, ninety thousand and nine hundred and ten) 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.

In the accounting period, in line with the resolution of the Ordinary General Assembly of the Company, dated 19.06.2020, regarding the distribution of %100 shares of the Company's issued capital in the form of non-paid up shares to shareholders as dividend, it was resolved that the issued Capital of the Company shall be increased from TL 1.140.000.000 to TL 2.280.000.000

After the capital increase, updated share distribution table of the Shareholders is presented as below.

Partners	Share (%)	30 September 2020 (TL Thousand)	Share (%)	31 December 2019 (TL Thousand)
Turkish Armed Forces Foundation (TSKGV)	74,20	1.691.652	74,20	845.826
Quoted on BIST (Free float)	25,80	588.348	25,80	294.174
Paid-in capital	100	2.280.000	100	1.140.000
Inflation adjusted capital	--	2.378.621	--	1.238.621

a. Members of the Board of Directors and Senior Executives

Within the framework of the provisions of the Company's Articles of Association, the Board of Directors consists of total 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 and Senior Executives as of publishing date of the report are as follows:

MEMBERS OF THE BOARD OF DIRECTORS and SENIOR EXECUTIVES				
List No	Name and Surname	Position	Positions In Other Company's	Date of First Assignment
1.	Haluk GÖRGÜN	Chairman of the Board/ Executive Director/CEO	Member of the Board of Directors of IGG ASELSAN Integrated Systems LLC, Member of the Board of Directors of SASAD, Vice Chairman of the Board of Directors of Saudi Arabian Defense and Electronics Company LLC, Member of the Board of Directors of BARQ	15 March 2017
2.	Celal Sami TÜFEKÇİ	Deputy Chairman of the Board/ Executive Director	Vice President at Presidency of Defence Industries, Chairman of the Board of Directors of ULAK A.Ş., Chairman of the Board of Directors of TEKNOHAB Teknoloji Geliştirme Bölgesi Yönetici A.Ş., Chairman of the Board of Ankara Aerospace Industrial Zone, Member of the Board of Directors of METU MEMS	2 April 2018
3.	Ercüment ARVAS	Independent Member	Professor at İstanbul Medipol University Electrical Engineering Department	31 March 2016
4.	Yavuz ÇELİK	Member	--	19 June 2020
5.	Turan EROL	Independent Member	Professor at İstanbul Sabahattin Zaim University Business and Management Sciences Faculty	19 June 2020
6.	Mehmet Fatih KACIR	Member	Deputy Minister of Republic of Turkey Ministry of Industry and Technology, Member of Board of Trustees of Turkey Technology Team Foundation, Member of the Board of Directors of E-Sports Federation, Member of the Board of Directors Prof. Dr. Fuat Sezgin Islamic Science History Research Foundation	26 April 2019
7.	Alpaslan KAVAKLIOĞLU	Member	Deputy Minister of Ministry of Defense, Member of the Board of Directors of Turkish Parliamentarians Union	26 April 2019
8.	Salih KUL	Member	--	26 April 2019
9.	İbrahim ÖZKOL	Independent Member	Professor at İstanbul Technical University Department of Aeronautical Engineering, ARC Center Director, Founder Manager of İTÜ Aviation Institute	15 March 2017
