aselsan

2018 Annual Report



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Vision

TO BE A RELIABLE, COMPETITIVELY PREFFERED, ENVIRONMENT-FRIENDLY AND HUMAN CONSCIOUS TECHNOLOGY FIRM WHICH PRESERVES ITS SUSTAINABILITY GROWTH IN THE GLOBAL MARKET VIA THE VALUES CREATED FOR STAKEHOLDERS, AS WELL AS SERVING ITS ESTABLISHMENT PURPOSES.

Mission

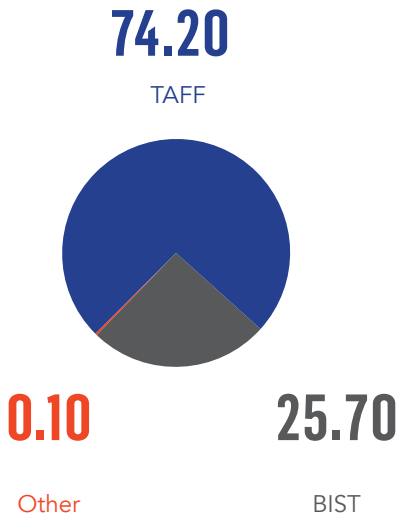
BY FOCUSING PRIMARILY ON THE NEEDS OF THE TURKISH ARMED FORCES; TO PROVIDE HIGH-VALUE-ADDED, INNOVATIVE AND RELIABLE PRODUCTS AND SOLUTIONS TO BOTH LOCAL AND FOREIGN CUSTOMERS IN THE FIELDS OF ELECTRONIC TECHNOLOGIES AND SYSTEM INTEGRATION; CONTINUING ACTIVITIES IN LINE WITH GLOBAL TARGETS AS WELL AS INCREASING BRAND AWARENESS AND CONTRIBUTING TO THE TECHNOLOGICAL INDEPENDENCE OF TURKEY.

Ethical and Core Values

NATIONAL CONSCIOUSNESS
HONESTY AND TRUSTWORTHY
CUSTOMER ORIENTED
RESPECT TO PEOPLE AND NATURE
INNOVATION AND CREATIVENESS
MODESTY
CORPORATE LOYALITY
RESEARCH AND ENTREPRENEURIAL SPIRIT
OBJECTIVE DRIVEN
TEAM SPIRIT AND SOLIDARITY
WORK DISCIPLINE
COST CONSCIOUSNESS

ASELSAN Shareholding Structure

OUR SHAREHOLDERS (%)



ASELSAN is a joint stock company and one of the subsidiaries of the Turkish Armed Forces Foundation (TAFF). As the main shareholder, TAFF owns 74.20% of the shares and 25.70% of the shares are listed on Borsa İstanbul (BIST).

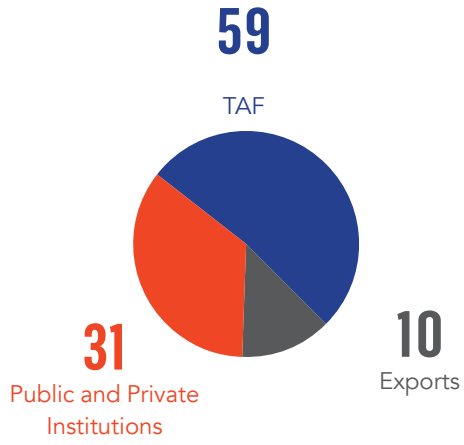
Our Shareholders	Share Amount (TL)	Share (%)
TAFF	845,825,624.46	74.20
Quoted on the BIST	293,018,684.65	25.70
AXA Insurance Inc.	1,155,690.89	0.10
Total	1,140,000,000.00	100.00

ASELSAN Summary Financials

SALES (%)

Total Turnover

TL 9,009 million



ASELSAN realized 59% of its total sales of TL 9 billion 9 million to the Turkish Armed Forces, 31% of its sales to private organizations or other corporate customers, and with 10% of its exports.

A total of USD 4 billion 57 million of new contracts/orders were signed in 2018, where the backlog of ASELSAN is USD 9.1 billion.

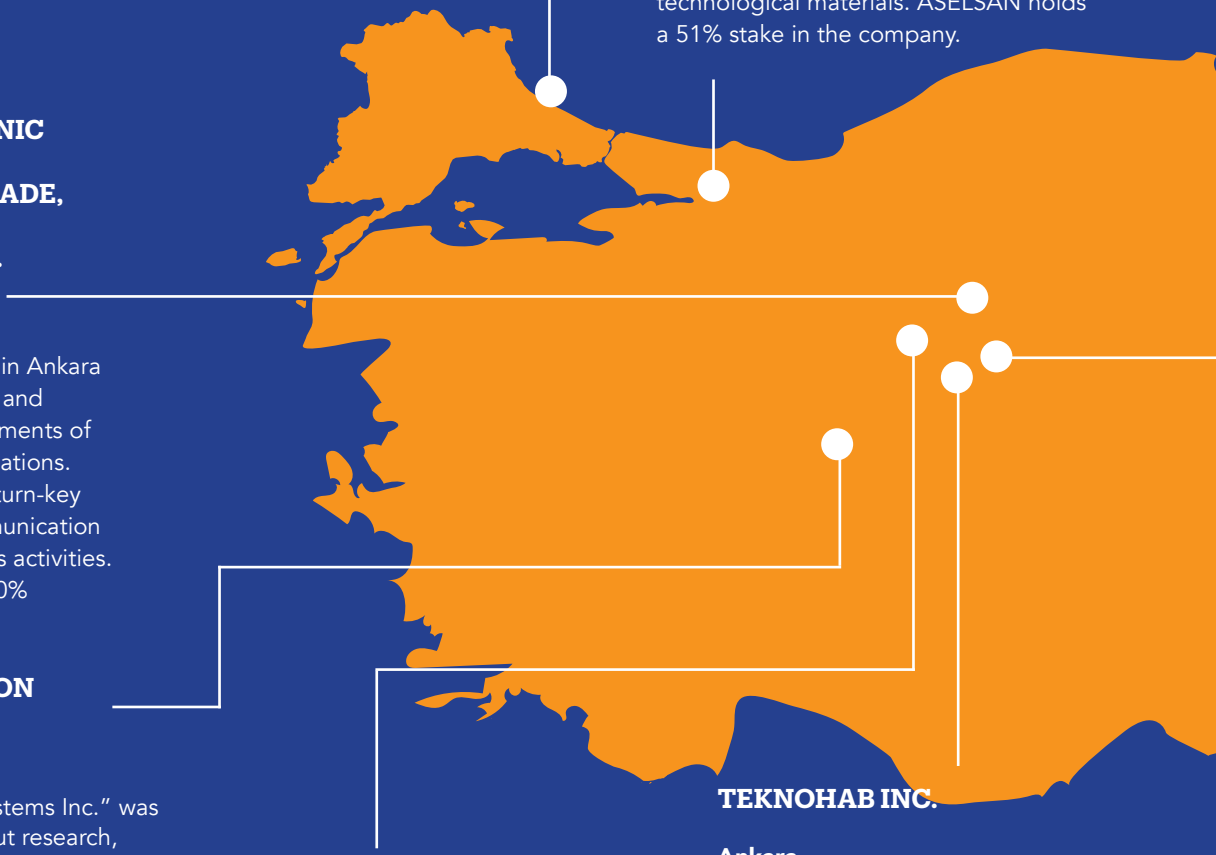
Local Affiliates

MICROELECTRONICS R&D DESIGN AND TRADING LTD. CO

İstanbul
Established to design and develop integrated circuits and electronic systems in Istanbul, ASELSAN became a partner in MICROELECTRONICS in 2010 with an 85% stake.

YİTAL MICROELECTRONICS INDUSTRY AND TRADE INC.

Gebze
The company was established in Kocaeli, Gebze in 2017 in order to perform activities related to micro and nano dimensional devices that contain semiconductors and similar technological materials. ASELSAN holds a 51% stake in the company.



ASELSANNET ELECTRONIC AND COMMUNICATION SYSTEMS INDUSTRY, TRADE, CONSTRUCTION AND CONTRACTING LTD. CO.

Ankara
The company was established in Ankara in 2004 to meet the electronic and communication device requirements of civilian institutions and organizations. Since 2009, it has also added turn-key and installation work for communication system infrastructure among its activities. ASELSAN is the company's 100% shareholder.

ASELSAN KONYA WEAPON SYSTEMS INC.

Konya
"ASELSAN Konya Weapon Systems Inc." was established in order to carry out research, design, development and engineering activities for defense industry products, especially for weapons and weapon systems, to make production, testing, assembly and integration, sales and marketing, importing and exporting of these products. The company also aims to provide training, maintenance and after sales services, and carry out all kinds of commercial and industrial activities related to these issues. 51% of the new company belongs to ASELSAN, while 49% belongs to Konya Weapon Systems Inc. The company is established on November 12, 2018.

ROKETSAN ROCKET INDUSTRY AND TRADE INC.

Ankara
Roketsan was established in Ankara in 1988 to manufacture all kinds of missiles, rockets, rocket launchers and rocket fuel and their engines, warheads and other components, and also to manufacture, market and sell all kinds of military and civilian products and their parts where a high level and sensitive technology is required. ASELSAN holds a 14.897% stake in the company.

TEKNOHAB INC.

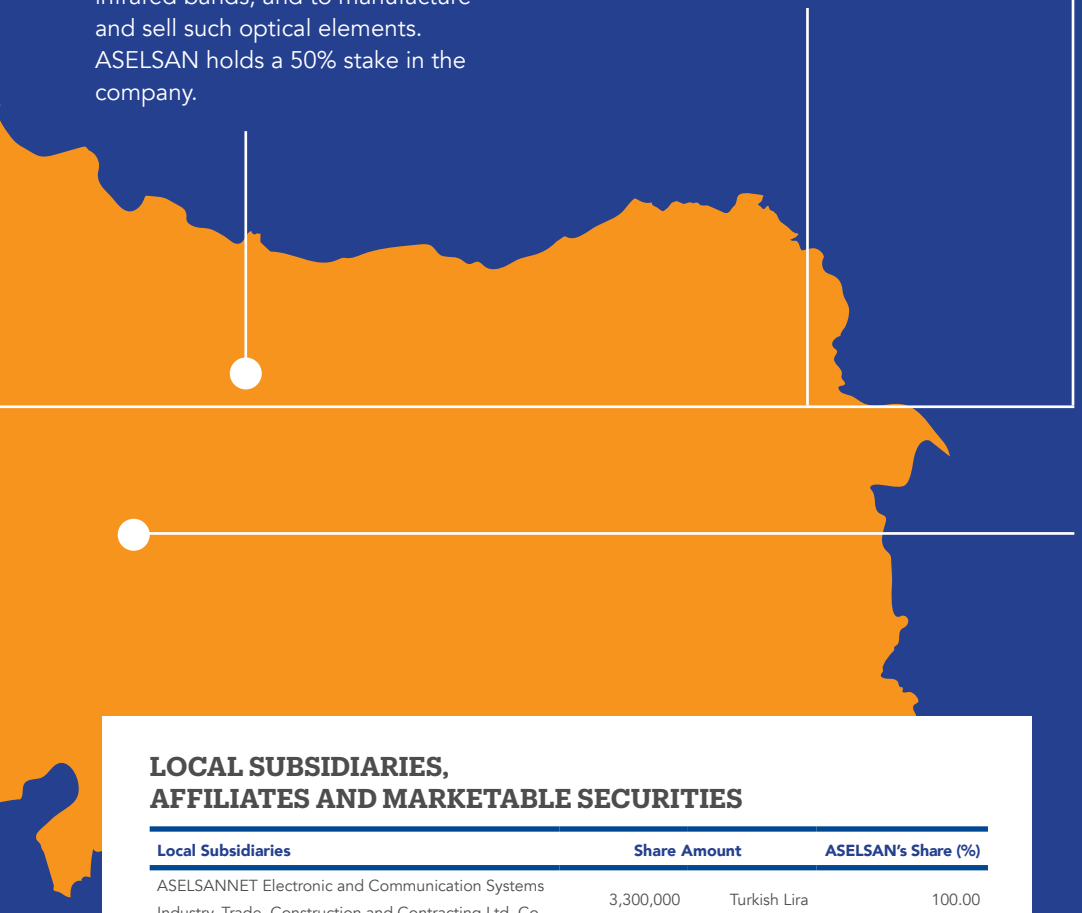
Ankara
Teknohab Inc. was established in order to create investment opportunities in technology intensive areas, to provide job opportunities to researchers and skilled people, to help technology transfers and to facilitate foreign capital to enter our country that will enable high technology. 30% of the new company belongs to ASELSAN A.Ş., 30% belongs to Turkish Aerospace Industries, 30% belongs to HAB Ankara Aerospace Industrial Zone and 10% belongs to Gazi University. The company's capital is TL 10,000,000 and the establishment has been registered in November, 2018.

ULAK INC.

Ankara
The company was estabilised in Ankara in 2017 in order to carry out R&D and engineering activities of mobile and broadband communication systems used by commercial network operators, to manufacture, test, install and integrate such systems and spare parts, to sell and to market, to import and export, to provide training, maintenance and support services. ASELSAN owns 51% of the company's capital since 2018.

ASELSAN PRECISION OPTICS INDUSTRY AND TRADE INC.

Sivas
The company was established in Sivas in 2014 in order to carry out research and development studies for optical, optical set and optical devices for all types of ultraviolet, visible and near infrared bands, and to manufacture and sell such optical elements. ASELSAN holds a 50% stake in the company.



ASELSAN BİLKENT MICRO NANO TECHNOLOGIES INDUSTRY AND TRADE INC.

Ankara
The company was established in Bilkent, Ankara in 2014 to carry out research and development studies for the applications of all types of semiconductors and similar technological materials, and to manufacture and sell micro and nano dimensional devices that contain these materials. ASELSAN owns 50% of the company's capital.

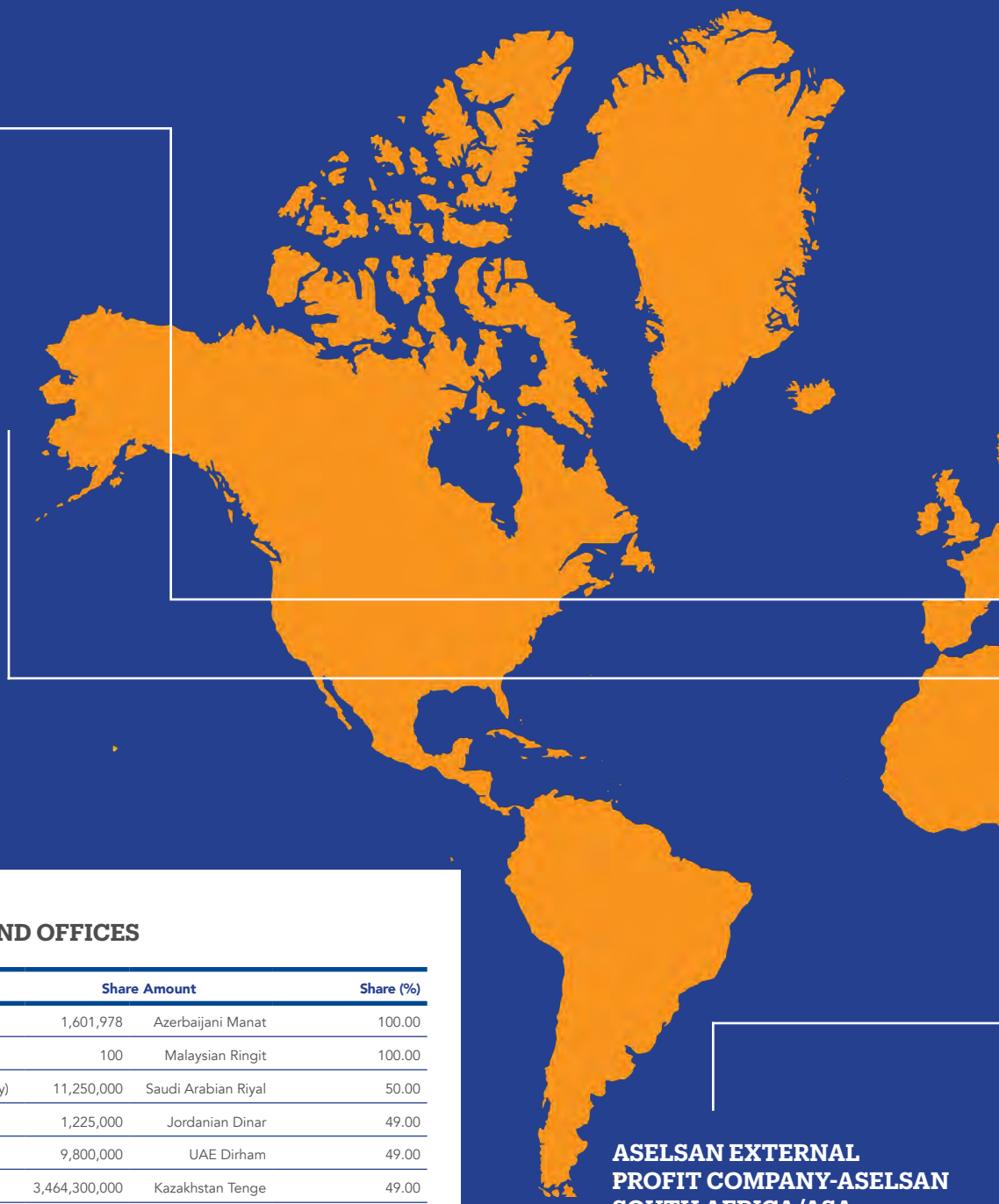
ASPİLSAN ENERGY INDUSTRY AND TRADE INC.

Kayseri
Aspilsan was originally established in the Kayseri Organized Industrial Zone on 21 May 1981 to meet the basic requirements of the Turkish Armed Forces for rechargeable nickel cadmium batteries. Today, the company produces all kinds of civil and military back-hand radios, combat tools and equipment, turnkey batteries for aircraft and helicopters. ASELSAN holds a 1% stake in the company.

LOCAL SUBSIDIARIES, AFFILIATES AND MARKETABLE SECURITIES

Local Subsidiaries	Share Amount		ASELSAN's Share (%)
ASELSANNET Electronic and Communication Systems Industry, Trade, Construction and Contracting Ltd. Co.	3,300,000	Turkish Lira	100.00
Microelectronics R&D Design and Trading Ltd. Co	1,700,000	Turkish Lira	85.00
YİTAL Microelectronics Industry and Trade Inc.	8,905,875	Turkish Lira	51.00
ASELSAN Konya Weapon Systems Inc.	44,472,000	Turkish Lira	51.00
ULAK Inc.	1,530,000	Turkish Lira	51.00
ASELSAN Precision Optics Industry and Trade Inc.	6,500,000	Turkish Lira	50.00
ASELSAN Bilkent Micro Nano Technologies Industry and Trade Inc.	9,000,000	Turkish Lira	50.00
Teknohab Inc.	3,000,000	Turkish Lira	30.00
Roketsan Rocket Industry and Trade Inc.	21,906,223	Turkish Lira	14.897
ASPİLSAN Energy Industry and Trade Inc.	320,000	Turkish Lira	1.00

Global Affiliates



ASELSAN BAKU COMPANY

Baku-Azerbaijan
Established in 1998 to carry out the promotion/marketing and sales activities of military and civil communication devices, the company is a 100% participation of ASELSAN.

ASELSAN MIDDLE EAST PRIVATE SHAREHOLDING COMPANY LIMITED - AME

Amman-Jordan
The company was established in 2012 with ASELSAN holding a 49% stake in the company and the KADDB Investment Group (KIG) holding a 51% stake. The company is engaged in the design, production, development and marketing activities of night vision and thermal imaging devices to meet the requirements of the Jordanian Armed Forces.

GLOBAL SUBSIDIARIES, AFFILIATES, BRANCHES AND OFFICES

Global Subsidiaries	Share Amount		Share (%)
ASELSAN Baku Company	1,601,978	Azerbaijani Manat	100.00
ASELSAN Malaysia Sdn. Bhd.	100	Malaysian Ringit	100.00
SADEC LLC. (Saudi Defense Electronics Company)	11,250,000	Saudi Arabian Riyal	50.00
ASELSAN Middle East PSC. Ltd.	1,225,000	Jordanian Dinar	49.00
IGG ASELSAN Integrated Systems LLC.	9,800,000	UAE Dirham	49.00
Kazakhstan ASELSAN Engineering LLP.	3,464,300,000	Kazakhstan Tenge	49.00
BARQ QSTP LLC.	480,000	Qatari Riyal	48.00
Branches and Offices			
ASELSAN South Africa (ASA)			
ASELSAN Macedonia			
ASELSAN Indonesia			
ASELSAN Philippines			

ASELSAN EXTERNAL PROFIT COMPANY-ASELSAN SOUTH AFRICA/ASA

Pretoria-South Africa Republic
The company was established in 2011 to design optical systems and to operate in the promotion and marketing of ASELSAN products in South Africa and neighboring countries.

THE ASELSAN MACEDONIA BRANCH

The ASELSAN Macedonia Branch, which was established at the end of 2014, within the scope of the Macedonian Corridor-10 Highway Toll Collection System project, operates to fulfill the local obligations connected to the project.

KAZAKHSTAN ASELSAN ENGINEERING LLP-KAE

Astana-Kazakhstan
The company was established in 2011 with ASELSAN holding a 49% stake in the company, the Presidency of Defense Industries (PDI) holding a 1% stake and Kazakhstan Engineering holding a 50% stake. The company is engaged in the production, development and maintenance-repair activities for electronic devices and systems to meet military and civil requirements in Kazakhstan.

BARQ-QATAR

Doha-Qatar
The company was established in 2018, in order to operate with command and control systems, thermal and night vision camera, crypto, remote-controlled warfare systems. 48% of the new company belongs to ASELSAN, while 51% belongs to BARZAN, and 1% belongs to SSTEK.

IGG ASELSAN INTEGRATED SYSTEMS LLC.

Abu Dhabi-UAE
The company was established in 2011, with ASELSAN holding a 49% stake in the company and IGG holding a 51% stake. It is engaged in the production, testing and integration of ASELSAN products in the United Arab Emirates (UAE) and their sale in Gulf countries, primarily in the UAE, and to provide technical support after their sale.



ASELSAN PHILIPPINES OFFICE

SADEC LLC.-SAUDI DEFENSE ELECTRONICS COMPANY

Riyadh-Saudi Arabia
SADEC LLC was established in 2016 with a 50%-50% partnership between ASELSAN and TAQNIA DST to carry out the production, development and maintenancerepair of electronic devices and systems to meet Saudi Arabia's requirements for radar, electronic warfare and electro-optical systems.

ASELSAN INDONESIA OFFICE

ASELSAN MALAYSIA SDN. BHD.

Kuala Lumpur-Malaysia
The ASELSAN Malaysia Sdn. Bhd. Company, a wholly owned subsidiary of ASELSAN, was established to carry out operations with regard to remote control weapon systems.

Our Facilities



MACUNKÖY FACILITY

The Macunköy Facility was established over a total area of 186,000 m^2 of which 110,000 m^2 is closed. ASELSAN Macunköy Facility is home to the CEO, Communications and Information Technologies Business Sector and Defense System Technologies Business Sector and Automation Business Sector.



AKYURT FACILITY

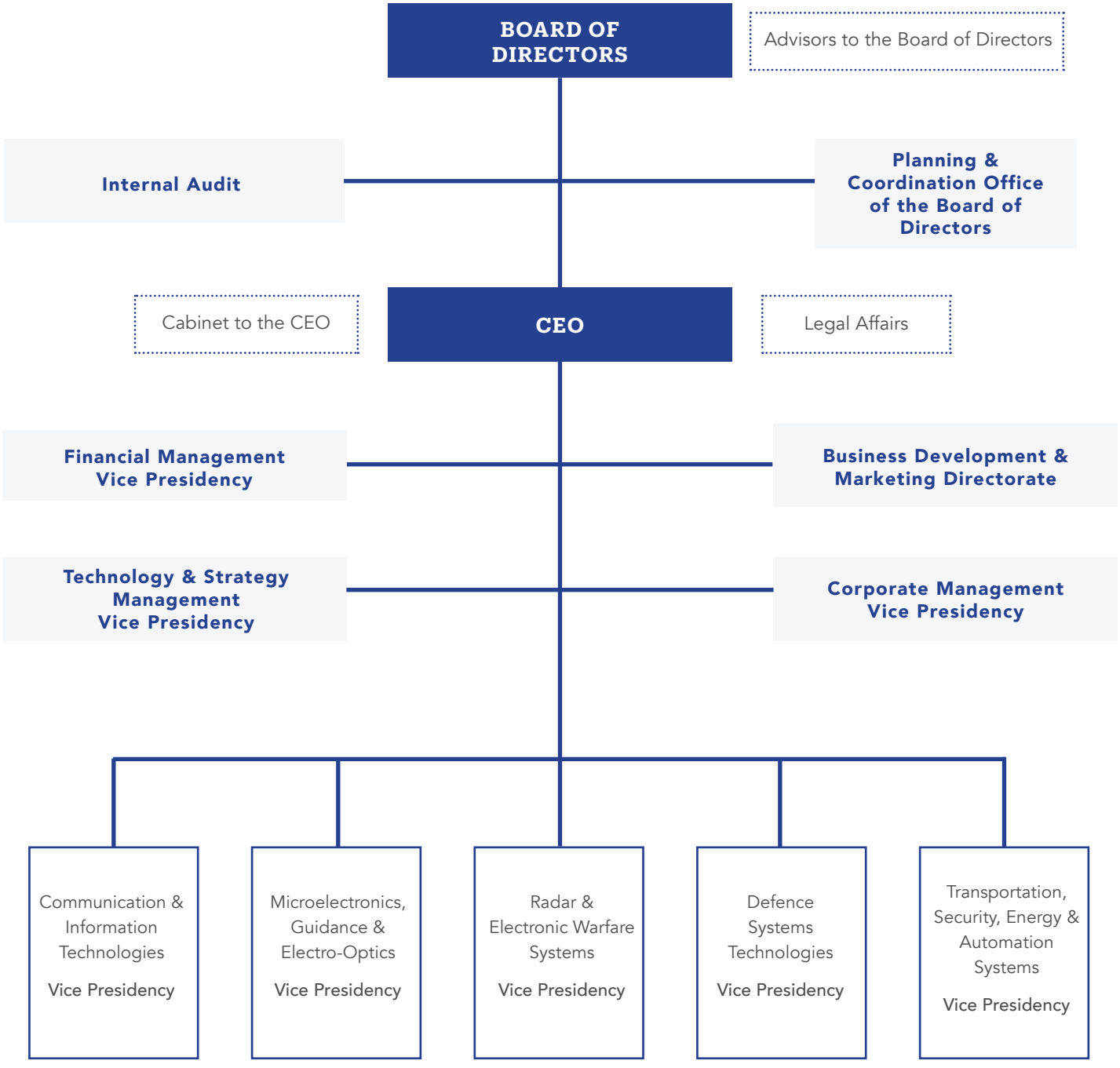
The Akyurt Facility was established on a total area of 231,000 m^2 of which 54,000 m^2 is closed. The Microelectronics Guidance and Electro-Optic Business Sector is located in the ASELSAN Akyurt.



GÖLBAŞI FACILITY

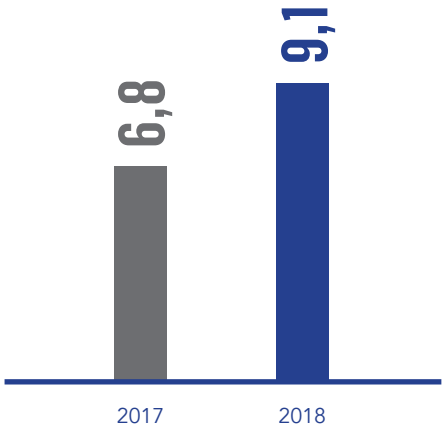
The Facility was established in the Gölbaşı district of Ankara, and houses production plants for radar and electronic warfare systems for land, air, sea, space and unmanned platforms. This Facility was established on a total area of 350,000 m^2 of which 75,000 m^2 is closed. The Facility, of which construction began in 2013, was inaugurated in 2015.

Organizational Structure

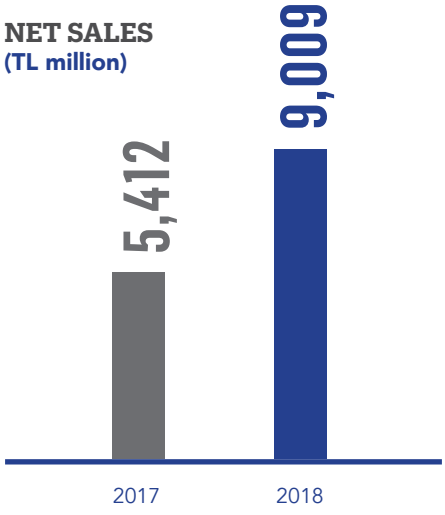


Main Financial Indicators

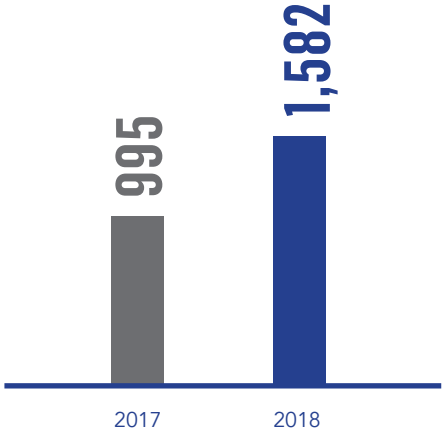
BACKLOG
(USD billion)



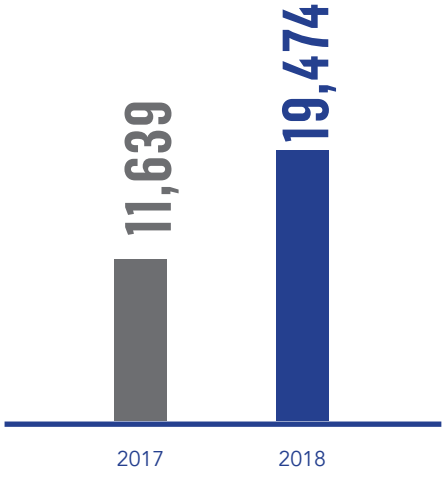
NET SALES
(TL million)



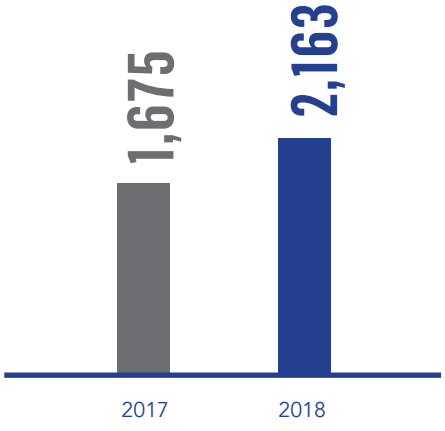
SALES PER EMPLOYEE
(TL thousand)



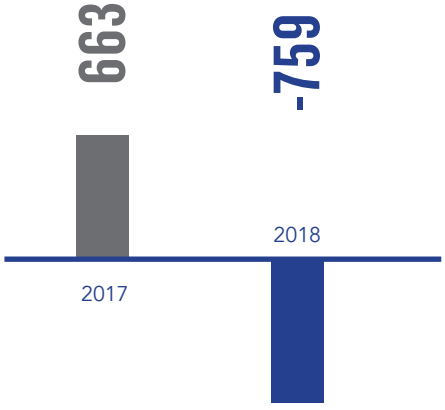
TOTAL ASSETS
(TL million)



R&D EXPENSES
(TL million)



NET CASH PROVIDED BY OPERATIONS
(TL million)



33%

Growth in Backlog (USD basis)

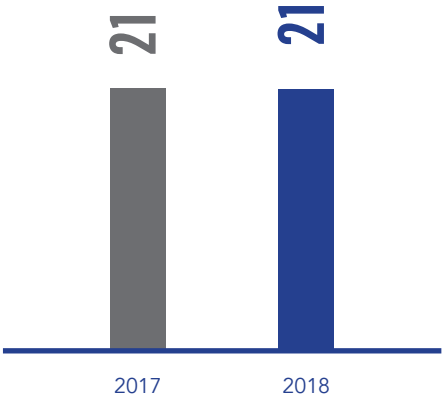
66%

Growth in Sales

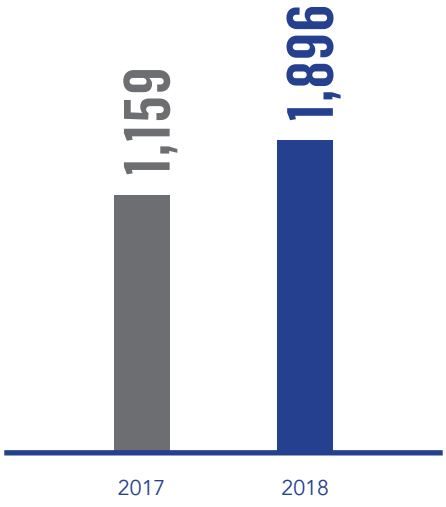
64%

Growth in EBITDA

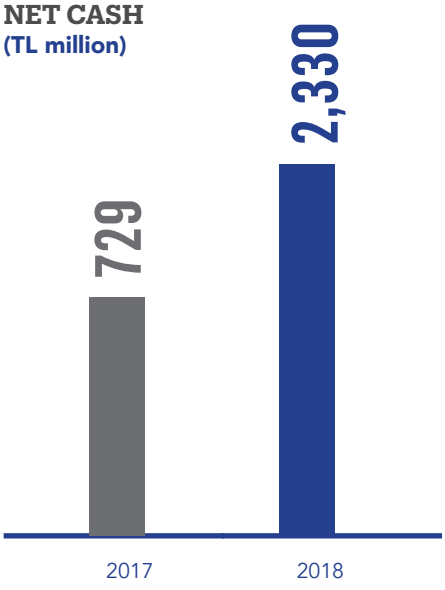
EBITDA MARGIN
(%)



EBITDA
(TL million)



NET CASH
(TL million)



Summary Balance Sheet (TL million)	2017	2018
Total Assets	11,639	19,474
Tangible Assets	1,091	1,336
Intangible Assets	891	1,082
Total Equity	4,768	10,177

Summary Income Statement (TL million)	2017	2018
Net Sales	5,412	9,009
EBITDA	1,159	1,896
Net Profit for the Year	1,376	2,318

Main Indicators	2017	2018
R&D Expenses (TL million)	1,675	2,163
Sales per employee (TL thousand)	995	1,582
EDITDA Margin (%)	21	21
Net Cash Provided by Operations (TL million)	663	-759
Cash and Cash Equivalents (TL million)	1,263	3,116

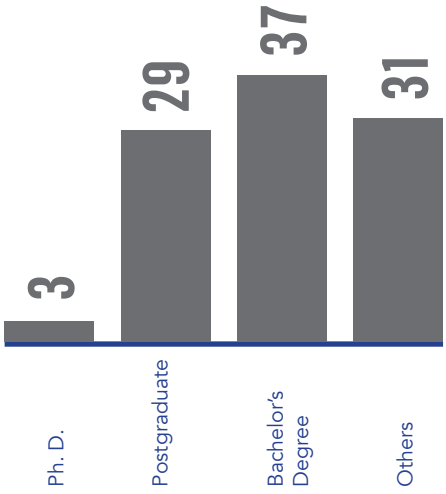
ASELSAN Human Resources

Number of Personnel

6,445

ASELSAN recruited over 1,000 new employees in order to fulfill its increasing responsibilities in the best way possible, with the awareness of the critical position it has in our country's defense industry. Each of our employees is selected among highly qualified people and experts, and these qualifications are being supported through trainings and development opportunities.

EDUCATIONAL BACKGROUND (%)



R&D Activities

Total R&D Expenditure (TL million)

2,163

ASELSAN never compromised from its target of gaining national technology, which is its main strategy since its establishment on 1975. The Company constantly upgraded its R&D capabilities and developed unique products under the consciousness of difficulties that depending abroad will bring during periods when national interests are at the forefront. Besides the defense technologies, its main field of activity, ASELSAN continued to grow its R&D activities in the framework of national goals, in other areas such as energy, transportation, medical systems, and next generation cellular communication.

Collaboration with Universities

36 NUMBER OF COLLABORATION

ASELSAN collaborated with 31 Turkish universities and 5 global universities in 2018.

126 NUMBER OF PROJECTS

Number of projects conducted with universities in 2018.

4.1 (USD million) VALUE OF PROJECTS

Value of projects assigned to the universities reached USD 4.1 million in 2018.

Collaboration with Domestic Suppliers

4.7 (TL billion) PAYMENT

TL 4.7 billion was paid to domestic subcontractors for tasks carried out in 2018.

2,940 NUMBER OF DOMESTIC FIRMS

The number of domestic subcontractors, 2,400 of which are SMEs.

5.3 (TL billion) TOTAL BACKLOG

SMEs and domestic sub-contractors' total backlog

9.7 (TL billion) TOTAL OPEN ORDER (CURRENTLY)

Total open order price in domestic firms



WE ARE AN **ENVIRONMENT-FRIENDLY AND HUMAN CONSCIOUS** NATIONAL TECHNOLOGY COMPANY

Chairman and CEO Message

I AM CONFIDENT THAT OUR ASELSAN WILL TAKE FIRM STEPS TOWARDS ITS GOALS, AND ACHIEVE GREAT PROJECTS WITH THE SAME DETERMINATION IN 2019.