10.	Mehmet Fatih GÜÇLÜ	Vice General Manager (Financial Management)	Member of the Board of Directors of Saudi Arabian Defense and Electronics Company LLC, Member of the Board of Directors of Bites Savunma Havacılık Ve Uzay Teknolojileri Yazılım Elektronik Ticaret A.Ş.	1 October 2019
11.	Bayram GENÇCAN	Vice General Manager (HBT Sector President)	--	15 March 2017
12.	Sezai ELAĞÖZ	Vice General Manager (MGEO Sector President)	ASELSAN Middle East Psc Ltd Vice Chairman, Member of the Board of Directors of ASELSAN Bilkent Mikro Nano A.Ş., Chairman of Board of Directors of ASELSAN Hassas Optik A.Ş., Member of the Board of Directors of TÜBİTAK R&D Support and Process Management Services Group, Member of the Board of Directors Tüyar A.Ş. (Yital A.Ş.)	18 July 2018
13.	Mustafa KAVAL	Vice General Manager (SST Sector President)	Vice President of the Board of Directors of IGG ASELSAN Integrated Systems LLC, Member of the Board of Directors of Kazakhstan ASELSAN Engineering LLP, Member of the Board of Directors of Defence and Aerospace Ministry Exporters' Association, Chairman of the Board of the Directors of ASELSAN Konya Silah Sistemleri A.Ş., Member of the Board of Directors of BARQ	1 September 2014
14.	Oğuz ŞENER	Vice General Manager (REHİS Sector President)	Vice Chairman of ASELSAN Bilkent Mikro Nano A.Ş., Chairman of the Board of Managers of Mikroelektronik	1 September 2014
15.	Mehmet ÇELİK	Vice General Manager (Technology & Strategy Management)	Member of CoHe, Teaching Professor in KTO Karatay University Mechanical Engineering Department, Member of Presidency of Science, Technology and Innovation Technology Policy Board, Member of the Board of the Directors of ASELSAN Konya Silah Sistemleri A.Ş., Chairman of the Board of Directors of TR Eğitim ve Teknoloji A.Ş.	14 May 2017
16.	İbrahim BEKAR	Vice General Manager (UGES Sector President)	Member of the Board of Managers of Aselsanet, Member of the Board of Directors of ASELSAN Hassas Optik A.Ş., Advisory Board Member of Özyeğin University Mechanical Engineering Department, Advisory Board Member of Medipol University Faculty of Engineering and Natural Sciences Department of Biomedical Engineering, Member of Technology Advisory Commission of Information Valley	12 February 2018
17.	Hakan KARATAŞ	Vice General Manager (Corporate Management)	Associate Professor in UAK, Member of the Board of Directors of Teknohab Teknoloji Geliştirme Bölgesi Yönetici A.Ş.	2 July 2018
18.	Osman Devrim FİDANCI	Vice General Manager (Business Development and Marketing)	Chairman of the Board of Directors of ASELSAN Global Dış Ticaret ve Pazarlama A.Ş., Vice Chairman of the Board of Directors Of ULAK A.Ş., Member of the Board of Directors of ASELSAN Middle East Psc Ltd, Institute of Electrical and Electronics Engineers (IEEE), Association of Record for Bid, Proposal, Business Development, Capture and Graphics Professionals (Apmp)	1 February 2019
19.	Abdülkadir GÖKTAŞ	Internal Audit President	--	1 September 2014