PROF. HALUK GÖRGÜN, Ph.D.

Chairman/CEO

2018 was a year of major developments both for our country and the world. Maintaining its steady growth during this period, ASELSAN made remarkable progress and saw continuing positive trends in all financial indicators. Our shares started to be traded on Borsa Istanbul again, after a book building exercise on May 31 and June 1, 2018, to complete the second public offering. Our company's paid-in capital rose to 1.14 billion Turkish lira and the free float rate to 25.7 percent as a result of the second public offering.

ASELSAN's financial results showed the company's sustainable development during 2018. The second public offering generated resources of 2.99 million Turkish lira. Moreover, our consolidated turnover increased by 66 percent compare to previous year. In 2018, our shareholders' equity rose to 10.2 billion Turkish lira, our gross profit to 2.21 million Turkish lira and our net profit to 2.32 million Turkish lira. Furthermore, ASELSAN's return on equity for 2018 amounted to 31 percent while its consolidated wholesale volume reached 9 billion Turkish lira. Our contractual obligations which were signed in 2018, exceeded 4 billion USD. The number of countries that we export to since the establishment of our company increased to 63. Therefore, our performance in 2018 provided a significant momentum for our future investment and growth plans.

In the forthcoming period, we aim to maintain our sustainable growth and open up to new markets. To build a stronger ASELSAN, we will continue to deploy our know-how in every area, for example, by using our military experience in civilian domains. I am confident that our ASELSAN will take firm steps towards its goals, and achieve great projects with the same determination in 2019. This year, we will make even more determined efforts to produce more with greater passion and motivation. In 2018, we pioneered the development of domestic and national solutions thanks to our most valuable asset, our highly competent employees. From the very first day, we have devoted a great deal of effort to create stronger interaction with our personnel. We have adopted a corporate governance understanding that help us recognize, listen to our employees and understand. We evaluated the feedback we gathered in workshops, shared-wisdom conferences, satisfaction surveys and one-on-one interviews. We will continue to work intensively on this in 2019.

Our defense and security industry's rapid development over the last 20 years and its vast field experience allowed us to access a wider market and a larger number of end users. We observed that the dynamics of global competition significantly differs from the dynamics of domestic competition. We realized that we must support our core parameters such as price and quality by establishing local partners, enabling technology transfer, developing financial instruments, managing our brand and reputation, building effective communication at both corporate and individual levels, offering after-sales support and promoting business ethics. It is unlikely that these can be achieved without understanding the business development and marketing approaches of our competitors and of the global players in neighboring industries and without building a competitive organizational structure. In line with our vision of becoming a global company, we focus on business development and marketing, and redefine these activities in the light of global realities.

In 2018, we aimed to increase our role in world defense markets. In this regard, ASELSAN has strengthened its position in the global league by improving its technological depth, R&D power and design-production competencies. ASELSAN moved up to 55th place among the global defense companies, up from 57th place in 2017.

In 2018, ASELSAN actively followed a policy that would ensure maximum efficiency and profitability while seizing new opportunities offered by the latest technologies. And in 2019, we will improve our competitiveness by upgrading our current technologies and by introducing innovative, environmentally-friendly and energy-efficient systems and products. Innovation is the key for ASELSAN to improve its competitive power. To reach its strategic objectives, ASELSAN runs its R&D projects by using internal resources, except for those planned as part of contractual projects. As of 2018, ASELSAN has over 100 internally-financed R&D projects that comprise both ongoing projects and those launched in new fields.

I would like to thank all our stakeholders, managers and employees who have always been by our side. I greet you with respect on behalf of the Board of Directors and myself.

Members of the Board of Directors



PROF. DR. HALUK GÖRGÜN
Chairman & CEO
(Managing Member)

He completed his undergraduate and graduate education in Electrical Engineering Department of Yıldız Technical University and his Ph.D. in Rensselaer Polytechnic Institute in New York USA in 2003. After his Ph.D. graduation, he has engaged in scientific studies at the University of Connecticut in 2004-2005. He became an associate professor in 2008 and became a professor in 2013 at Yıldız Technical University, where he served from 2005-2008 as an assistant professor. Between 2014 -2018, he has been served as the Rector at Gebze Technical University. In addition to being a member of the Board of Directors of the Informatics Valley since 2014, he has also served in various committees and boards in TÜBİTAK and YÖK. Prof. Dr. Haluk GÖRGÜN was elected Member of the Board of Directors at the ASELSAN Ordinary General Assembly Meeting held on 15 March 2017 for the first time. At the meeting of the Board of Directors dated 17 April 2018, it was resolved that in addition to his chairmanship Prof. Dr. Haluk GÖRGÜN shall start his duty as CEO of ASELSAN as of 27 April 2018.



MUSTAFA MURAT ŞEKER
Vice Chairman
(Managing Member)

He graduated from Middle East Technical University, Electrical and Electronic Engineering Department in 1992 and continued his graduate level studies in the same department between 1992-1994. He has been working at Undersecretariat for Defence Industries since 1992. In 2011 he was appointed as the Head of Naval Platforms Department, where major and comprehensive projects like New Type Submarine, National Corvette (MILGEM), Landing Platform Dock (LPD) and TF-2000were executed under his supervision. In 2014 he has been appointed as the Head of Electronic Warfare and Radar Systems Department and during his duty, he coordinated the management of more than fifty radar and electronic warfare projects including the Early Warning Radar and Stand-off Jammer Projects. Mustafa Murat ŞEKER was appointed as the Deputy Undersecretary responsible for all the system projects executed by the Undersecretariat for Defense Industries in June 2015 and is still carrying this duty. He was elected as a Member of Board of Directors with the resolution of Board of Directors on 23 May 2013, has served as the Chairman of the Board in between March 2015–March 2017. He has been serving as the Vice Chairman of ASELSAN since 15 March 2017.



PROF. DR. MEHMET ARIK
Independent Member

He completed his undergraduate education at Istanbul Technical University, Department of Mechanical Engineering (1991). He continued his graduate studies at Middle East Technical University, Department of Mechanical Engineering. At the end of his studies, he was transferred to the Department of Mechanical Engineering at Miami University (Miami, USA) and obtained his MSc degree. He completed his PhD studies at the Department of Mechanical Engineering of the University of Minnesota (Minneapolis, USA) on heat transfer in electronics, three-dimensional electronic packaging and MEMS technologies (2001). In 2000, he started to work as a senior engineer at General Electric Global Research Center (GE GRC, NY). In 2011, he left his position at GE and joined Ozyegin University faculty as an Associate Professor for the Department of Mechanical Engineering (Istanbul). He has over 120 granted and pending patents as well as more than 200 international scientific journal and conference articles, and presentations. Prof. Dr. Mehmet ARIK has been elected as a member of the Independent Board of Directors during the Ordinary General Assembly held on 2 April 2018.



PROF. DR. ERCÜMEND ARVAS
Independent Member

He completed his undergraduate and postgraduate program in Middle East Technical University Electrical Engineering Department and doctoral program in Syracuse University in New York, United States. He continued his academic career in Syracuse University and as a professor at the same university in between the years 1994-2014. He served as a consultant of Air Force Office of Scientific Research, Digital Equipment Co., Philips Broadband, RIT Research Corp, Syracuse Research Corp, ANAREN Microwaves Inc., General Electric Co and TUBİTAK. He has been serving as a professor of Medipol University Electrical Engineering Department since November 2014. Prof. Dr. Ercümend ARVAS has been an Independent Member of Board of Directors since Ordinary General Assembly Meeting held on 31 March 2016.



BAYRAM GENÇCAN
Member

In 1985 he graduated from the Department of Electronics Engineering of the Military Academy as a Communication Lieutenant. In 2008, Bayram GENÇCAN, who was retired as a Senior Colonel from the Armed Forces, started to provide consultancy services on communication systems in the Ministry of Health since 2009. In particular, he worked on 112 radio communication infrastructure improvement and integration project with JEMUS. Bayram GENÇCAN, who has completed two master's degree programs on Public Administration and Organization Management, also graduated from Ankara University Faculty of Law. Bayram GENÇCAN was elected as a Member of Board of Directors at the ASELSAN Ordinary General Assembly Meeting held on 15 March 2017. In addition to a Member of Board of Directors Bayram GENÇCAN was appointed as ASELSAN Vice President of Communication and Information Technologies as of 5 February 2019.



PROF. DR. İBRAHİM ÖZKOL
Independent Member

He started his undergraduate studies in Istanbul Technical University Faculty of Aeronautics and Astronautics, Department of Aeronautical Engineering and completed his master's and doctoral studies in the same department. His academic career has been interrupted for 15 months between 1992 and 1993 for the duties given by the Undersecretariat for Defense Industries (UDI) regarding the projects "CASA-3000" and "CN-235" in Spain. He continued his career in the academic world, that he returned in 1996 and received the title "Professor" in 2005. Prof. Dr. İbrahim ÖZKOL has been serving as the Vice Rector of Istanbul Technical University, as well as teaching staff in the Department of Aeronautical Engineering at the Faculty of Aeronautics and Astronautics. Prof. Dr. İbrahim ÖZKOL has served as the Chairman of Board of Directors during March 2017-April 2018 and was elected as an Independent Member of the Board of Directors at the ASELSAN Ordinary General Assembly Meeting held on 2 April 2018.



ERCAN TOPACA
Governer
Member

He graduated from the Faculty of Political Sciences of Istanbul University in 1987. In the same year, he started serving as an assistant auditor in the Turkish Court of Accounts; then he was nominated as a district governor of Kırıkkale in 1989 by passing the candidacy exam for district governorship. Ercan TOPACA, served as district governor of Kastamonu-Azdavay, Diyarbakır-Çermik and Konya-Kulu district. He worked as the Branch Manager in the General Directorate of Local Authorities of the Ministry of the Interior in 2000, served as Head of Department at the same General Directorate and was appointed to the Head of the Directorate for Administration Development of the Prime Ministry in 2004. Ercan TOPACA, was appointed as Governor of Düzce, Kocaeli and Hatay respectively. Ercan TOPACA lastly served as the Governor of Ankara between the dates 07.09.2016-05.11.2018. He was appointed as the Chief Inspector of Civil Inspection Board by the decree of Presidency dated 26.10.2018 and numbered 2018/202. Ercan TOPACA has been serving as Member of Board of Directors since Ordinary General Assembly Meeting held on 15 March 2017.



DR. CELAL SAMİ TÜFEKÇİ
Member

He has Bachelor's degree from Gazi University (Ankara, Turkey); graduate degree from Northeastern University (Boston, Massachusetts, USA) and doctorate degree from Rensselaer Polytechnic Institute (Troy, New York, USA) all in the field of Mechanical Engineering. Dr. TÜFEKCi has started his professional career at Pitney Bowes Inc. (Shelton, Connecticut, USA) that is the world's leading communications and document creation company and has signed patented works on high performance motion control. As a Mechatronics and Control System Design Specialist, he has been a consultant for numerous projects and various companies. He started working at Undersecretariat for Defense Industries (Ankara, Turkey) as the head of the Space Department. Dr. TÜFEKCİ was later appointed as Deputy Undersecretary and still continues to serve in this position. Dr. Celal Sami TÜFEKCİ was elected as a Board Member at the ASELSAN Ordinary General Assembly held on 2 April 2018.



DR. MURAT ÜÇÜNCÜ
Member

He graduated from Military Academy (from Electronic Engineering Department as Communication Lieutenant) ranking first among the class of 1980. He was admitted to Boğaziçi University Electrical and Electronic Engineering Department as transfer student in 1980. He received his bachelor's degree in Electrical and Electronic Engineering in 1983, master's degree in 1985 and PhD in 1989 from this university.
He was promoted to Brigadier General in August 2007 and fulfilled his duty until he was sent to retirement with the decisions of the Supreme Military Council in 2012. Dr. Murat ÜÇÜNCÜ, who has been giving undergraduate, graduate and doctoral lectures in universities on the subjects Communication Systems, Estimation Theory, Automatic Control, Circuit Theory, Signals and Systems as a part-time lecturer, has articles / papers / books in total published / presented in national / international journals and conferences. Dr. Murat ÜÇÜNCÜ, who has been as a Member of Board of Directors since the resolution of Board of Directors on May 23, 2013, has served as the Vice Chairman of Board of Directors during March 2014-March 2017.

Corporate Governance

OUR SHAREHOLDERS

ASELSAN, which is one of the companies owned by the Turkish Armed Forces Foundation (TAFF), is a joint stock company with 74.20% of its shares belonging to TAFF and 25.70% of the shares listed on Borsa İstanbul (BIST).

Our Shareholders	Share Amount (TL)	Share (%)
TSKGV	845,825,624.46	74.20
Halka açık paylar (BIST)	293,018,684.65	25.70
Axa Sigorta A.Ş.	1,155,690.89	0.10
Total	1,140,000,000.00	100.00

ASELSAN PRESERVED ITS STRONG STABILITY IN CORPORATE GOVERNANCE PROCESSES IN 2018.

ASELSAN continues to work with a stable understanding that does not compromise the principles of fairness, transparency, accountability and responsibility, which are the basic principles of corporate governance, by paying attention to the sensitivity of the sector in which it operates. Our Company, complying with both national and international legal regulations, makes every effort possible to maintain a balance for the interest of all stakeholders.

ASELSAN, which is among the leading global brands in the defense industry, is determined to continue its growth sustained for 43 years by contributing to society and the environment by adhering to ethical principles as well as laws and regulations.

ASELSAN, which has adopted the concept of corporate governance as a core principle, has been publishing a Compliance Report on the Principles of Corporate Governance every year since 2004. The rights of shareholders, Annual General Meetings, dividend distribution policy, disclosure policy, human resources and ethical principles, relations with stakeholders, the structure, formation, activity essentials and committees of members of board, risk management and internal audit including minority rights which are under the headings of shareholders, informing the public and transparency, interest groups and members of the board within the scope of the Corporate Governance Principles regulated by Capital Markets Board are detailed within the report. The Report on the Compliance of Corporate Governance Principles and its activity reports are published on the Company's website (www.aselsan.com.tr) and in the annual reports.

ASELSAN's Corporate Governance Rating Confirmed as 9.20.

ASELSAN was awarded a score of 8.77 out of 10 on 13 December 2012 by the SAHA Corporate Governance and Credit Grading (SAHA) in 2012. This mark is the second best preliminary mark among the corporate governance grading marks given in Turkey Since then, our Company's level of compliance of corporate governance principles is evaluated and updated by an independent rating institution.

ASELSAN's Corporate Governance rating, which was 9.20 out of 10 back in 2017, was confirmed as 9.20 out of 10 with the report published by SAHA on 12 December 2018 as a result of the activities conducted to improve the Corporate Governance rating during 2017. Corporate governance ratings in 2017 and 2018 and their sub topics are presented below.

2017 and 2018 Rating Distribution	
Shareholders	83.63 / 100
Public Disclosure and Transparency	98.70 / 100
Stakeholders	95.09 / 100
Board of Directors	90.70 / 100
Average	**9.20 /10.00**

ASELSAN's Corporate Governance Rating Reports published by SAHA are available on www.aselsan.com.tr.

ASELSAN has been included in Borsa İstanbul Corporate Governance Index since the Company obtained its first corporate governance rating.

ASELSAN'S MANAGEMENT STRUCTURE

ASELSAN Board of Directors

ASELSAN's management structure consists of a single layer, which is the Members of the Board elected by the General Assembly.

3 members of the Board, which consist of 9 members in total, are independent. All members of the Board are responsible for the economic performance of the Company. The CEO has an execution responsibility in the fields of social responsibility and the environment.

Three committees have been formed in accordance with the Principles of Corporate Governance set out by the Capital Markets Board. They operate to enable the Board to fully execute its duties and responsibilities in ASELSAN.

COMMITTEES AT ASELSAN

In accordance with the Corporate Governance Principles of the Capital Markets Board, there are 3 committees established by the ASELSAN Board of Directors.

Audit Committee

The committee consists of three independent members of the board.

The main responsibilities of the committee are to inform the public regarding financial issues and monitor ASELSAN's accountancy systems, independent internal and external auditing and internal control systems' effectiveness and efficiency. The Internal Auditing Office Head reports directly to the Audit Committee and Members of the Board. The Audit Committee convenes at least four times a year.

Corporate Governance Committee

The committee consists of three members of the board. The head of the committee is an independent member of the board. The investor relations manager also is a member of the committee in accordance with the regulations of the Capital Markets Commission. The committee proposes suggestions to members of the board for the compliance with corporate governance principles and the realization of improvement activities. It also observes the activities conducted by the Investor Relations Department. The committee convenes at least four times a year.

Early Detection and Management of Risk Committee

This committee was established to determine the risks arising from the Company's strategic, operational, financial and external factors and to manage the risks identified in line with the Company's corporate risk profile. There are two members of the board in the committee The chairman of the committee is an independent member of the Board of Directors. The Committee meets at least six times a year and reports to the Board of Directors.

Audit Committee	Corporate Governance Committee**	Early Detection and Management of Risk Committee
İbrahim ÖZKOL* (Committee Chairman)	**Ercümend ARVAS* (Committee Chairman)**	**Mehmet ARIK* (Committee Chairman)**
Ercümend ARVAS* (Committee Member)	Celal Sami TÜFEKÇİ (Committee Member)	Bayram GENÇCAN (Committee Member)
Mehmet ARIK* (Committee Member)	Murat ÜÇÜNCÜ (Committee Member)	
	Pınar ÇELEBİ (Committee Member)	

*** Independent Board Member**
****The Nomination Committee and Remuneration Committee were not formed due to the structure of the Members of Board. The duties and responsibilities of these committees are undertaken by the Corporate Governance Committee.**

The principles regarding the formation of committees and the manner in which they work, meet and report are determined by the Members of the Board. Detailed information regarding the corporate management structure of ASELSAN, Members of the Board and the committees may be obtained from the www.aselsan.com.tr website.

ASELSAN SUCCESSFULLY COMPLETED ITS SECONDARY PUBLIC OFFERING (SPO) AT TL 21.35 AND PROVIDED A 13% RETURN TO ITS INVESTORS AFTER THE SPO.

COMPARISON OF BIST-100 AND ASELSAN SHARE PERFORMANCE



ASELSAN, which is traded in Borsa Istanbul, successfully completed its secondary public offering on June 7, 2018 and increased its free float in BIST from 15.30% to 25.70%. With the secondary public offering, the proceeds were approximately 3 billion TL and the company has increased its capital by TL 140 million to TL 1.14 billion. Market capitalization of the company after the SPO was TL 24.3 billion.

Members of the Executive Board



PROF. DR. HALUK GÖRGÜN

Chairman & CEO
(Managing Member)

He completed his undergraduate and graduate education in Electrical Engineering Department of Yıldız Technical University and his Ph.D. in Rensselaer Polytechnic Institute in New York USA in 2003. After his Ph.D. graduation, he has engaged in scientific studies at the University of Connecticut in 2004-2005. He became an associate professor in 2008 and became a professor in 2013 at Yıldız Technical University, where he served from 2005-2008 as an assistant professor. Between 2014 -2018, he has been served as the Rector at Gebze Technical University. In addition to being a member of the Board of Directors of the Informatics Valley since 2014, he has also served in various committees and boards in TÜBİTAK and YÖK. Prof. Dr. Haluk GÖRGÜN was elected Member of the Board of Directors at the ASELSAN Ordinary General Assembly Meeting held on 15 March 2017 for the first time. At the meeting of the Board of Directors dated 17 April 2018, it was resolved that in addition to his chairmanship Prof. Dr. Haluk GÖRGÜN shall start his duty as CEO of ASELSAN as of 27 April 2018.



OKAN TURAN

Vice President,
CFO

He received his undergraduate degree (BSc) from Istanbul Technical University, Aeronautical and Astronautical Engineering Faculty in 1989 and Master's degree (MSc) Istanbul Technical University, Faculty of Management, Management Engineering in 1992. He began his professional in private sector in different companies as Financial Analyst, Chief Financial Analyst, CFO and Financial Controller. He worked as Vice President for Finance-Chief Financial Officer at Şişecam Glass Packing Group in Russian Operations responsible for Russia and Ukraine based in Moscow between 2008-2012 and Group Corporate Controller at Anadolu Efes between 2012-2015. Okan TURAN has vast experience and expertise in the areas such as Budgeting and Strategic Business Planning, Capital Markets, International Reporting Standards (IFRS), Mergers and Acquisitions (M&A), Enterprise Risk Management (ERM), Project Management and Financing and, Implementation and Roll-out of Enterprise Resource Planning (ERP-SAP). He has been serving as CFO & Vice President in ASELSAN since 4 January 2016.



ASSOC. PROF. HAKAN KARATAŞ

Vice President,
Corporate Management and Human Resources Management

He completed his higher education at the Istanbul University Faculty of Sciences and Letters, Department of English Language and Education. He was employed as a Teacher of English at the prestigious Kabataş Boy's High School in Istanbul between 1996-2000, and as a Lecturer in the Foreign Languages Department of Yıldız Technical University in 2000, where he also continued his career as Deputy Head of the Human Resources Development Centre in 2003. He worked as Executive Assistant to the Rector of Yıldız Technical University from 2004 to 2008, in the meantime he completed his Masters Degree at the Education Sciences Faculty -Department of Education Programs and Teaching in 2007, and later earned his Doctorate from the same Department in 2011. He was employed as an Assistant Professor at the YTU Faculty of Education in 2012. Later in 2016, he was awarded with his Associate Professorship in the field of Educational Sciences by the Inter-university Board. Assoc. Prof. KARATAŞ has published many articles, papers and other publications, undertaking a wide range of projects. He has been serving as Assistant General Manager responsible for Corporate Management in ASELSAN since 2 July 2018.



PROF. DR. MEHMET ÇELİK

Vice President,
Technology and Strategy Management

He graduated from Mechanical Engineering Department of Middle East Technical University (Turkey) in 1989. He obtained his M.Sc. and PhD degrees in Mechanical Engineering from the same department in 1991 and 1997, respectively. During1998-2010 he worked in the industry as the manager of Mechanical Analysis and Test Unit and as a Senior Lead Design Engineer within ASELSAN MST/REHİS. In 2003 he completed his habilitation for the title of Associate Professor Degree in Mechanical Engineering. In 2010 he was appointed as a full professor at KTO Karatay University. Between the years 2012-2015 he worked as Senior Lead Design Engineer and served as a Training and Technical Advisor in the industry. In addition, Prof. ÇELİK served as a Vice President of The Scientific and Technological Council of Turkey (TUBITAK), and as a Member of the Science Board and Higher Education Board Quality Council Member between 2015 and 2017. Besides his duties in ASELSAN, he is still a teaching professor in KTO Karatay University Mechanical Engineering Department and a member of Turkish Academy of Sciences (TÜBA). In April-May 2017 he worked as the advisor of ASELSAN Board of Directors. Professor Dr. Mehmet ÇELİK has been serving as Assistant General Manager responsible for ASELSAN Technology and Strategy Management since April 2017, as well as ASELSAN Academy Board Chairman and board member of Defense Industry Technologies. He was elected as a member of the Higher Education Board with the presidential decree dated 15 July 2018.



YAVUZ BAYIZ

Vice President,
Communications and Information Technologies

He graduated with a BSc. in Electrical/Electronics Engineering from the Middle East Technical University and a master's degree from the same university in 1988. He started his carrier in ASELSAN as a candidate engineer in 1984 and worked as Engineer and Chef Engineer respectively. Yavuz BAYIZ worked as Consumer Communication System Engineer Manager in Communications and Information Technologies Group between 1997-2004, and Civil Communication System Engineering Manager between 2004-2006. He worked as Professional Communication Systems Director between 2006-2014 in Communication Information Technologies Group. In 2014, he was appointed as ASELSAN Vice President and Deputy Chairman of Communication and Information Technologies. He was appointed as Vice President of Communication and Information Technologies as of 1 September 2014.

(In addition to a Member of Board of Directors Bayram GENÇCAN was appointed as ASELSAN Vice President of Communication and Information Technologies as of 05 February 2019.)



OĞUZ ŞENER

Vice President,
Radar&Electronic Warfare Systems

He graduated from Middle East Technical University Electrical and Electronics Engineering Department in 1987. He received his master's degree also from Middle East Technical University Electrical and Electronics Engineering Department in 1990. Oğuz ŞENER, who began his professional life in 1986 as a co-op Engineer in ASELSAN, afterwards worked as an Engineer, a Chief and a Technical Leader. He served as the Electronic Hardware Manager in Microwave Systems Technologies Division in 2000-2007, and Radar Electronic Warfare Systems Design Technologies Director in 2008-2014. Additionally, he served as the President of ASELSAN Technology Supreme Board in 2013-2014. He served as referee for TÜBİTAK Projects and for investments to universities in State Planning Organization; and served as expert for workshops organized by several ministries and TÜBİTAK. He was assigned as the Vice President responsible of Radar & Electronic Warfare Systems in the Board of Directors meeting dated July, 24th 2014, to be effective by September, 1st 2014.



MUSTAFA KAVAL

Vice President,
Defense Systems Technologies

He graduated from Middle East Technical University Mechanical Engineering Department in 1986. He received his master's degree also from Middle East Technical University Mechanical Engineering Department in 1989. Mustafa KAVAL, who began his professional career in ASELSAN as an Engineer in 1986, served as Technical Leader in 1997-2000 and as Project Leader in 2000-2004. He was assigned as the Manager of Gun Systems Program Department in Defense Systems Technologies Division in 2004 and has carried that duty until the year 2012. Afterwards he served as the Director of Air Defense Systems Program Directorate in Defense Systems Technologies Division in 2012-2014. He was assigned as the Vice President responsible of Defense Systems Technologies in the Board of Directors meeting dated July, 24th 2014, to be effective by September, 1st 2014.



DR. İBRAHİM BEKAR

Vice President
Transportation, Security, Energy & Automation Systems

After receiving a B.S. degree in Mechanical Engineering from Istanbul Technical University in 1995, he completed his M.S. and Ph.D. studies at The University of Akron, in 1999 and 2003 respectively. Dr. BEKAR started his professional career in 2003 at Intel Corporation as a Sr. Technology Development Engineer after a short post-doctoral study. During his tenure at Intel, Dr. BEKAR assumed several positions such as Technology Development Manager, Process Development Manager, Area Manager, and Technologist and Staff Engineer focusing mainly on Technology Management and advanced manufacturing process development. He was appointed as the Deputy Director in 2014 for TÜBİTAK Marmara Research Center (MRC) Material Institute. He has also been serving as Turkish delegate to NMBP (Nanotechnologies, Advanced Materials, Biotechnology and Advanced Manufacturing and Processing) program committee Horizon 2020. It has been resolved in the Board of Directors meeting dated January 30th 2018 that İbrahim BEKAR shall be the Transportation, Security, Energy & Automation Systems (UGES) Business Sector CEO and the Vice President of ASELSAN.



PROF. DR. SEZAİ ELAGÖZ

Vice President
Microelectronics, Guidance and Electro-Optics

He completed his undergraduate studies at the Department of Physics of Ankara University Faculty of Science and his M.Sc. and Ph.D. at the Racham Graduate School of Condensed Matter Physics at the University of Michigan in 1993. He served as assistant professor, associate professor and professor in Faculty of Sciences and in Faculty of Engineering at Cumhuriyet University in 1993-2011. He also has served, Dean of the Faculty of Science and Faculty of Technology, as the chair of the Institute of Science, the Department of Physics, the Department of Nanotechnology Engineering, as a board member of the Scientific and Technological Research Council of Cumhuriyet University, member of the Board of various faculties, he also served as a member of the Board of University Senate. He has served as a consultant in ERMAKSAN between 2013-2018, where he has been responsible of the establishment of the optoelectronic infrastructure for the production of high power laser diodes. Professor Dr. Sezai ELAGÖZ was appointed as the Microelectronics, Guidance and Electro-Optics (MGEO) Business Sector President and the Vice President, board meeting held on 13th of June 2018.


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IN 2018

WE GIVE DIRECTION TO **TECHNOLOGY**

Business Development and Marketing Activities

ASELSAN'S ONGOING EXPORT ACTIVITIES AIMING AT INCREASING STRENGTH IN GLOBAL DEFENSE MARKETS SHOWED A RISE BY 50% IN EXPORT SALE FIGURES YEAR-ON-YEAR COMPARED TO 2017 AND EXCEEDED 1 BILLION TL IN 2018.

In 2018, the Business Development and Marketing Directorate maintained intense activities to ancre a strong position in global defense markets based on an export strategy that yields short-term and long-term gains. ASELSAN's export sales revenue grew by 50% in 2018 compared to 2017 and exceeded 1 billion TL. In a context of increased national defense budgets and fierce technology competition, ASELSAN has moved higher from 57th position in 2017 to the 55th position in 2018 on the list of world defense industry companies. In 2018, the Business Development and Marketing Directorate aimed to increase the export sales revenue by penetrating new markets and strengthening its position in existing markets. ASELSAN conducts business development activities and establishes local partnerships in regions and countries where the local conjunctures differ significantly, which as a fact enforce ASELSAN's global identity.

2018 has been a year of intense marketing and business development activities, by which ASELSAN was promoted to wider audiences at international exhibitions and representative events, and a year of newly created synergies. This year, ASELSAN participated in total to 13 exhibitions in Asia, the Pacific, the Middle East, Africa, Europe and America to represent the Turkish defense industry on at international events and to promote brand awareness.

To achieve sustainable exports, ASELSAN maintained its activities with strategic collaborations established in countries / regions abroad.

For instance, the Qatar-based subsidiary BARQ QSTP LLC has been among the investments that strengthen ASELSAN's global corporate identity. This affiliate will not only offer high value-added and reliable products and system solutions to domestic and international customers, but also provide ASELSAN to closely track the cooperation opportunities in the country.

The expansion of activities of Kazakhstan - ASELSAN Engineering into the production of additional devices / systems, and particularly the inclusion of stabilized weapon systems and the military radio family in the portfolio of Kazakhstan - ASELSAN Engineering have contributed to ASELSAN's export



Gambian National Guard Commandership delegation visiting ASELSAN premises.

figures. Furthermore, actions related to the preparations for a technology transfer on communication systems have been accelerated. In Indonesia, the integration and delivery of locally produced SARP Stabilized Weapon Systems and software defined radios have been complete. The preparations to open a project office in the country have started in order to closely track the current projects and the multiple business opportunities in the country.

IN 2018, ASELSAN ASCENDED BY TWO RANKS ON THE DEFENSE NEWS TOP 100 LIST AND RANKED 55TH.

As a result of the ongoing business development efforts, ASELSAN's first contract for NEFER 25/30mm Weapon Station and the second contract for ARSUS Reconnaissance and Surveillance System have been signed. Additionally, fruitful results have been obtained on equipping naval and land platforms with ASELSAN's payloads within the framework of tank and howitzers modernization needs of several countries.

In 2018 the number of countries using ASELSAN's Remotely Controlled Weapon Stations has increased to 16.

The presentation, promotion, and marketing of adaptable solutions in border security systems, Modular Base Security Solution, and MIDAS (Multipurpose Intelligent Distributed Acoustic Sensor) have continued on a large geography.

An intense marketing and business development work pursued in the Middle East, North Africa and Sub-Saharan Africa during 2018. Special emphasis is given to the establishment of local cooperation with the aim of ensuring client satisfaction and adding new clients to the portfolio.

ASELSAN's field proven systems and improved solutions with feedbacks from the end users have been engaged in crucial projects in Europe and Americas, that host world's top defense companies, which will yield results in 2019.

The dedication to reach ASELSAN's high export sale potential endorsed by a wide range of products and an advanced technology, will pursue with the same eager in 2019.



The president Ilham Aliyev, president of Azarbaidjan, visiting ASELSAN's booth at ADEX 2018 exhibition.

Human Resources Management at ASELSAN

In 2018, thanks to our highly talented employees, we have retained our leading position in developing local and national solutions. 2018 was a year in which organizational commitment, employee motivation and communication were the emerging topics for Human Resources (HR) Management. Bearing in mind that each and every one of our employees is also a brand ambassador of ASELSAN, we took serious actions to strengthen employee commitment and also develop efficient feedback mechanisms. ASELSAN, taking the improvement of its talent pool and attracting best-in-class employees both from local and global resources as a mission, recruited 1,000 new employees. Additionally, in our journey to operational excellence, we continued to review our HR policies and put into practice necessary improvements with a systematic approach.

WE ARE STRENGTHENING OUR EMPLOYER BRAND

As always, as the most reliable supplier of The Turkish Armed Forces, this year again we came together with young talents at every opportunity. We attended 34 different career activities all across Turkey to strengthen our employer brand and also to retain our competitive advantage to reach high-caliber talent pools. Through those activities we found the opportunity to put across the details of the fringe benefits, learning and development resources and flexible work hours offered by ASELSAN, while mentoring people who aim to pursue a career in the defense industry.

In addition to career activities, we attended many diverse activities, among which the Teknofest İstanbul Aviation, Space and Technology Festival is the most important one. During this 4 day-festival, with more than 500,000 attendees, we shared our dream of making significant contributions to the future of Turkey.



WE CONTINUE TO BE THE FIRST CHOICE OF YOUNG TALENTS



In 2018, ASELSAN was again the most preferred employer, with its strong employer brand. Results of the Most Attractive Employers Survey, which was organized by UNIVERSUM with the participation of more than 41,000 students from 46 universities and more than 13,000 young professionals (with 3 years of experience on average), revealed that our employer value proposition meets their expectations. According to the results, in 2018 ASELSAN again holds its first position as in 2017, by being the most attractive employer in the field of engineering and IT.

We rose to third place in The Most Favorite Companies Survey organized by Bloomberg Businessweek and Realta Consultancy, with the participation of 200 companies and 20,000 students. Since we were ranked among the top 10 list in 2013, we have steadily risen and have now secured our position as being the favorite employer of generation Y.



WE ARE LISTENING TO OUR EMPLOYEES

2018 was a year that we developed efficient feedback mechanisms and listened to each other.

Within this scope, our first activity was to arrange interviews with selected employees and managers representing the ASELSAN family. During these interviews (without a preset time limit), we had the opportunity to directly comprehend the perceptions of our employees about the HR applications and also the effectiveness of those applications.

We started the Voice of the Employee Workshop series as a part of our changing corporate management perspective. We invited more than 1,500 young engineers to the first workshop in October 2018. ASELSAN top management also actively participated in the sessions while our employees were freely sharing their opinions and perspectives. At the end of the workshop, all the feedback collected from participants under the topics of motivation, performance, wages and career management were analyzed and planned action items were shared with all ASELSAN employees.
We continued receiving the opinions of our employees via the annual Employee Satisfaction Surveys. Moreover, we restructured our exit interview process which led us to explore the aspects of employee experience that should be improved.

In 2019, we aim to enrich the feedback mechanisms, gather feedback from all employees and increase the level of satisfaction and commitment by continuing to conduct the one-to-one interviews, the workshop series and surveys.

WE ARE CONDUCTING FAST, EFFECTIVE AND QUALITY-ORIENTED HR OPERATIONS

In 2018, we kept enhancing our operations to be faster and more effective without sacrificing the sense of quality. We utilized technology to make HR services easier to access.

By resolving 18,000 requests through online HR Help Desk, we met the needs of our employees in the fastest way possible and created extra time for them. This online platform contributed to our solution-oriented and easy-to-access HR philosophy by creating an environment where people can easily share their questions and opinions.

We continued improvement activities with a process management approach, integrating every piece of data in our analysis, which will contribute to improved corporate performance. Through these processes, we made progress in most metrics that we follow, particularly in time-to-hire.

At the same time, in order to supply our new hires with all social and technical support to ease their orientation process starting from their first day at ASELSAN, we are diversifying onboarding activities. Our goal for new hires in 2019 is to adapt them to ASELSAN culture, values and desire to succeed in the fastest way possible.

In 2019, we will continue to closely communicate with our employees and to enhance our fast, solution-oriented and accessible HR policies.

Technology and Strategy Management

Since its establishment in 1975, ASELSAN has not only brought the world's most advanced defense technologies to the Turkish Armed Forces through national sources, but has also become Turkey's pride by exporting high technology products to five continents. ASELSAN's major strategic advantage is producing high-tech solutions sensitive to the customers' needs. To protect this competitive edge, ASELSAN embraces a dynamic technology and strategy management by taking account of emerging technologies and changing needs of Turkey.
Our self-funded R&D projects help us study advanced core technologies to offer innovative, national, competitive and exportable products. In line with our strategic objectives, we create and monitor technology road maps as well as infrastructure installment and development plans. With the help of several bodies such as the National and Domestic Product Development Board and the Intellectual Property Rights and Publications Board, ASELSAN's business sectors provide fast and efficient solutions concertedly. Moreover, feasibility studies for ASELSAN's strategic tech subsidiaries and investments are prepared in line with our future strategies.

We also carry out preliminary research to increase ASELSAN's technological capabilities at ASELSAN Research Center in cooperation with several universities. Moreover, the ASELSAN Academy encourages postgraduate studies in light of ASELSAN's technology road map. We also make every effort to increase personnel competency through corporate development and training programs.