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.

The controls are carried out by the Internal Audit Presidency (“IAP”) and Audit Committee 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.

Total Amount of the Financial Benefits Given To 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 September 2020 is TL 18.703 Thousand.

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 September 2020 is TL 278 Thousand.

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

The Company's consolidated subsidiaries are ASELSAN Baku ("ASELSAN Baku"), Mikroelektronik Ar-Ge Tasarım ve Ticaret Ltd. Co. ("Mikro AR-GE"), ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Ltd. Co. ("ASELSANNET"), ASELSAN Malaysia Sdn. Bhd. ("ASELSAN Malaysia"), Aselsan Konya Silah Sistemleri Anonim Şirketi ("ASELSAN Konya"), BİTES Savunma Havacılık ve Uzay Teknolojileri Yazılım A.Ş. ("BİTES"), ASELSAN Global A.Ş. ("GLOBAL"), ULAK Haberleşme A.Ş. ("ULAK"), ASELSAN Ukraine LLC. ("ASELSAN Ukraine") and Macedonia, South Africa and Turkish Republic of Northern Cyprus branches.

The Company has three branch offices; Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi EP Co. ("ASELSAN South Africa") located in South Africa, ASELSAN Makedonya Corridor-10 Highway Toll Collection System Project ("ASELSAN Macedonia") located in Macedonia and ASELSAN Kıbrıs İleri Teknolojiler Araştırma Merkezi ("ASELSAN Kıbrıs") and Turkish Republic of Northern Cyprus ("TRNC") located in Cyprus, respectively. The branches are included in the consolidated financial statements.

Subsidiaries	Main Activity	Share (%)
ASELSANNET	Communication systems	100
ASELSAN Baku	Marketing and sales of the group products	100
ASELSAN Global	Export	100
ASELSAN Malaysia	Remote controlled weapon systems	100
ASELSAN Ukraine	Marketing and sales of the group products	100
Mikro AR-GE	Microelectronics R&D projects	85
ASELSAN Konya	Weapon and weapon systems	51
BİTES	Defence, civil aviation, space technologies, softwares	51
ULAK	Communication systems	51

ASELSAN Hassas Optik Sanayi ve Ticaret A.Ş. ("ASELSAN Optik"), ASELSAN Bilkent Mikro Nano Teknolojileri Sanayi ve Ticaret A.Ş. ("ASELSAN Bilkent"), IGG ASELSAN Integrated Systems LLC ("IGG ASELSAN"), Kazakhstan ASELSAN Engineering LLP ("ASELSAN Kazakhstan"), ASELSAN Middle East PSC LTD ("ASELSAN Jordan"), Saudi Arabian Defense Electronics Corporation LLC ("SADEC LLC"), BARQ QSTP LLC firması ("BARQ QSTP LLC"), TÜYAR Mikroelektronik Sanayi ve Ticaret A.Ş. ("TÜYAR A.Ş."), Teknohab Teknoloji Geliştirme Bölgesi Yönetici A.Ş. ("TEKNOHAB"), EHSİM Elektronik Harp Sistemleri Müh. Tic. A.Ş. ("EHSİM"), TR Eğitim ve Teknolojileri A.Ş. ("TR Eğitim") and Dasal Havacılık Teknolojileri A.Ş. ("DASAL") are consolidated by the equity method.

The business partnerships and affiliates of the Group recorded as financial investments and investments valued by equity method, with their participation ratios and amounts are as follows;

Company	Main Activity Area	Share (%)	30 September 2020 Group Share of Net Assets (TL Thousand)
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	14,9	987.560
ASELSAN Kazakhstan	Manufacturing, sales and technical services of electronic and electro-optical devices and systems	49	43.155
ASELSAN Jordan	Marketing, sales and joint production of group products	49	21.964
ASELSAN Optik	Precision optic technology	50	13.486
EHSİM	Electronic Warfare and Tactical Command Systems	50	10.640
IGG ASELSAN	Production, integration, sales and technical service of high technology products	49	8.964
TÜYAR A.Ş.	Production of micro and nano-sized devices containing semi-conductor and similar technological materials	51	8.413
ASELSAN Bilkent	Manufacturing of micro and nano-sized devices containing semiconductors and similar technological materials	50	7.364
TEKNOHAB	Creating investment opportunities in technology intensive areas, provide job opportunities to researchers and skilled people, help technology transfers and facilitate to attract foreign capital to country that will enable high technology	15	6.230
SADEC LLC	Manufacturing and sales of radar, electronic warfare and electrooptic products	50	2.043
TR Eğitim ve Teknolojileri	Realizing Human Resources studies, Consultancy with respect to HR studies, accreditation services and trainings for every level, educational, cultural, art, sports, fair organizations and digital marketing operations.	35	1.225
ASPİLSAN Enerji Sanayi ve Ticaret A.Ş.	Manufacturing and sales of Ni-Cd, Ni-MH, Li-Ion battery / battery blocks and aircraft battery systems	1	904
BARQ QSTP LLC	Command and control systems, thermal and night vision camera, crypto, remote-controlled weapon systems	48	834
DASAL A.Ş.	Aviation technologies	40	40

4. Main Factors That Affect the Performance, Investment and Dividend Policy of the Company

The Company carries on its business interests mainly in defense industry as well as in non-defence industry.