STRATEGY MANAGEMENT

Adopting a strategy in harmony with its vision and mission, ASELSAN aims to grow, embrace globalization, create value for its customers, conduct R&D studies, remain competitive and efficient, and improve its human capital and financial structure. In this respect, we have built a Strategic Plan covering a five-year period. Accordingly, we have developed a compliance monitoring program within the Strategic Management System. We also carry out examinations, analyses and reporting to support our strategic decisions.

Planning and Corporate Activities

As part of the Strategic Management System, ASELSAN's strategies revolve around its vision and mission statements, core values and the company's competitive edge over the market. Accordingly, we develop effective strategies in line with the strategies of our stakeholders, especially with those of the Turkish Armed Forces Foundation (TSKGV). We coordinate relevant goals and objectives, periodically monitor how well we performed towards such goals and measure the outcomes. We also deploy reporting mechanisms to plan and conduct our investments in accordance with our technology objectives and evaluate their returns. In ASELSAN, we have been spreading successful practices across our organization by reviewing and evaluating the best applications, submitting proposals, and developing pilot schemes.

Corporate Performance

We measured our 2017 year-end action plan accomplishments. As part of the action plan, we initiated a design project to transfer the data collection, monitoring and processing mechanism into a digital environment. We evaluated 2017 target cards and put 2018 target cards into the digital environment for open access to authorized users. We also built a Strategic Plan for 2019-2023 and published it upon approval. Furthermore, we started to work towards determining the indicators and target values for the 2019 target cards.

To improve our applications and processes throughout the factory, we conducted an analysis to centralize Integrated Logistics Support activities. In addition, by evaluating in-house project management processes and tools, we have been studying the common use of these processes and software tools to share best practices across our company.

TECHNOLOGY MANAGEMENT

Technology Road Map

In 2018, we redesigned our technology road map to devise a comprehensive Technology Road Map and Investment Plan (TRMIP). To develop such scheme, we took account of our internally-financed R&D projects, investment plans, our technological depth, thesis topics, technologies that must be domestically-produced and innovative technologies as well as the plan's compliance with our strategic plan. Additionally, we transferred the TRMIP to a digital environment to facilitate data monitoring, collection and categorization.

We also built a new method to quantitatively measure the progress of ongoing projects within the TRMIP. In this way, we can observe the "Technological Development Indicator Year-End Target Status" based on the relevant projects' "Technology Readiness Levels."



ASELSAN Self-Funded R&D Management Process

Mission
Values
Vision
Strategy Management
Research Center
Self-Funded R&D Projects
ASELSAN Academy
Technology Road Map and Investment Plan
Technology Management of ASELSAN Business Sectors

A Conference on ASELSAN's Critical Technology and Innovation Investments and Search for Acquisitions



We carried out a preliminary study to identify the critical technologies that will help ASELSAN make greater contributions to the Turkish defense industry and investors, and achieve sustainable growth and profitability. These technologies should be in harmony with our investment strategy and improve our competitive edge. Therefore, we held a research conference in August with the participation of ASELSAN business sectors and the Research Center.

Attended by nearly 250 people, the ASELSAN Critical Technology and Innovation Investments and Search for Acquisitions Conference welcomed recommendations from the business sector representatives and the Research Center.

We discussed technology acquisitions and which technologies should we invest in. Additionally, round table meetings were held to evaluate investment proposals. All investment proposals were discussed with active participation. The prioritized proposals were determined through consensus and submitted to the approval of the senior management.

Managing Self-Funded R&D Projects

Innovation is the most important key for ASELSAN to improve its competitive power. ASELSAN, in accordance with its strategical aims, runs self-funded R&D projects by utilizing its internal resourcesin addition to contracted projects. Every year, ASELSAN invests 7 percent of its annual revenues in self-funded national and innovative R&D projects to upgrade its existing systems and integrate emerging technologies into these systems. Towards this goal, ASELSAN Self-Funded R&D Management Process, prepared by the end of 2017, became operational in 2018 and helped accelerate the projects of the six ASELSAN R&D Centers and new projects in line with the strategic road map were initiated.

In the scope of this process, projects innovation and nationalization aimed projects complying with the TRMIP has been prioritized, and infrastructure development and laboratory needs are planned and addressed. Cooperations with several universities are made, since the self-funded R&D projects involve new technology titles. Additionally, it is aimed for students in the ASELSAN Academy to do their graduate work on these topics.

R&D projects are tracked through a management and monitoring system, and all projects are tracked and assessed by an internal referees. The projects are launched after the evaluation and decision made by the Self-Funded R&D Projects Committee, which consists of the ASELSAN R&D Centers' representatives, and then periodically monitored by the competent internal referees from technical and financial point of views.

As of 2018, there more than 100 R&D projects are run in ASELSAN, involving self-funded ongoing and new projects.

DEVELOPING NATIONAL AND DOMESTIC PRODUCTS

ASELSAN has developed a systematic approach to accelerate the activities for domestic and national production of the goods that she currently procure or plan to procure from abroad.



Removing export license restrictions of the imported materials

Reducing material costs and

Obtaining technological competence

Reducing industry's dependence on imported materials supplied from a single source in overseas

For this purpose, new studies have beem initiated, various committees have been established and several management procedures have been defined. The information and reviews of all ASELSAN business sectors are coordinated by the Technology and Strategy Vice Presidency.

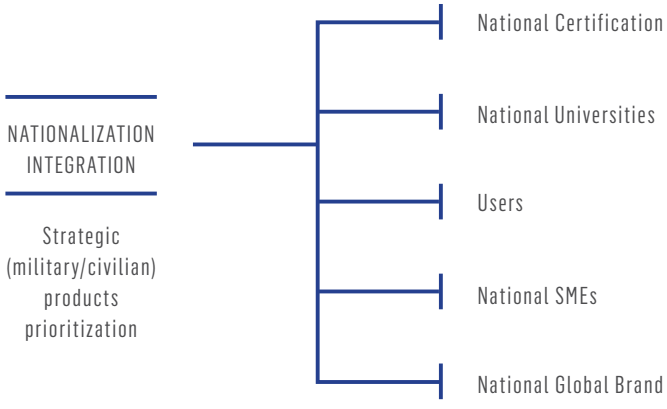
Under the leadership of the Technology and Strategy Vice Presidency, National and Domestic Product Development Board (MYUG), consisting of Representatives of the business sectors and the Central Procurement Department, was established. All imported materials and systems that are needed in production and development processes are examined and evaluated according to the the needs of the industry, as well as those of ASELSAN, detailed plans and aims are set particularly for critical products that are imported in large amounts.

By using ASELSAN's own funds and external incentive programs, national and domestic product development activities and projects are carried under the control of the Board and in coordination with subcontractors, SMEs and universities.

In relation to these studies, the indicators for Use Development of Domestic Contractors has been established in the 2018 Target Cards of the business sectors.

With this indicator, it is encouraged that the ratio of purchases made from local contractors and the selected materials is going to be produced by the sector or other companies in Turkey.

Different ways are sought and followed for the SMEs to produce the products imported, domestically. Upon careful technical evaluation, Memorandum of Understanding letters are prepared for and submitted to 16 suitable companies in order for those SMEs to benefit from KOSGEB's strategic product support. ASELSAN awarded the greatest number of Memorandum of Understanding letters under the defense industry title.



The amount of activities aimed towards developing national and domestic products are enhanced. Henceforth, a list of imported products that can be developed by domestic SMEs was prepared,and presented at various events, such as SAHA EXPO and Konya Defense and Aviation Days. These activities helped ASELSAN to reach SMEs and sub-industry companies for over 100 products in 2018. In addition, to increase the number of sub-contractors, additional lists for some of domestically purchased products are prepared and shared with SMEs. As a part of our national and domestic product development activities, meetings are held with various business clusters in 2018, as well as with several companies through participation in relevant workshops organized by the Presidency of Defense Industries and the Defense Industry Manufacturers Association.

R&D COLLABORATIONS AND TECHNOLOGY TRANSFER ACTIVITIES

To follow the latest technologies and scientific research in the areas addressed by the ASELSAN Technology Road Map, we're holding meetings with universities, research centers, technology transfer offices and techno-parks. Accordingly, we launch R&D projects in cooperation with such institutions.

ASELSAN Establishes a Research and Test Center in the Turkish Republic of Northern Cyprus

To conduct R&D studies and perform tests, ASELSAN opened a branch at METU-Kalkanlı Technology Valley (ODTÜ-KALTEV), a technology development zone, with the approval of Turkish Republic of Northern Cyprus Council of Ministers. This branch will operate under the name of Cyprus Advanced Technologies Research

Program Directorate, reporting to the ASELSAN Research Center Directorate. The office and laboratory areas needed for ASELSAN's activities will be provided. We also work towards establishing the necessary infrastructure in Cyprus for ASELSAN to test the communication and energy technologies.

With the projects to be launched at ODTÜ-KALTEV, ASELSAN will not only benefit from the great academic potential of Northern Cyprus but also use the region as a testing center for the technologies it will develop.



ASELSAN Konya Silah Sistemleri A.Ş.

ASELSAN Konya Silah Sistemleri A.Ş. was established on November 12, 2018, to gain a significant share in not only the domestic market but also international markets by combining the weapon production capability of Konya region with the R&D culture of ASELSAN regarding the design and manufacturing of weapons systems, and the weapons that cannot be produced in our country. Fifty-one percent of the company is owned by ASELSAN and the other 49 percent by Konya Savunma Sanayi A.Ş.

A facility with a closed area of 35,000 m² will be built as part of this new company.



ASELSAN Konya Silah Sistemleri A.Ş. Facility

ASELSAN is growing in İstanbul

Developing mainly naval systems at the rental building of Technopark İstanbul in Pendik, Kurtköy, ASELSAN has decided to expand in Istanbul with new activities other than naval systems. We plan to build a new ASELSAN building with a large indoor area in Technopark Istanbul to establish the necessary infrastructure for numerous technologies that will serve not only the Turkish defense industry but also civilian industries. This building will bring together defense and aviation organizations and companies. Technopark İstanbul Administration allocated a prestigious area of land to ASELSAN to build its own facility. In Istanbul, ASELSAN will mostly focus on surface and underwater technologies, railway signaling and modernization, health systems, naval electro-optical systems, unmanned vehicle systems, and bio-defense and advanced material technologies.

Teknopark İstanbul



Intellectual Property Rights Board

ASELSAN established the Intellectual Property Rights Board to guide the strategies and studies regarding ASELSAN's intellectual and industrial property rights and publications. This new board will govern the commercialization strategies of ASELSAN's intellectual and industrial property rights; evaluate and approve applications to the Turkish Patent and Trademark Office and similar international organizations upon receiving proposals from patent committees within research centers; establish and ensure the coordination of control mechanisms that will evaluate articles, publications, theses, presentations, and so on, in terms of originality and confidentiality, prepared by ASELSAN personnel as part of external activities.

ASELSAN Research Center

AT ASELSAN, WE ALLOCATE 7 PERCENT OF OUR ANNUAL REVENUES FOR INTERNALLY FINANCED R&D PROJECTS. AND WITH MORE THAN 3,500 R&D EMPLOYEES, WE CONTINUOUSLY IMPROVE OUR TECHNOLOGY ACQUISITIONS AND DEVELOPMENT ACTIVITIES.

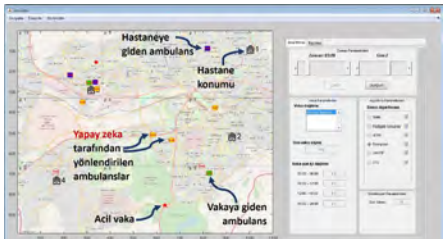
Natural Language Processing and AI Technologies

Recent developments in artificial neural networks and deep learning have ushered in a new era for natural language processing. The success of these techniques has also been improving our daily lives. Making use of complex networks, natural language processing has its own specific challenges. It is difficult to deal with polysemic or sophisticated concepts.

ASELSAN Research Center designs flexible mathematical models that overcome these challenges and adapt to the complexity of Turkish language. Taking advantage of deep learning, the Center is conducting pioneering work to cope with the difficulties in interpreting natural language processing models. It also develops new generation NLP technologies to be utilized in future intelligent systems.

Reinforcement Learning Algorithms

ASELSAN has developed a system to instantly determine the nearest ambulances to the emergency call area. By using reinforcement learning (RL), a rapidly developing area of machine learning, the system learns city dynamics to estimate emergency call distributions and traffic volume. The Machine-Learning-Based Ambulance



Management and Routing Simulator Development Project, which was supported by the TUBITAK 1501 program and completed in 2018, showed that using RL to train an AI can be more successful than the widely accepted methods in the literature with respect to solving the dynamic ambulance relocation problem. This work has introduced a new approach for the ambulance relocation problem by using an AI that learns the city only from realized observations, without relying on the traffic and case distribution information from other sources. In addition, the multi-objective optimization of the AI problem realized a reduced time to arrival for ambulances, even in the worst-case scenarios. Moreover, RL experience gained from this project will help ASELSAN use AI in command and control applications.

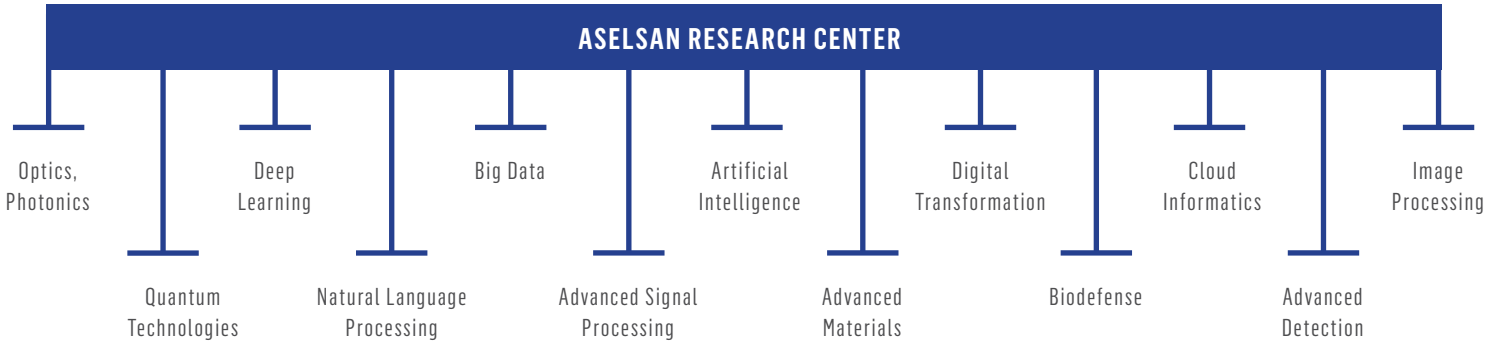
Face Recognition

To deploy deep learning based methods to face recognition problem, ASELSAN Research Center has launched a project on developing artificial neural networks to excel at recognizing human faces. In this context, researchers are also utilizing generative adversarial networks (GANs) to generate realistic face images and to produce more effective representation learning algorithms.

Autonomous Technologies of the Future

Autonomous systems supported by artificial intelligence will completely change the future of the defense industry and future doctrines of war. In order to maximize the opportunities and capabilities of our country with respect to these developments and needs, we established Autonomous and Mechatronic Technologies Research Program Department within ASELSAN Research Center.

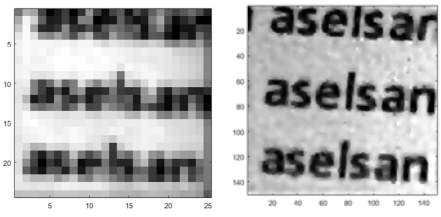
In this department, researchers have started to work on new technologies for unmanned aerial vehicles. ASELSAN products will become more autonomous and competitive thanks to these efforts aiming to integrate AI algorithms to unmanned aerial platforms. These AI algorithms developed by ASELSAN Research Center have recently started to be integrated to ASELSAN systems. By making our systems smarter and establishing secure communication between them, we will not only increase their capabilities but also allow them to work in coordination. In addition to developing autonomous technologies, we will also improve the design,



strength and control of our mechatronic systems that are already utilized in ASELSAN systems to improve the capabilities of our products.

High Resolution Infrared Imaging

Optimization-based advanced imaging techniques are developed at ASELSAN Research Center by using compressed sensing and computational imaging methods. Using digital micromirror devices, we have designed and showcased a prototype imaging system beyond sensor resolutions. For real-time implementation of the developed algorithms, we evaluated GPU and FPGA technologies and ran applications on these architectures. We demonstrated the performance of these algorithms in the visible spectrum and short-wave infrared (SWIR) bands. Our algorithms successfully achieved 36 times the resolution of a commercial infrared camera using the SWIR band. Thanks to this study, infrared cameras can potentially achieve higher-resolution images without compromising on imaging speed. In the medium term, we aim to integrate the acquired technologies into the infrared cameras developed by ASELSAN.



Compressed Sensing Radar Techniques

Through its own compressed sensing and advanced optimization techniques, ASELSAN Research Center is developing novel algorithms to decrease the number of T/R module and antenna elements of phased array radar systems and optimize their placement. Simulation studies have shown a higher detection performance can be achieved at similar system complexity with compressed sensing system architectures. We examine sample scenarios where the size, weight, power consumption and costs of radar systems can be reduced, while design, production, integration and verification processes can be greatly shortened. And we have started to develop real time compressed sensing radar prototypes and implement these algorithms on FPGAs.

Computational Imaging

As part of the project carried out with the support of TÜBİTAK and the German Ministry of Education (BMBF) in the field of magnetic nano-particle imaging together with international partners (Bilkent University-UMRAM, Lübeck University and Nano4Imaging), we have developed algorithms that provide high-quality imaging and fast system calibration. We have also shown that real-time imaging can be performed by running these algorithms on GPUs. We designed an open-bore prototype scanner, produced its components and started the process of integration.



Biosensor Projects Towards CBRN

We are working on the development of unique and innovative bio-sensor technologies that perform mobile testing and diagnosis of various bioterrorist agents by combining original techniques from nano-biotechnology, molecular biology, optics and optoelectronics. The first prototype has successfully proved its effectiveness by detecting the hepatitis B virus antigen and the transferrin molecule in the laboratory. In cooperation with various institutions and universities, we have launched studies on detecting various bio-terrorist agents. In this way, we aim to help our country gain an important new capability against biological threats.

aselsanakademi

THE ASELSAN ACADEMY GRADUATE EDUCATION PROGRAM WAS IMPLEMENTED IN ORDER TO INCREASE THE NUMBER OF QUALIFIED AND SPECIALIZED PERSONNEL NEEDED BY THE INDUSTRY, WHICH HAS BEEN A LONG DISCUSSED ISSUE AND ONE FOR WHICH A SOLUTION HAS LONG BEEN SOUGHT IN OUR COUNTRY. IN THIS REGARD, WE'RE INTRODUCING AN INNOVATIVE SOLUTION TO CONTRIBUTE THE TECHNOLOGICAL DEVELOPMENT AND KNOW-HOW OF AN INDUSTRY BY ENCOURAGING PERSONNEL TO PURSE THEIR MSC & PHD DEGREES AS WELL AS R&D ACTIVITIES WITHIN PROJECT SPECIFIC ENGINEERING PROBLEMS AIMING TO INCREASE KNOWLEDGE AND TO SUPPORT PERSONNEL'S ACADEMIC PROGRESS VIA ENGAGING THEM TO WRITE THEIR THESES ABOUT THE PROJECTS THEY ARE INVOLVED.