According to the latest data, world defense expenditures has increased by 3,6 % reaching USD 1,9 Trillion which is the highest level in the last 31 years and the ratio of expenditures to GDP has realized as 2,2%. The summary table on the right side contains information about the top five countries which accounted for 62% of the defense expenditure in 2019 and Turkey.

Rank	Country	Expenditure (m\$)	2019/18 Change	Expenditure / GDP	Share in the World
	World	1.917	3,6%	2,2%	
1	USA	732	5,3%	3,4%	38,2%
2	China	261	5,1%	1,9%	13,6%
3	India	71	6,8%	2,4%	3,7%
4	Russia	65	4,5%	3,9%	3,4%
5	Saudi Arabia	62	-16,0%	8,0%	3,2%
16	Turkey	20	5,8%	2,7%	1,1%

As of 2019, Turkey's annual defense expenditures increased by 6% to USD 20,4 Billion and ranks 16th in the world. The ratio of defense spending to GDP tends to increase steadily over the years, and reached the highest level of 15 years with a rate of 2.7%.

Due to the industry's nature, defense projects spread over years, furthermore a system project lasts approximately 4 to 5 years from its start to its delivery. As of 30 September 2020 long term plans which have been accordingly signed as contracts spread over years amounts to USD 9,5 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 non-defense electronic fields which require high technology.

The Company's profit distribution policy is posted on www.aselsan.com.tr website under Investor Relations/ Corporate Governance/Policies. According to the policy, at least 10% of the net profit is planned to be distributed.

Resolved at the 45th Ordinary General Assembly Meeting that was held on 19.06.2020 that; of the net profit generated by our company from its activities in 2019;

- In accordance with Article 519/(1) of the Turkish Commercial Code, General Legal Reserves amounting to TL 6.383.631,38 is going to be allocated,

- Out of net distributable profit to the shareholders for the period, calculated in the framework of the dividend distribution regulations and decisions of the Capital Markets Board, gross, TL 335.000.000,- (Kuruş 9,79532 per share of TL 1 and 9,79532% on the basis of the capital) (net TL 284.750.000,- Kuruş 8,32602 per share of TL 1 and 8,32602% on the basis of the capital) shall be distributed in the form of cash and TL 1.140.000.000,- shall be distributed as non paid-up share, which equals to 100% of the capital,

- In accordance with Article 519/(2) of the Turkish Commercial Code, General Legal Reserves amounting to TL 27.800.000,- is going to be allocated,

- The remaining profit is going to be allocated as Extraordinary Legal Reserves,

and distribution of the cash dividends to the shareholders are to be distributed as of July 17, 2020, October 16, 2020, and December 18, 2020 in 3 equal installments and the non paid-up share is to be distributed following the completion of the legal process.

The first installment payment of the dividends was made on 17 July 2020. Transactions regarding the profit distribution within the scope of 100% capital increase by bonus issue were completed on August 5, 2020. The issued capital has increased from TL 1.140.000.000 to TL 2.280.000.000.

COVID - 19

From the first statements announced by the World Health Organization and Ministry of Health of Republic of Turkey regarding the Corona Virus (COVID-19) threat, ASELSAN has taken all the necessary preventive measures and decisions to protect the health of all employees working in its campuses and to provide a suitable working environment for them. Maintaining the health of all employees working in ASELSAN campuses, as well as ensuring the continuity and sustainability of production and design activities in terms of the nature of the area in which it operates and its importance for the country have been determined as the main target.

COVID-19, which has influenced the world and our country, has been at the center of ASELSAN's Corporate Risk Management System. In order to reduce the impact of the outbreak, measures covering all internal and external stakeholders at ASELSAN have been implemented. In addition, all possible effects of epidemic disease on ASELSAN's strategic goals, operations, financial situation, and all laws and regulations it is subject to were evaluated through scenario-based analysis.