ASELSAN Academy Graduate Education Program

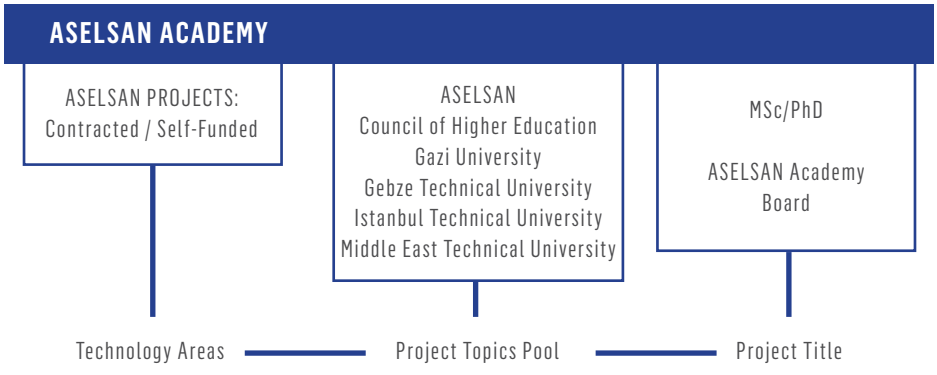
Several universities were brought together through the ASELSAN Academy under the coordination of Council of Higher Education (YÖK), which became operational in 2017-2018 Fall Semester, forming a cooperation model in a single program. The ASELSAN Academy Model allows the applicant (the ASELSAN employee), who applies for the graduate program and fulfills the necessary conditions, to take courses and conduct R&D activities about the projects they involve as part of their engineering roles within the company. At the end of their studies the applicants are expected to write a thesis and present current research's findings related to that specific project.

In this way, students start to embrace a goal-oriented approach for their tasks. With this program, ASELSAN trains personnel and let them to be specialized in their fields and to apply the results of their theses in ASELSAN projects, which will allow ASELSAN to easily arrive at innovative solutions that will improve its competitive edge.

The program, which began on October 2, 2017, also give chance to the University Partners to give lectures at ASELSAN territory as their off-campus enabling ASELSAN employees to take courses at ASELSAN without leaving the company. This model increase direct University & Industry collaboration. The evaluation of the first semester was held on January 4, 2018 with the ASELSAN Academy Board and the partnering universities' rectors at YÖK headquarters.

The Signing Ceremony of the Graduate Education Protocol Between ASELSAN and Partnering Universities and the ASELSAN Academy Presentation Program

The program was presented by Prof. Mehmet Çelik, Ph.D., ASELSAN Vice President and Chairman of the Board of ASELSAN Academy; Ziya Altunyaldız, the President of the Parliamentary Commission on Industry, Trade, Energy,



Natural Resources, Information and Technology; Prof. İsmail Demir, Ph.D., President of the Presidency of Defense Industries; and Prof. Yekta Saraç, Ph.D., Chairman of the Council of Higher Education. The presentation of ASELSAN Academy was held on March 8, 2018, along with a signing ceremony between the university rectors, Chairman of the Board of ASELSAN Academy and Chairman of the Council of Higher Education.



ASELSAN Academy Starts Its Second Academic Year

ASELSAN Academy Graduate Program started its second academic year at September 24, 2018. A total number of 56 courses were offered in the fields of Electrical and Electronics Engineering, Mechanical Engineering, Computer Engineering and Materials Engineering, taught by 48 lecturers.

ASELSAN ACADEMY IN NUMBERS

2018-2019 Fall Semester

303 TOTAL STUDENTS

239 MASTER'S DEGREE

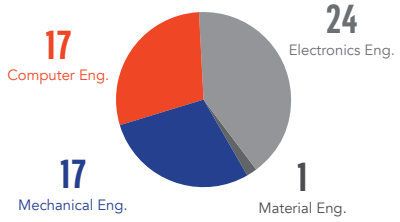
64 Ph.D.

48 LECTURING PROFESSORS

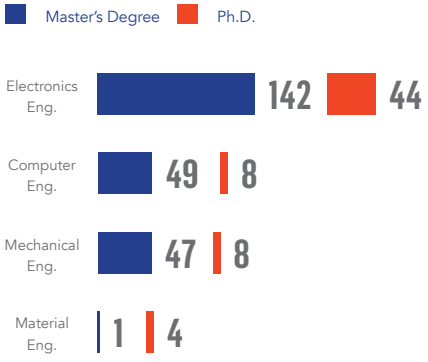
56 TOTAL COURSES

With the new 2018-2019 Spring term applications, the number of ASELSAN personnel involved in ASELSAN Academy Graduate Program will reach 400.

COURSES



DISTRIBUTION OF STUDENTS AMONG DEPARTMENTS



ASELSAN Academy Workshop at METU Northern Cyprus Campus

The first ASELSAN Academy Workshop was held at METU Northern Cyprus Campus with the participation of our Research Universities (METU, ITU, Gazi University and Gebze Technical University) which are part of the ASELSAN Academy program on 13-15 October 2018. Master's thesis and doctoral dissertation topics that are specified by ASELSAN on the projects it will develop on high and advanced technologies are discussed in detail with the professors from the partner universities, ASELSAN by taking account of the projects it will launch on high and advanced technologies.



Learning and Corporate Development

The Learning and Corporate Development Directorship carries out activities to ensure that individuals and teams develop in an institutionally integrated manner. To this end, it strives to promote individual and institutional learning and development, increase the competency levels of employees and the institution, and create knowledge sharing platforms to generate a corporate memory. The Learning and Corporate Development Directorship has been supporting ASELSAN's corporate goals and strategies by making sustained efforts to raise the competency levels of ASELSAN employees and further corporate development. In this context, the Directorship systematically ensures that learning and development activities are in line with ASELSAN strategies and business plans, and they are constantly measured and improved.

ASELSAN Competency Model

Efforts are ongoing to define a competency concept so that learning and development activities can be planned based on competency and in line with ASELSAN's strategies and business plans. For this purpose, we established teams with our expert and experienced employees in order to determine the technical competencies. In the first phase, we defined 14 main competence topics and 46 competence elements for product life cycle and system engineering. And for these competencies, we identified 281 behavior indicators, 71 notions and 272 skills at 4 different levels.

In addition to competency modeling studies, we have also launched projects to support our employees in areas that they can improve on by matching behavioral competencies with the existing training plan. We matched 36 competencies, which are part of the behavioral competency model, with 29 training sessions by considering learning objectives. By using these matches, we will ensure that the 2019 behavioral competency assessment results will be included in the training plans. We aim to create a proactive training plan towards the needs of our employees regarding their tasks by determining the technical and behavioral competencies and the training that must be taken to gain these competencies.

Learning and Development Activities

The performance of design and development activities carried out in ASELSAN is closely related to qualified and sustainable intellectual capital. Making investments in employee learning and development will help us not only enhance the intellectual capital of our Company, but also increase efficiency, innovation and employee satisfaction at ASELSAN. In this way, we will create a highly motivated employee profile that embraces the ASELSAN culture. As part of this vision, the internal trainers at the Learning and Corporate Development Directorship provided 18,317 man hours of training. Additionally, the Directorship organized 24,905 man hours of training under 57 different titles, and arranged 47,907 man hours of compulsory occupational health and safety training.

We completed a total of 7,132 man hours of technical training, 2,937 man hours of management training, 7,322 man hours of specialization training, 7,410 man hours of personal development training, and 104 man hours of general information training. In 2018, we took steps to create the necessary IT infrastructures for more widespread use of methods that support classroom trainings such as e-learning.



Workshops for Information Sharing

In order to preserve corporate memory and disseminate the acquired knowledge and lessons learned, we continued to organize information sharing meetings and workshops in 2018. In March, we organized a Shared Wisdom Workshop with the participation of the Information Management Directorate staff and the subject matter experts involved in the related processes. The workshop evaluated the new processes described with the Information Technologies Demand Management Instrument, which was put into practice in 2017. The third session of the Material Workshops, organized with the participation of researchers from several universities and ASELSAN personnel, was held in May. In order to create an environment where

our employees can share their ideas and opinions with our senior management, the first of the Voice of the Employees Workshops, under the name "You are Our Future", was organized in October with the participation of approximately 1,500 engineers. The opinions and suggestions proposed in the workshop were combined with the questionnaire conducted after the event to produce a report. The report was then shared with all of our employees.

We also continued organizing Information Days for sharing the works of ASELSAN scholarship holders with our employees.

Long-Term Workforce Enhancement Program

The Learning and Corporate Development Directorship coordinates the scholarship and internship programs launched with the aim of contributing to ASELSAN's workforce in the long term. In this respect, internships were provided for 1,000 university students, and vocational training was given to 299 students at high school, vocational colleges and technology faculties. In 2018, a total of 13 people, including three ASELSAN staff, received scholarships for doctoral and post-doctoral research both in Turkey and abroad.

In order to ensure that the specially talented high-school students have the opportunity to observe the practices in the defense industry, gain insight and motivation regarding engineering and other related areas, and to improve their future contributions to our country, we conducted a four-week training program in July for 15 high-talented students selected by the Ministry of National Education from the Istanbul R&D Education and Application Central High School.

Vocational and Technical Anatolian High School

A training protocol was signed in ASELSAN Macunköy facilities between ASELSAN and the General Directorate of Vocational and Technical Education (MTEGM) of the Ministry of National Education. The ceremony was attended by Prof. Ziya Selçuk, Ph.D., Minister of National Education; Prof. İsmail Demir, Ph.D., President of the Presidency of Defense Industries; Prof. Haluk Görgün, Ph.D., ASELSAN Chairman of the Board of Directors and General Manager; and a great number of distinguished guests. The protocol specified the vocational and technical training activities to be carried out with the cooperation of MTEGM and ASELSAN in order to raise a qualified workforce for the defense industry. As part of the protocol, a Vocational and Technical Anatolian High School will be established to prepare young people for the Turkish defense industry. The school will bear the name ASELSAN.





Highlights of 2018

ASELSAN SUCCESSFULLY COMPLETES SECONDARY PUBLIC OFFERING



ASELSAN's paid-in capital rose to 1.14 billion Turkish lira and the free float rate to 25.7 percent after the secondary public offering. At the gong ceremony, ASELSAN Chairman and CEO Prof. Dr. Haluk GÖRGÜN, said, "ASELSAN is Turkey's shared value."

ASELSAN shares started to be traded on Borsa Istanbul again, after a book building exercise on May 31 and June 1, 2018, to complete the secondary public offering. The attendants in the gong ceremony included Sadık PİYADE, Turkish Armed Forces Foundation, Deputy General Manager; Prof. Dr. Haluk GÖRGÜN, ASELSAN Chairman and CEO; Himmet KARADAĞ, Borsa Istanbul, Chairman of the Board and the Executive Committee; Murat ÇETİNKAYA, Borsa Istanbul, CEO and Member of the Board and the Executive Committee; and the executives of investment companies that comprise the secondary public offering's consortium: Ak Yatırım, Garanti Yatırım, İş Yatırım, Vakıf Yatırım, Yapı Kredi Yatırım and Ziraat Yatırım.

ASELSAN Chairman and CEO Prof. Dr. Haluk GÖRGÜN emphasized the extraordinary interest in ASELSAN shares particularly from individual investors: "I would like to thank all investors who have trusted Turkey and believed in ASELSAN. Their trust gave us strength and showed that we are indeed "the dream of our nation" in the secondary public offering which attracted over 64,000 investors with a much higher demand than expected."

ASELSAN's paid-in capital rose by 140 million Turkish lira to 1.14 billion Turkish lira and the free float rate to 25.7 percent after the secondary public offering. This public offering was a first that brought together six domestic intermediary institutions as consortium leaders and made shares available to both domestic and international investors. The total number of domestic individual investors reached 62,802, the highest number in the last 10 years. Additionally, ASELSAN sold 1.8 billion Turkish lira worth of shares, the greatest amount in the last 10 years, to domestic individual investors, while the total demand amounted to 3.4 billion Turkish lira.

The secondary public offering allocated the largest number of shares, 60 percent of total shares, to domestic investors. In the end, 80 percent of the shares were purchased by domestic investors. Domestic investors demanded 132,398,750 shares and bought 111,804,108 shares. International investors, on the other hand, demanded 28,195,892 shares and their demand was fully met.

ACAR'S NEW ADDRESS IS ARGENTINA



Argentina Armed Forces invited tenders for a new ground surveillance radar at the Argentina Military Attaché's Office in Washington, DC.

ASELSAN attended the meeting with the ACAR Ground Surveillance Radar. ACAR won the tender by outperforming ELTA and THALES products, since it better met the technical requirements and offered a better price. Then the amount to be purchased was increased upon the purchase order by the Argentina Armed Forces.

In addition to the Turkish Armed Forces, the ACAR Surveillance Radar Family was introduced to the armed forces of several countries such as Poland, Uruguay, Indonesia, Turkmenistan, Qatar and Argentina. Given ever-evolving technology and customer needs, the ACAR Surveillance Radar Family is expanding everyday. The new member, ACAR-Unmanned Aerial Vehicle (UAV), is able to detect, monitor and classify hundreds of mini-micro UAVs day and night, in all weather conditions.

ASELSAN CLIMBING UP IN DEFENSE NEWS TOP 100

ASELSAN has moved up two places in the worlds top defense industry company listing and currently ranks at the 55th position globally.

A leading Turkish Armed Forces Foundation Company, ASELSAN is consistently climbing up the list published every year by the Defense News magazine, which is a military publication based in the USA.

ASELSAN first made it on the Defense News Top 100 list in 2006. Exponentially increasing its success rate with the projects it undertakes, ASELSAN was ranked 57th last year. ASELSAN was ranked 55th with company revenues reaching 1.5 billion USD. The Defense News Top 100 is widely accepted as the most prestigious defense industry listing in the world, and rankings are determined according to defense sales from the previous year.

ASELSAN Chairman of the Board and CEO Prof. Dr. Haluk GÖRGÜN noted that the company is the most important source for the Turkish Armed Forces in the area of electronic equipment and systems. Prof. Dr. GÖRGÜN went on to say: "ASELSAN continues to operate with the aim of becoming



one of the best in the world, besides striving to be fully independent in terms of technology. And as we carry this out, providing domestic and national solutions is a priority target. We will continue to work for Turkey's technological self-reliance and development, primarily in the area of defense. We will strive to support Turkey in reaching the projections for 2023, by strengthening our international trade relations and increasing our global exports in line with our sustainability targets."

Highlights of 2018

OUR MISSILE LAUNCH SYSTEMS GO INTERNATIONAL

Kiev, Ukraine. The whole process from developing the system, producing the prototype, to the final test launch was completed in only six months. This project was realised in conjunction with LUCH and SPETSTECHNOEXPORT in the Ukraine. During the test a Telemetry Missile and a missile with warhead accurately hit targets four kilometres away.



ASELSAN ENHANCES TANK CAPABILITIES WITH FIRAT-M60T PROJECT



The FIRAT-M60T Project was initiated and carried out with the aim of providing better protection for the M60T main battle tanks against anti-tank threats and terrorist elements, while enhancing the existing systems with additional capabilities. Even though the project has been running for less than a year, a great number of M60T tanks have been already upgraded.

The M60T tanks that have been upgraded by ASELSAN under the guidance of the Presidency of Defense Industries (PDI) have been recognised for their high performance in the field. Accordingly, an amendment was made to the existing agreement between the PDI and ASELSAN, thereby extending the agreement beyond the stipulations of the FIRAT-M60T Project and increasing the contract value by 96.7 million Euros and TR 25 million. The total contract value has reached 206 million Euros and TR 50 million with the amendment.

The PULAT Active Protection System will also be integrated into the M60T tanks as part of the amendment to the contract. The high-tech radar that is integrated into the PULAT Active Protection System can pinpoint and track anti-tank missiles aimed at the M60T and engage to destroy missiles at a safe distance away from the tank. The PULAT Active Protection System can simultaneously destroy multiple missiles in the air and thus provides a ready and armed protection shield for the tank. The FIRAT-M60T Project gained urgency with the Olive Branch and Euphrates Shield Operations of the Turkish Armed Forces, and tanks were upgraded and delivered for use during these

operations. This upgraded M60T main battle tank has evolved into one of the most modern tanks in the world reaching new levels in short or medium-range firing capabilities, in short-long range survival and defense capacities, as well as in the capabilities to sustain tanks and personnel.

LAZER PROTECTION AGAINST ARMED DRONES



Implemented fully with ASELSAN equity capital, the laser defense systems programme reached its final phase with field tests. The Laser Defense System (LSS) was integrated on a customised armoured truck for use in urban and open terrain.

The LSS was designed to seek and destroy unidentified objects and IED's; canvas, camouflage and similar temporary barriers in urban areas; as well as small unmanned drones. ASELSAN CEO and Chairman of the Board Prof. Dr. Haluk GÖRGÜN hosted the system tests in Ankara, where he was joined by the President of Defense Industries Prof. Dr. İsmail DEMİR.

Prof. Dr. DEMİR personally placed a sticker showing the symbol of the LSS destroying an armed commercial mini drone on the armoured truck.

The tests demonstrated the capabilities of the LSS mounted on a land vehicle, moving rapidly to the desired location, followed by its effectiveness against IED's, temporary barriers such as canvas and camouflage, as well as commercial drones used for attack or espionage. The LSS successfully destroyed the armed commercial unmanned drone at a safe distance, first burning out its camera and making it fly blind.

The system involves a high-power laser, a turret with sensitive tracking and stabilising capabilities, a thermal camera and day camera as well as an optical structure that enables the laser beam to lock on target, all designed by ASELSAN using domestic and national resources. The LSS is produced in Turkey without recourse to any license or export stipulations.

The LSS is well-adapted to ensure the security of civilian and friendly parties with its superior targeting capabilities and adjustable beam strength. With each laser burst costing mere cents, the system is capable of continuous fire as long as the mounted vehicle is fuelled and running. Thus it provides effective and low-cost defense against cheap but numerous swarm-type mini/micro unmanned drone attacks.

Highlights of 2018

"WE HAVE ASELSAN"



President of Turkey Recep Tayyip ERDOĞAN gave a speech at the Turkish Defense Industry Summit organised at the Beştepe National Congress and Culture Centre.