ASELSAN, which is Turkey's largest defense electronics organizations operates in a wide area that meets the needs of domestic and foreign authorities especially the Turkish Armed Forces' in the field of communication and information technologies, microelectronics, radar, electronic warfare, electro-optics, avionics systems, unmanned systems, land, naval, army systems, air defense, missile systems, command and control systems, transportation, security, traffic, automation and health technologies. ASELSAN Family continues to work with great faith, determination and sacrifice.

5. Enterprise Risk Management

ASELSAN's Enterprise Risk Management Policy aims; to take proper actions against uncertainties that threaten the existence of the Company and to protect corporate identity and stakeholders' interest at all conditions. Risk management is an integrated element of Corporate Management. The information gathered within the scope of risk management activities in ASELSAN is integrated into decision making mechanisms.

The "top-down" and "bottom-up" approach is being applied into Enterprise Risk Management activities together. Risks, which are significant enough to affect ASELSAN's achievement of its targets, are identified, evaluated, monitored and reported along with the risk responses and precautions to be taken. At ASELSAN; The Enterprise Risk Management process is regularly reviewed and improved. ASELSAN's employees and business processes are at the center of the Enterprise Risk Management System.

At ASELSAN, enterprise risks are followed under four main categories.

a. Main Risk Categories

Strategic Risks: Risks that may prevent ASELSAN from reaching its targets in short, medium or long terms are classified under this heading. Risks under this heading include factors such as; growth and continuity, changing customer expectations, technological changes and market share.

While ASELSAN manages its strategic risks effectively; it aims to increase its backlog, increase exports and to take part in sustainable works. In order to increase ASELSAN's market share and offer new products / services, ASELSAN seizes company mergers / acquisition opportunities both at home and abroad. ASELSAN also conducts business development activities successfully. ASELSAN increases its research and development activities in order to meet changing customer expectations and changes in technology, and realizes the necessary infrastructure and technological investments. ASELSAN diversifies the geographical regions in sales, customer portfolio and the sectors in order to maintain its growth and continuity in the medium and long term.

Operational Risks: It is defined as the risks arising from errors and negligence that may occur while performing the operational activities of the company. Risks under this section include factors such as; production, supply chain, human resources, information technologies, natural disaster and terrorist attacks.

In order to ensure the continuity of the processes, in-house directives and functors have been prepared and necessary updates are being made when needed. Within the scope of the Internal Audit plan and work schedule prepared in ASELSAN, business processes are being audited and process improvements are made in line with the audit outputs.

Quality is not compromised in production processes involving both internal operations and suppliers; subcontractor and supplier development activities are carried on unabated. In terms of managing Human Resources and increasing employee motivation; activities were made with the participation of employees from every level and process improvements were made. Security policies are sustained at the highest level in Information Technology applications. In this area, internal and external audits are carried out periodically and precautions are taken against probable cyber-attacks and in the field of Information Technologies, business continuity in-house is provided.

Regarding risks, such as natural disasters, terrorist attacks, necessary precautions are taken, primarily insurances have been made, and drills are carried out.

Financial Risks: It refers to the risks arising from the financial structure and financial preferences of the company. Exchange rate, liquidity and interest rate risks are some risks under this heading.

The exchange rate risk, which is any kind of change that may occur in assets and / or liabilities as a result of exchange rate fluctuations in the future, ASELSAN aims to minimize the effect of exchange rate fluctuations by keeping the long and short foreign exchange position at a minimum level. The balance sheet methods have been used in managing the exchange rate risk. Implementations such as; making use of foreign exchange denominated loans in line with the company's export volume, matching the contract currency with the currency of the costs of the project, and signing the subcontractor contracts in line with the main contract currency are used.

ASELSAN eliminates the liquidity risk, which is known as the risk arising from default and inability to fund the the assets, it monitors forecasted and actual cash flows regularly and ensures the continuity of adequate funds and credit lines by matching the maturity of financial assets and liabilities. In order to manage the interest rate risk arising from changes in assets and / or liabilities as a result of fluctuations in interest rates in the future, it conducts transactions with fixed interest rates and uses financial derivative instruments when necessary.

Compliance Risks: It refers to the risks associated with the Company's financial losses and / or loss of reputation as a result of the company's activities or the attitudes and behaviors of the company employees that are not in compliance with the legislation, regulations and standards. While conducting its activities, ASELSAN closely follows national and international standards with the best practices in the sector, and compliance with legislation and regulations is ensured at the highest level. In addition, by Internal Audit Presidency; the effectiveness of controls, compliance with legislation and ASELSAN regulations, compliance with ethical principles and controls to eliminate risks are being evaluated.

b. Early Detection and Management of Risk Committee Works

The Early Detection and Management of Risk Committee, which consists of the members of the Board of Directors, has been operating at ASELSAN since 2012 in order to ensure early detection of risks that may endanger the existence, development and continuity of the Company, to take necessary measures related to the identified risks and to manage the risks. The Chairman of the Committee is an Independent Board Member.

Committee; carries out its own activities in full compliance with the regulations of the Capital Markets Board and all the related legislation, especially article 378 of the Turkish Commercial Code No. 6102. In addition, the Early Detection of Risk System and Committee, established by ASELSAN, is subjected to independent audits annually and the Auditor Report stating that the activities performed is sufficient, is submitted to the Board of Directors.

Committee conducted four meetings in 2020 in order to follow the works on early detection and management of risks and to make evaluations about this issue. The reports containing the works of the Committee were being submitted to the Board of Directors periodically.

6. Financial Information of the Company

The forecasts under the normal conditions regarding the Group's consolidated financial results for the 2020 year are presented below;

Financial Targets of 2020*	Financial Targets 2020 (Ratio/Amount)
Consolidated Revenue Growth (TL)	40% - 50%
EBITDA Margin (Consolidated and Adjusted without Foreign Exchange Rate Differences)	20% - 22%
Consolidated Capital Expenditures	TL 1.500 Million

*These expectations are based on the yearly average of USD/TL parity to be 6,18 and EURO/TL parity to be 6,98.

a. 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 the period between 1 January - 30 September 2020, the cash requirements were met with the available cash, cash inflows from operations and Turkish Eximbank Export loans. During the period between 1 January - 30 September 2020, Turkish Eximbank Export loans amounting to EUR 106 Million, USD 50 Million and TL 50 Million with fixed interest rate and commercial bank loans amounting to EUR 149 Million and TL 250 Million with fixed interest rate were used.

As of 30 September 2020, there is a loan balance amounting to USD 400 Million, including USD 180 Million used from Turkish EximBank and USD 220 Million used from commercial banks.

Planned Measures To Improve the Financial Structure of the Company

As for the annual budgets and implementations for the period 2020-2022, 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.

b. Research and Development Activities

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.

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, Research and Development center application pursuant to the Law regarding the support of Research and Development activities numbered 5746 is being implemented. As for non-public R&D projects, the approval of TEYDEB (Technology and Innovation Support Programs Directorate) and ARDEB (Research Support Programs Presidency) are received and supported by the institutions.

Within the Company, there are six 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 and Medical Systems (UGES) Vice Presidencies as well as ASELSAN Research Center of Vice Presidency of Technology and Strategy Management (GY). Currently, 4.101 staff are employed at the Group's Research and Development centers.

The Company also carries on its activities in METU Teknokent, Hacettepe Teknokent, Teknopark Ankara and Teknopark İstanbul within the scope of the Law numbered 4691 on Technology Development Regions. Group employed 711 staff within this region.

c. Progress in Investments and Degree of Incentive Utilization

a. 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.