Underlining the importance of the advancement of the national defense industry in Turkey's fight against terror, President ERDOĞAN noted that:

"They always told us this, 'The Congress will not pass it'. It passes for others but not when it comes to Turkey. We saw this in Cyprus. At a time when everyone said communications stopped, we gained ASELSAN after Cyprus. Now we have a company like ASELSAN. The bad neighbour made us a home owner." President ERDOĞAN noted that when they took office 15 years ago the structure of the defense industry was not what it currently is, when the defense industry utilised 20% domestic resources as compared to 65% today. President ERDOĞAN noted the following:

"If we had stayed at the same level, we probably could not have taken the necessary steps in Operation Olive Branch or reached our target in the Euphrates Shield. But with the advancements in industry, we were able to carry out both the Olive Branch and Euphrates Shield Operations with our own resources without support from anywhere else. In my name and in the name of the Turkish Nation, I would like to thank all the fine people who rallied to this point."

Technology and Innovation Management in the Defense Industry

This summit was organised for the first time, and the opening day concept was Turkey as a Global Power. ASELSAN Chairman of the Board Of Directors and CEO Prof. Dr. Haluk GÖRGÜN joined the Qualified Human Resources for a National Defense Initiative Panel as a speaker. Prof. Dr. GÖRGÜN gave a presentation titled Technology and Innovation Management in the Defense Industry, where he underlined the importance of intelligent technology solutions in Defense and Aerospace Industries for ASELSAN, as well as the work that ASELSAN carries out in this area and how the Company manages technology effectively with this perspective. Prof. Dr. GÖRGÜN noted that: "As ASELSAN, we are working to provide Turkey's defense industry with continued and sustainable added value by developing and producing the technology of today and the future with national and domestic resources."

Visionary Youth

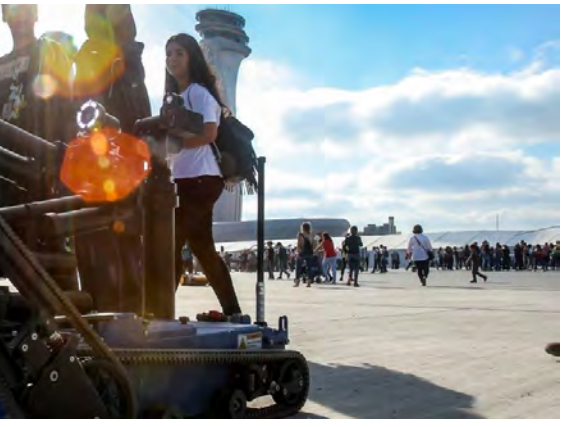
The concept of the second day was "Visionary Youth", where university students met with high-level State Officials. Turkish Industry and Technology Minister Mustafa Varank showed close interest in the pavilion where ASELSAN showcased products at the event, which was organised to ensure the consistent preparation of qualified human resources for the sector. Young participants who took part in the Visionary Youth event, examined the ASELSAN products on show and exchanged information with managers.

ERTUĞRUL EXPLOSIVE ORDNANCE DISPOSAL ROBOT DELIVERIES COMPLETED



A large shipment of Explosive Ordnance Disposal Robots and light-armoured vehicles for related transportation was delivered to the Turkish Security Forces Directorate for their requirements, in the context of the ERTUĞRUL Explosive Ordnance Disposal Robot Project signed with the Presidency of Defense Industries (PDI).

The project was completed three months ahead of schedule with a high domestic input ratio and wide-scaled use of sub-contractors, and the completion ceremony was held where the stakeholders of the project were presented with commemorative plaques. The ERTUĞRUL Explosive Ordnance Disposal Robot (EOD) developed by ASELSAN has capabilities to disable improvised explosive devices from a safe distance under rugged conditions, can be easily carried by two people and is a highly mobile vehicle.



The ERTUĞRUL EOD has an audio-visual transfer system that can be used with cables or wirelessly, enabling the user to inspect suspicious objects from a safe distance and respond to threats.

The water-proof vehicle platform ensures ease of use in snow/mud conditions, staircases and hardy terrain conditions. The sophisticated on-board surveillance system, as well as the targeting and robotic arm cameras, enables the user to monitor suspicious objects in real time and high-resolution from the control console, and to record video to review later in greater detail. All the actions of the robot can be monitored with the 3-D robot image on the control console, even when the robot is not in the field of vision.

RECORD VISITORS AT TEKNOFEST

Turkey's only aerospace and technology festival TEKNOFEST was realised in Istanbul over a period of four days. The youth met with high technology at the festival, which also featured breath-taking aerial shows and drone races. The winners of the technology competitions were presented with their awards. Attracting close to 500,000 visitors, the festival closed with sensational aerial shows on the last day.

President of Turkey Recep Tayyip ERDOĞAN honoured the festival with First Lady Emine ERDOĞAN, meeting with young technology enthusiasts and visiting the festival grounds. President ERDOĞAN also presented the awards to the winners of the competitions organised for TEKNOFEST.

TEKNOFEST was organised in the New Istanbul Airport with the initiative of the Turkey Technology Team (T3) Foundation. ASELSAN was among the most active participants with a 300 m^2 pavilion where Company products were exhibited.



The ASELSAN pavilion featured seminars from Human Resources Experts on the process of employment and apprenticeship. The Human Resources Team also gave short job interviews to familiarise the young. Thousands of people who visited our pavilion also received commemorative gifts.

Highlights of 2018

ASELSAN TURNS 43



The biggest company in the Turkish Defense Industry, ASELSAN visited Ataturk's Mausoleum with the full attendance of over 6,000 personnel on its 43rd foundation anniversary. ASELSAN Chairman of the Board of Directors and CEO Prof. Dr. Haluk GÖRGÜN, accompanied by ASELSAN managers and co-workers, walked down the Lion Lane and paid their respects at Ataturk's Mausoleum.

Prof. Dr. Haluk GÖRGÜN placed a wreath on the Mausoleum and following a minute of silence in homage, he signed the Mausoleum memorial book. Prof. Dr. GÖRGÜN wrote these words: "Great Leader Ataturk, we are here in your exalted presence as the ASELSAN family on this day when we are proudly celebrating our 43rd year of foundation

Since its inception until today, ASELSAN has enhanced its presence as a national technology company that shows consistent growth with values created in global markets, that is trusted as a strategic partner, and that carries responsibility for the ecology and for people, while continuing with confident strides committed to attaining Turkey's goals for 2023.

We strive to be the ASELSAN of the brave Turkish Army and the Turkish Nation in our quest for technology under the guidance of your maxim 'We will take science and engineering wherever we find it and instill it into the minds of every national citizen. There are no conditions or limits to science and engineering.' May you rest in peace."



VICTORY IN THE DESERT



ASELSAN's Remote Controlled Weapons Systems have been successfully used by the Qatari Armed Forces for many years. The SARP-ZAFER Remote Controlled Weapons System configuration, which was developed according to feed-back from Turkish and international users as well as new operational requirements, was presented to the public for the first time in Qatar. The live munition field tests geared towards the requirements of end-user military units were successfully completed.

SARP-ZAFER has prominent features such as on-board munitions loading capabilities as well as a low profile. Onboard munitions loading enables personnel to stock up on munitions without exiting the armoured vehicle. Especially designed for use in urban area operations, the SARP-ZAFER sits low on the skyline.

CATS SYSTEM IN AIR FORCE COMMAND INVENTORY



The CATS Electro-Optical System has been delivered to the Turkish Air Force Command inventory, as part of the ANKA-S Useful Load Subcontract, following acceptance tests carried out in Batman, Turkey. Equipped with highperformance electro-optical reconnaissance, surveillance and targeting capabilities, the CATS System has been developed by ASELSAN with maximum domestic and national technology resources.

Successfully completing conformity tests for long flight and hardy environmental conditions during the development stage, the CATS system is currently in operational use.



FIELD OF ACTIVITIES

Communications and Information Technologies Business Sector



Communications and Information Technologies Business Sector

ASELSAN CONTINUES TO BE A GLOBAL COMPANY THAT DEVELOPS, MANUFACTURES, INSTALLS, MARKETS THE MODERN ELECTRONIC DEVICES AND SYSTEMS WITH UNIQUE DESIGNS, AND CARRIES OUT AFTER-SALES SERVICES FOR THEM.

COMMUNICATION SYSTEMS

Military Communication System

Tactical Field Communication System
The TASMUS System is an integrated solution that fully meets the needs of the tactical area with its compliance with the network-centric communication concept, its powerful IP (Internet Protocol) infrastructure, its compatibility with other communication systems, increased bandwidth and an architecture that is open to developments.

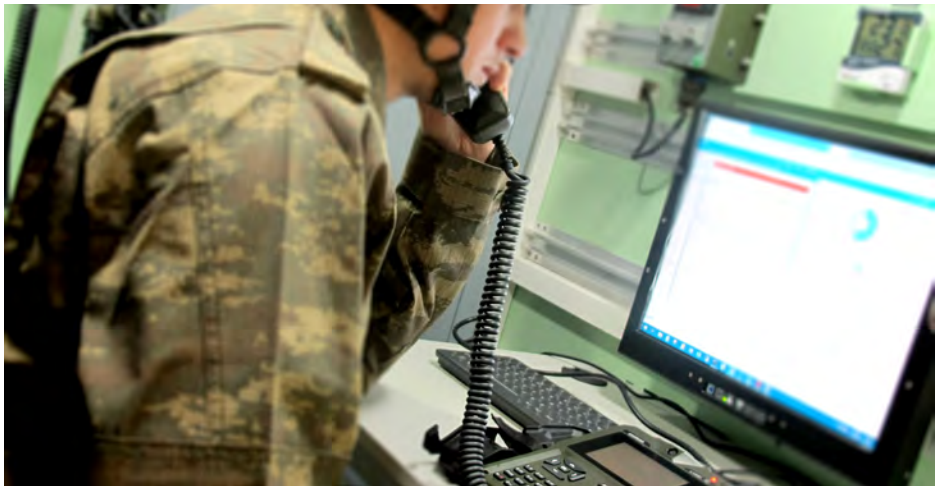
Within the scope of the contract signed with the Turkish Armed Forces (TAF), deliveries of the modernized TASMUS-G + were completed in eight different regions in the year 2018. The number of total delivery fulfilled is 15 under the signed TASMUS Contract within two tears.

2nd Generation TASMUS II Prototype System acceptance tests were started in 2018.

First delivery for the additional export contract of portable communication solution, which was prepared with the GRC 5220 Tactical Broadband Ethernet Radio family that includes the TASMUS System infrastructure, were completed in year 2018.

Secure VoIP (E-VoIP) Terminal
2122 Model new secure VoIP terminal was designed and manufactured in 2018 and getting ready for the acceptance test of 2nd Generation TASMUS II Prototype System. Secure VOIP (s-VoIP) Telephone provides encrypted voice and data communication between tactical and strategic subscribers.

Broadband Waveform
Within the scope of the ULAK project that was signed with the Presidency of Defense Industry, Broadband Waveform for the Software-Based V/UHF Radio Family is under development and field tests are expected to be carried out within 2018.





Airborne Communication Systems
Deliveries of the communication systems within the scope of the ATAK, ANKA-S, Indeginous Helicopter, HÜRKUŞ-B, ÇBSMT Airborne Platforms and Tower Modernization Project and export projects have continued.

Deliveries of the Voice Communication and Control System (VCCS) for Air Traffic Control Towers of Turkish Land Air Forces has started. With a change in the contract of ÇBSMT project contract, deliveries of VCCS for Cengiz Topel Air Traffic Control Tower which belongs to Turkish Naval Air Forces has been added to the scope.

Within the scope of an export contract, the modernization of Air Traffic Control Tower communication systems has continued. Also in the same project, a Mobile Tower has been designed and delivered to the customer.

System design and manufacturing activities are carried out in General Purpose Helicopter, EGEMEN Project and Airport Traffic Radar - Communication System Project.

The "Installation of VHF/UHF Communication Antennae on Complex Platforms" SAYP Project which was signed with Eskişehir Technical University in the previous year has continued.

Deliveries of the communication systems within the scope of the Medium Altitude Air Defense and Missile System Project has been completed.

System design activities of National Long Range Air Defense and Missile System (SİPER) Project has started. Design activities of national V/UHF and HF band antennas for helicopters and aircrafts has continued.

Making software and hardware design processes of Communication and Information Technologies Business Sector compliant with DO-178 and DO-254 Flight Safety processes has continued.

Naval Communication Systems
Work continued on the design, material supply, manufacturing and testing activities for the Integrated Communication Systems of Underwater Rescue Mother Ship (MOSHIP), Rescue and Towing Ships (RATSHIP), MİLGEM 3-4, Landing Helicopter Dock (LHD), Logistic Support Vessel (LSV), Pakistan Offshore Supply Vessel (POSV), Testing and Training Ship (TTS) and New Type Submarine (NTS). The acceptance tests of MOSHIP/RATSHIP, POSV and MİLGEM-3 Integrated Communication Systems were successfully completed.







AS THE CULMINATION OF ASELSAN'S UNIQUE RADIO DESIGN AND PRODUCTION EXPERIENCE OF OVER 40 YEARS, ELECTRONIC WARFARE PROTECTED NEW GENERATION RADIOS ARE BEING DEVELOPED BY USING THE STATE-OF THE-ART TECHNOLOGY IN HARDWARE AND SOFTWARE INFRASTRUCTURE.



MILITARY RADIO SYSTEMS

Software Define V/UHF Radio Family
Serial production, deliveries and installation of the Land Platform VHF/UHF Manpack/Vehicular/Fixed Radios, was completed successfully.

Design activities of Intercommunication systems have been completed and first two deliveries have been made.

An ammendment was made to the existing contract between ASELSAN and PDI in order to extend the supply of the V/UHF radios until 2023.

The design activity for the ECCM handheld radio for the Turkish Armed Forces continued and critical design phase has been completed successfully.

The design process which had been initiated within the scope of the previously signed contract for the supply of the Naval Platform/Fixed Center VHF/UHF radios for the Turkish Armed Forces was completed successfully and first batch was delivered to Naval and Air Forces.

Local manufacturing activities related to the software based VHF/UHF radio contract in Pakistan are ongoing.

Mass manufacturing activities in the production line, prepared within the scope of local manufacturing activities through license transfer have continued in the Kingdom of Saudi Arabia.

Deliveries were made for the Digital Intercommunication Systems to be used in the VHF/UHF radio and tactical vehicles in the Ukrainian Armed Forces.

Software Defined HF Radio Family
Deliveries and installations regarding the contracts for spreading the Land Platform HF radios continued. The design and integration work within the scope of the 5kW and 10kW HF Transmitter System Contract was completed for the use of the Naval Forces Command. The installation and integration process of the Naval Platform HF Radios with various output levels (150W, 400W, 1000W) continued on the platforms of the Naval Forces and Coast Guard Command. An ammendment was made to the existing contract between ASELSAN and PDI in order to extend the supply of the HF radios until 2023.



Deliveries of Software Defined HF Radios were completed in the scope of the supply contract signed with the Kingdom of Saudi Arabia. Our activities have continued with user training and installation work for the radios has been completed.

Identification Systems

Serial production and integration of IFF Mode 5/S (Identification Friend or Foe) Systems; Transponder and Short/ Medium Ranged Interrogator, which are indigenously designed and compatible with NATO STANAG 4193, have continued to be delivered to Turkish Land Forces platforms.

IFF Mode 5/S Transponder deliveries were executed within the scope of ANKA-S UAV (Unmanned Aerial Vehicle) program.

A contract was signed with PDI for the design, serial production and integration activities of long range IFF interrogator, Combined IFF Interrogator/Transponder, Portable IFF Interrogator devices and design of Reverse IFF device.

Battlefield Target Identification System (BTID), which is indigenously designed according to NATO STANAG 4579 requirements, is planned to be used primarily in ALTAY Tank Program and also for relevant land platforms of the Turkish Land Forces.

Data Link Systems

Mass production of UMTAS (Long Range Antitank Missiles) RF Data Link Systems are ongoing.

Design validation activities of Mid Altitude Air Defense Missile System (HISAR-M) Data Link Subsystem were completed. During firing tests in October, communication with missile through the data link was observed during the missile flight.

Moreover the first prototype of the ISR data link was completed which will fulfill the communication needs of Turkish Armed Forces in intelligence, surveillance and reconnaissance operations. Integration and verification activities for this device are in progress.









JEMUS IS THE LARGEST PUBLIC SAFETY COMMUNICATION SYSTEM IN USE IN OUR COUNTRY.

PUBLIC SAFETY COMMUNICATION SYSTEMS

Gendarmerie Integrated Communication and Information System (JEMUS)

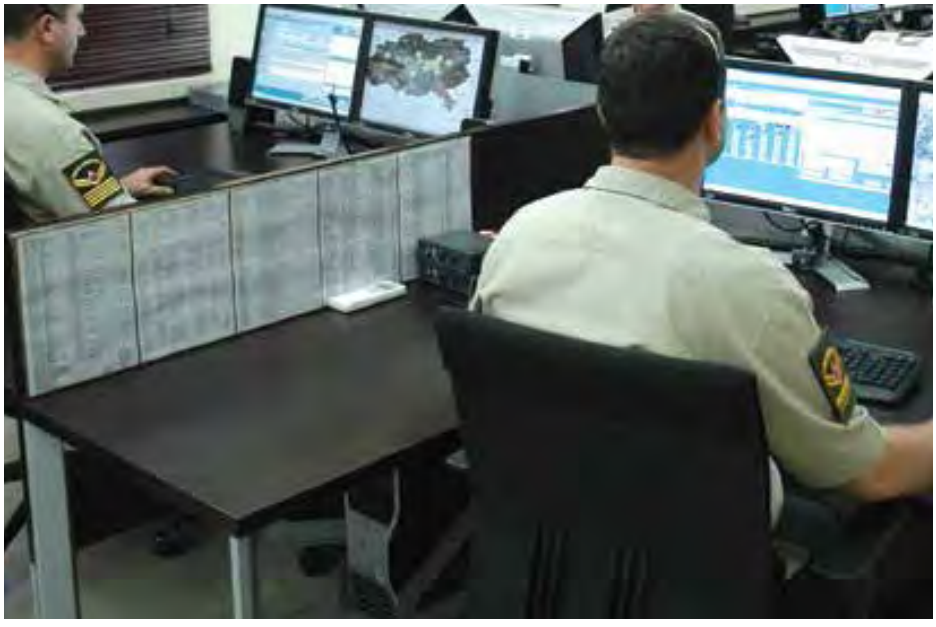
In the Gendarmerie Integrated Communication and Information System (JEMUS) Project, radio system installations continued within the scope of the sixth and seventh phases in Erzurum, Giresun and Tokat Region Provinces. At the end of 2018, the system is activated successfully in all the provinces under the Provincial Gendarmerie Commands of Erzurum, Giresun and Tokat. In addition to the previously accepted 9 provinces, customer acceptance of 4 new provinces has been completed. Acceptances of remaining 5 provinces will be completed in 2019, as planned.