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.

b. Incentives

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 September 2020 because of having Research and Development centers, TL 163.427 Thousand within the scope of income tax withholding incentive, promotion of insurance premium, stamp duty exception; as a result of being active at METU Teknokent, Hacettepe Teknokent, Teknopark Ankara and Teknopark Istanbul, TL 45.236 Thousand incentives have been used.

Within the scope of the Research and Development Law No 5746 and Teknokent Law No 4691, TL 275.315 Thousand Corporate Tax advantage has been gained as of 1 January - 30 September 2020 period.

At the 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 is 22% for the years 2018 - 2020 and 20% for the next years of distinction amount is evaluated as deferred tax income at financial tables.

Under TÜBİTAK Academic Support Programs, six 1003- Priority Areas R&D Projects and one 1004-Center of Excellence Support Programs are still in progress.

Under TÜBİTAK Public Support Program, nine R&D projects of 1007 Public Entities R&D Projects Support Program, which has the aim of meeting the needs of R&D of Public Entities and supporting of solving their problems as projects, are still in progress.

2232 International Leader Researcher Program under TÜBİTAK bursary category has been designed for encouraging the transfer of Turkish Scientists and qualified researchers from abroad and making them continue their works in reputable academy, industry and establishments in Turkey. In 2019 one personnel is qualified under this support program and is still going on. Related to these programs incentives have been used.

In addition, there is one project carried out with in the scope of TÜBİTAK 1005 ARDEB-National New Ideas and Products Research Funding Program.

Market research, fair, and library support provided by the Support and Price Stabilization Fundy were obtained (TL 399 Thousand).

Within the context of “Taxes and Funds Exemption Certificate” received from Ministry of Trade of Republic of Turkey in order to increase exports and gain competitiveness in international markets, stamp duty and fee exemptions are used in export sales and deliveries and foreign exchange gain activities. (TL 15.851 Thousand)

Within the Decision Regarding the Governmental Grant in Investments, there are 5 Investment Incentive Certificates taken from General Directorate of Incentives and Implementation of Ministry of Industry and Technology of Republic of Turkey. With such incentive certificates, VAT exemption and customs tax exclusion are utilized (TL 15.605 Thousand).

VAT exemption is applied in domestic and foreign purchases and customs tax exemption is used in foreign purchases (TL 163.993 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 September 2020 Amount (TL Thousand)
Research and Development Incentive Law numbered 5746 and Teknopark Law numbered 4691	Corporate Income Tax	275.315
VAT Law numbered 3065	VAT Return	163.993
Research and Development Incentive Law numbered 5746	Income tax withholding, Insurance Premium, Stamp Tax	163.427
Teknopark Law numbered 4691	Income tax withholding, Insurance Premium, Stamp Tax	45.236
Export Incentive Practices (Taxes and Funds Exemption Certificate)	Stamp Duty Exemptions	15.851
Ministry of Industry and Technology Investment Incentives	VAT and Customs Duty Exemptions	15.605
The Support and Price Stabilization Fund	Cash Support	399
TUBITAK Support Programmes	Cash Support	74
TOTAL		679.900

d. Revenue

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.

Substantial part of production has been realized based on orders. All related processes are being managed efficiently since product requirements, quantities and prices are different.

Works in order to perform distinctive business development and marketing activities in global markets to increase efficiency in international markets and exports have been continued.

Revenue (TL Thousand)	30 September 2020	30 September 2019	Δ %
Domestic sales	7.892.613	6.840.306	15%
Exports	530.055	807.367	-34%
TOTAL	8.422.668	7.647.673	10%

e. Financial Ratios

As of 30 September 2020, 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. Based on this, financial ratios are presented as below.

Financial Ratios Consolidated Financial Position	30 September 2020	31 December 2019
Current Ratio	1,92	1,80
Liquidity Ratio	0,94	1,00
Short Term Current Liabilities / Total Financial Liabilities	62,3%	99,6%
Total Financial Liabilities / Total Assets	11,3%	8,7%

Financial Ratios Consolidated Income Statement	30 September 2020	30 September 2019
Gross Profit Margin	26,6%	24,2%
Operating Profit Margin (EBIT)	19,0%	18,2%
Adjusted EBITDA Margin (*)	21,6%	20,4%
Net Profit Margin	35,5%	25,8%
Return On Equity (ROE)	30,8%	23,9%
Net Working Capital / Net Sales	55,2%	49,9%
Return on Assets (ROA)	17,0%	12,7%

(*) General administrative expenses, marketing expenses and research and development expenses are subtracted from and current period's depreciation and amortization expenses are added to the gross profit in calculation of EBITDA value. Other operating income and other operating expenses are not included in the calculation.

7. Changes in the Legislation Which Would Have Significant Impact on the Activities of the Company

There is no change in the legislation within the reporting period.

8. Compliance Report on Corporate Governance Principles

“Corporate Governance Compliance Report” will be announced in the year-end report of the Board of Directors.

9. Information Regarding the Lawsuits of the Group

The lawsuits and execution proceedings filed by or against the Group as of 30 September 2020 are summarized below;

Description	30 September 2020 (TL Thousand)
Ongoing lawsuits filed by the Group	110.157
Execution proceedings carried on by the Group	264.017
Lawsuits proceedings carried against the Group	27.405
Execution proceedings carried against the Group	2.571
Lawsuits finalized in favor of the Group within the period	1.348
Lawsuits finalized against the Group within the period	2.909

There has not been any final judicial decision against the Group due to the violation of employee rights or the responsibility related with work accidents within 2020.

10. Information Regarding the Transactions Made within the Reporting Period

a. Changes in the Articles of Association

Within the scope of the dividend distribution of the Company in 2019, the issue of increasing the capital from TL 1.140.000.000 to TL 2.280.000.000 and amending the 6th article of our Company's Articles of Association was registered by Ankara Chamber of Commerce on 27.07.2020.

b. Collective Agreement Implementations, Rights and Benefits Provided to the Personnel and Workers

The Group recruited a total number of 1.370 people (17 with fixed-term contract) as the personnel including fixed-term contracted personnel, disabled and terror-stricken personnel during the period 1 January - 30 September 2020 and the number of people quit for the same period is 259 (10 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, and childcare and kindergarten benefits. The average number of personnel employed by the Group as of 30 September 2020 is 8.462.

c. 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 reporting period.

d. 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 iii 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.

e. Information Regarding the Donations and Social Responsibility

Within the period of 1 January - 30 September 2020, the donations made by the Group are as below.

Foundation	1 January - 30 September 2020 (TL Thousand)
Kara Kuvvetleri Komutanlığı (Turkish Land Forces)	3.150
Jandarma Genel Komutanlığı (Gendarme General Command)	2.919
Biz Bize Yeteriz Türkiyem Campaign	1.500
ASİL Derneği (ASİL Foundation)	476
Sivas Cumhuriyet University	298
Ankara Science High School	14
TOTAL	8.357

11. Events After the Reporting Period

After the reporting period, the Group has signed contracts amounting to USD 52 Million.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.
SIGNATURE SECTION OF ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
BETWEEN 1 JANUARY – 30 SEPTEMBER 2020

Prof. Dr. Haluk GÖRGÜN
Chairman of the Board of
Directors and CEO

Dr. Celal Sami TÜFEKÇİ
Vice Chairman of the Board of
Directors

Prof. Dr. Ercümen ARVAS
Member of the Board of
Directors

Yavuz ÇELİK
Member of the Board of
Directors

Prof. Dr. Turan EROL
Member of the Board of Directors

Mehmet Fatih KACIR
Member of the Board of
Directors

Alpaslan KAVAKLIOĞLU
Member of the Board of
Directors

Salih KUL
Member of the Board of
Directors

Prof. Dr. İbrahim ÖZKOL
Member of the Board of
Directors