Turkish National Police (EGM) National Encrypted DMR Digital Radio System

Turkish National Police's Digital Radio System provides wide area encrypted communication in city centers and in regional traffic responsibility areas, as well as direct mode coverage in the districts. In addition to short message service and criminal inquiry applications, the DMR communication technology developed by ASELSAN offers important advantages with features such as software switching, vehicle tracking and communication recording.

Within the scope of the Project, the systems were activated in 22 provinces upon completion of installations in Iğdır, Ardahan, Gaziantep, Kars and Ağrı provinces. "Additional System Material Procurement Contract" was signed with Turkish National Police in August 2018 and DMR System Update Project will be carried out in the first provinces where the DMR System was established. Within this contract, the first delivery was made in December 2018.

Site survey and material procurement works are in progress for Izmir Province DMR system.



Expansion Project of the Secure Cellular Communication System (EHHAS)

By the 'Expansion Project' of the Secure Cellular Communication System (EHHAS) which is established in Ankara, Istanbul and Izmir provinces serving the General Staff and affiliated Land, Air and Naval Forces personnel, the coverage will be increased by installing the additional base stations, the number of traffic channels will be increased at the base stations that required and at the mobile communication vehicle. Besides adding central control features to the base stations that serve 7/24, software updates and additional number of user terminals will be supplied.

As a part of the contract signed on 6 December 2017, procurement activities were completed and factory inspections were started for the materials to be used in the project.

3700 Series Handheld Radio Development Project

First delivery of 3700 Handheld Radio was made to Turkish National Police Communication Department and Security Department of Presidency of the Republic.

The 3700 series Handheld Radio can be configured to work under the APCO25 Phase-1, the DMR Trunk and Conventional systems, as well as being robust, reliable, stylish and easy to use, offering a color screen and a compact size. Designed to meet the needs of public security users and offered as either encrypted or nonencrypted, the device includes a range of modules for the GPS, Bluetooth, vibration and "mandown" features. It appeals to a wide range of users with its extremely light weight durability against harsh environmental conditions and IP67 feature. With these features, the ASELSAN 3700 series Handheld Radio was awarded the Design Turkey 2017 - Good Design Award.



The Digital Communications Network (SHS) Project for Turkish National Police

The contract for "The Digital Communications Network (SHS) Project" was signed between Presidency of the Republic of Turkey Presidency of Defense Industries and ASELSAN on 3 August 2018. The UHF DMR Trunk Digital Radio System which is an urgent need of the Turkısh National Police will be established in Ankara and Istanbul provinces.

Multi-base station and multi-channel system will be installed and the system will be a significant example of a large-scale DMR system in the world. Subcontractor contracts have been completed within the scope of the project and production activities of radios and repeaters that developed by ASELSAN have been started. Procurement process of the materials will be completed.

The planned delivery time for the province of Ankara is in October 2019 and for the province of Istanbul is in April 2020.

The Coastguard Digital Reliable Communication System (SAHMUS)

Under the fifth phase of the Project, 8 Repeater Centers are established in the

ASELSAN PROVIDES ALL LOCAL AND NATIONAL NEEDS OF VARIOUS PUBLIC INSTITUTIONS.

responsibility area of the Coastguard Black Sea Regional Command (the Eastern Black Sea Region) by utilizing the JEMUS infrastructure of the Coastguard Command. The switching system, based on existing hardware, is updated with the Next Generation Software based IP system. With the aim of expanding the coverage area, one repeater center has been added in each of the Zonguldak, Edirne and Çanakkale provinces. All the installations have been completed together with the customer acceptances of activities in Coastguard Regional Command Centers. Customer acceptances of repeater centers are planned to be completed in the first months of 2019.

The Digital Encrypted (SK2) Radio Deliveries

SK2 deliveries were realized to TAF Land Forces, Naval Forces and Special Forces, and the Gendermarie General Command.

Izmir Metropolitan Municipality's Digital Communication System Upgrade

The P-25 Digital Communication System of İzmir Municipality, which was established in 2011, continues to expand reaching to a site number of 26 with around 6,000 users. In 2018 system has been upgraded successfully by the application of the new generation Software Based Swithching developed by ASELSAN.

Expansion and Revision of İstanbul Metropolitan Municipality's Wide Area Coverage Radio Communication System

ASELSAN has won the tender of "Expansion and Revision of the Wide Area Coverage Radio Communication System" of Istanbul Municipality on 5 August 2018. Under this contract, existing radio network will be converted to digital communication network. Additionally the coverage will be increased which will enhance the communication of the different municipality units, increasing their efficiency and effectivity. The project involves establishment of DMR digital communication infrastructure in 19 existing sites as well as installation of additional 17 new sites, providing 7/24 seamless communication through a wide area digital radio network composed of total 36 sites in Istanbul province

Ministry of Health 112 Emergency Health Services

Upon signature of the protocol signed in 2013 between Emergency Health Services of Ministry of Health and Turkish Gendermarie General Command, seamless communication has been established between ambulances and 112 Emergency Health Services Stations by installation of dedicated repeaters for Health Services in each JEMUS site utilizing the common infrastructure. Accordingly, in 2018, 11 new provinces have been completed reaching to a total of 68 provinces covered by a nationwide digital communication network in Turkey. For each additional province which is included to the network, a coverage study is conducted initially and following the completion of the installations, user trainings have been provided together with the general system features, radio usage and worldwide emergency communication systems information.

APCO and Digital Encrypted Radio Exports

Encrypted APCO radios were delivered to Pakistan Armed Forces.

The deliveries under the Technology Transfer Contract signed with the Pakistan National Radio Telecommunications (NRTC) Company continued gaining pace.

ASELSAN's communication solutions in Saudi Arabia has expanded in 2018 as a result of export efforts of ASELSAN APCO radio solutions.

A wide area Encrypted Digital Communication System has been established in Bangladesh for Bangladesh Armed Forces General Staff.

Deliveries continued in 2018, under the scope of the Technology Transfer Contract signed between ASELSAN and the Kazakhstan ASELSAN Engineering (KAE) Company for the production of APCO radio devices within KAE.

In 2018, communication channels of the "Secure Cellular Communication System" established in Northern Cyprus for Security Forces Command have been increased through additional installations.

THE LTE-ADVANCED MACROCELL BASE STATION HAS BEEN PREFERRED BY THE THREE GSM OPERATORS OPERATING IN TURKEY.

MOBILE COMMUNICATION SYSTEMS

Fourth Generation (4.5G/LTE-A) Communication System Development (ULAK) Project

Within the scope of LTE-Advanced Macrocell Base Station development activities; technological developments and operator needs were taken into consideration, new features were defined and design and development activities were carried out. After the successful results obtained in the live network tests performed on the operator sites in Rize, installations were made in different locations and put into public use. In the scope of the Universal Service Projects carried out by the Ministry of Transport and Infrastructure, and in line with the orders received for the operator commercial network uses, works were carried out on the supply and production of the base stations to be delivered. Deliveries were made in different configurations for 834 sites within the scope of Universal Service Projects and 150 sites for commercial network use. Development, integration and testing activities for the new versions of the LTE-Based Military Communication System were continued.



The Digital Tachograph Device (DTD) - Smart Takograf Device (STVU) Development Projects

Compliant with the European Union (EEC 3821/85) norms, the type-approved ASELSAN Digital Tachograph



Device is an on-board recorder device that automatically registers speeding information related to driver activities and driving time intervals (daily, weekly, monthly, etc.), security breaches, keeps records for at least one year and has high-level cryptographic security as well as protection against tampering.

The manufacturing process of STC-8250A Digital Tachograph Device which is developed domestically by ASELSAN is continued in 2018.

In the scope of STC-8250A Digital Tachograph Development Project, ASELSAN has granted to take CC (Common Criteria) EAL4+ security certificate from the Spain scheme which is CCN. The CC EAL4+ security certificate is taken by ASELSAN in the ceremony held by the ICCC'18 (International Common Criteria Conference 2018).





Due to the requirements of the European Union (EU) 165/2014 regulation, in order to meet the rising demands of Smart Tachographs in EU and AETR countries (as Turkey), the Smart Tachograph Development Project has been started in May 2018.

In the new Smart Tachograph Device; in order to record begin/end coordinates of driving activities and automatically recording of position coordinates with defined time intervals, a GNSS (Global Navigation Satellite System) module; to detect security breaches early and remotely, a DSRC (Dedicated Short Range Communication) module and optionally for the ITS (Intelligent Transport Systems) properties, a Bluetooth module will be used. Besides, enhanced and stronger crypto algorithms will be used in Smart Tachographs.

SOLUTIONS THAT ARE SUITABLE FOR THE ADVANTAGES OF MODERN LIFE ACCORDING TO THE REQUIREMENTS OF THE USERS, BUT ALSO SAFE AT THE SAME TIME ARE PRODUCED WITH ASELSAN INFORMATION TECHNOLOGY SYSTEMS.

INFORMATION TECHNOLOGIES

Spatial Address Recording System (MAKS) Data Generation and Deployment Project

Having started in 2016, data collection and processing phase is currently ongoing in 35 different cities within the scope of MAKS Project as of December, 2018. The system has been put in service for the local authorities (municipalities, organized industrial zones etc.) in 10 cities (Bilecik, Burdur, Isparta, Uşak, Karaman, Edirne, Kırklareli, Bartın, Karabuk, and Bayburt), while 3 cities (Düzce, Izmir, and Sinop) are nearing the launch. Approximately 16 million pieces of spatial data is collected and processed in the cities where operations have been taking place. In cities where MAKS has been launched, addresses of the operations conducted by the local authorities are being recorded through the interface of MAKS. The third workshop of the Project was organized in Antalya in March, 2018.

The New Mobile System (TAYAS)

TAYAS (abbreviation for tactical local area network system in Turkish) is developed as a solution to local area network communication needs of Turkish Land Forces in the tactical field. The system consists of SW and HW installed in local area network, operates in cabled and wireless mode and provides a connection for tactical command control and information systems to strategic communication systems such as TAFICS (Turkish Armed Forces Integrated Communication System), tactical communication systems such as TASMUS (tactical area communication system of the Turkish Land Forces) and satellite systems such as TURKSAT. Secure wireless communication is provided by use of a "National Secret" encryption

algorithm. For this purpose, an encrypted wireless network access device (KKAC), an encrypted terminal wireless access device (TKABC) and a dedicated wireless network management SW are being designed and developed by ASELSAN, using in house and indigenous resources. The wireless network devices will be certified "National Secret" by the Turkish certification authority.

The first two phases of the project is completed as IT infrastructure and cabled communication systems for 13 military units (Communication Electronics and Information Systems (CEIS) Support Command (Balgat, ANKARA), the CEIS School (Mamak, ANKARA), the 7th Army Corps (DIYARBAKIR), the 20th Armored Brigade (ŞANLIURFA), the 5th Armored Brigade (GAZİANTEP), the 6th Mechanized Infantry Division (ADANA), the 4th Army Corps (Mamak, ANKARA), the 28th Mechanized Infantry Brigade (ÇANKIRI), the 2nd Army Corps (Gelibolu, ÇANAKKALE), the 8th Mechanized Infantry Brigade (TEKİRDAĞ), the 39th Mechanized Infantry Brigade (İSKENDERUN), the 70th Mechanized Infantry Brigade (MARDİN), the 16th Mechanized Infantry Brigade (Devegeçidi,



DİYARBAKIR)) are delivered, installed and accepted. Third phase of the project is still in progress as design and production of encrypted Wi-Fi communication infrastructure devices (KKAC, TKABC) continue.

The 112 Project

Under 112 Emergency Project Family, there are 3 different active projects. Firstly, within the scope of the contract with the Ministry of Interior, covering thirteen provinces, acceptance tests of twelve provinces were completed. With the acceptance of these twelve provinces, additional twenty-five provinces have been put in service. Under the "New Generation 112 Emergency Call Center Project, test and acceptance of eight provinces were completed. Also, under the "New Generation 112 Emergency Call Center Stage Two Project", test and acceptance of ten provinces were completed in 2018.

Switch Family

ASELSAN, which manufactures communication network components with national resources, has been developing Switch Family that is also compliant with military standards. Within the scope of the project, Switch Family which is capable of switching and collecting/distributing IP packets in IP based communication networks, is being developed. Switch Family has models which are used in both military and industrial applications. The design and test procedures were completed along with prototype production. The delivery of 8 port Industrial Ethernet Switch and the qualification tests and also the delivery of the Traffic Shaper Device were successfully completed within the





scope of the Urban Security Management System (USMS) and the Plate Recognition System (PRS) Project in order to meet the needs of the National Police.

National Router

As a manufacturer of communication network components with national resources, ASELSAN developed routers compliant with military and industrial/commercial standards. Core and Distribution/End point routers are developed in the context of the National Router Project. The National Router is both IPv4 and IPv6 compliant and offers a wide array of Complementary protocol supports. The Core National Router has a switching capacity of up to 48 Gbit/s; the Distribution/End point National Router has a switching capacity of up to 32 Gbit/s.

A total of 24 Core and Distribution/End point National Routers are delivered to Turkish Land Forces as part of the TASMUS Project. 28 more National Routers are being produced for delivery to Azerbaijan as part of the AZRA project.

ASELSAN, ALSO CARRIES OUT COMPREHENSIVE STUDIES ON MILITARY AND CIVILIAN SATELLITES AND USEFUL LOADS TO BE INTEGRATED INTO SATTELITE SYSTEMS.

SPACE TECHNOLOGIES

SATELLITE GROUND SYSTEMS

ASELSAN Satellite Communication Terminal Solutions

ASELSAN offers unique Satellite Communication Terminal solutions that serve in different frequency bands for various platforms (Land, Naval, Air) in line with customer needs. The Stabilized Satellite Communication Terminals, which provide reliable and uninterrupted communication on air, sea and land platforms while in movement, are designed and manufactured as being compact, light and in accordance with military standards. In addition, Portable and Fixed Satellite Communication Terminal solutions are also included in the ASELSAN product family.

The TAF X-Band Satellite Communication System (TUMSİS)

The X-Band Satellite Communication Ground System will be used by Turkish Armed Forces and the System will work with the X-Band Satellite Communication Payload which is being developed as part of the same Project. Project includes the development of Main & Backup X-Band Satellite Communication Control Centers and Manpack, Transportable, Satcom on the Pause, Satcom on the Move, Shipborne Satellite Terminals as well as their integration, test, acceptance and mass production activities. Critical Design Phase of the Program has been accomplished while the unit qualification, material procurement and manufacturing activities are still in progress.

Furthermore; extra Shipborne Satellite Terminals, IP encryption units, V/UHF radios and the vehicles for Satcom on the Move Satellite Terminals have been added to the scope of the Program with the new contract amendment.

Ku Band Satellite Communication System Project

Ku Band Satellite Communication System Project consists of installation, integration, testing and acceptance activities of a Main and a Backup Satellite



Communication Control Station and 330 Satellite Ground Terminals to be delivered to the Turkish Armed Forces in order to provide voice, fax, data and image services. Within the scope of the project, the installation, integration, testing and acceptance activities of the Satellite Communication Control Stations, 276 Flyaway Satellite Communication Terminals and 37 Shipborne Satellite Communication Terminals were realized. The installation, integration, testing and acceptance activities of 15 Flyaway Satellite Communication Terminals and 2 Shipborne Satellite Communication Terminals have continued.

Project to Supply Military Satellite Communication System for the Kılıç Type Patrol Boat (KASUMSİS)
The KASUMSİS Project Contract includes the stabilized satellite communication network terminal that will be integrated into the Kılıç Type Patrol Boats at three axes and its Network control centers, with which it will communicate. The Qualification Phase for the project has been completed successfully. Factory Tests of first satellite communication terminal has also been completed successfully with the customer.

1,5/1,8 meter X-Band Shipborne Satellite Communications Pedestal and Antenna System
With its inhouse resources, ASELSAN continues its design and development activities of the 1.5 m/1.8 m reflector sized X-Band Shipborne satellite communication terminal. Antenna, Pedestal, RF parts and sub units are developed and manufactured. The project will continue under the other signed Contracts similar to this shipborne terminal.

Other Shipborne Satellite Communication Projects
LST-2 and MILGEM-3 Shipborne Satellite Communication Terminals Harbour Acceptance and Sea Acceptance Tests are completed. In the scope of MILGEM-4 Shipborne Satellite Communication Terminal Factory Acceptance tests are realized. CDR phase is conducted for TVEG Satcom Terminal. The Integration and Installation Documents are prepared for LHD Shipborne Satcom Terminal.

Ku-Band Airborne Satellite Communication Terminal Development Project



In the scope of Ku-Band Airborne Satellite Communication Terminal Development Project, design activities of satellite communication terminal for Unmanned Air Vehicle (UAV) and other airborne platforms have been continued with own resources of ASELSAN. Airborne Satellite Communication Terminal Prototype consisting of Airborne Modem, Antenna System and Antenna Control Unit have been manufactured and two-way communication tests have been carried out on motion simulator.

GÖKTÜRK-1 Reconnaissance and Surveillance Satellite System Project
In the scope of GÖKTÜRK-1 Reconnaissance and Surveillance Satellite System Project; ASELSAN is responsible for providing the S/X Band Antenna Subsystem, Shelter and Auxiliary Services Subsystem, Image Exploitation Services, User Interface Services and Meteo Forecast Services. Systems under the responsibility of ASELSAN had been installed and integrated on the field by ASELSAN and have been used by the customer. Activities regarding the final acceptance phase and maintenance are continued.

SATELLITE PAYLOAD

Türksat-6A National Communication Satellite
ASELSAN has continued system and equipment level design activities within 2018 in the scope of locally developed indigenous Ku-band Satellite Communications Payload. ASELSAN is designing and developing Ku-band Receiver, Payload Interface Unit (PIU), INET, ONET and Turkey coverage Antenna equipment of the Payload under the Program. Critical Design Review phase of the Ku-band Satellite Communications Payload was completed in 2018. The Qualification Models of Ku-band Receiver and PIU were manufactured and the qualification tests of those equipment were completed successfully in 2018. Production and test activities are being continued for INET, ONET and Turkey Coverage Antenna Qualification Models. Test of the structural and thermal model of the payload equipment were completed at satellite level at USET facilities.

Payload Panel Container for the transportation of the Turkey Coverage Antenna to USET facility of TAI was manufactured and tested in 2018. Payload Panel Container was actively used following its acceptance. ASELSAN also designed and manufactured Pyro Shock Test Equipment for testing the compatibility of Payload Equipment to shock levels occurred during antenna and solar array deployment.

TUMSİS X-Band Payload
In order to meet the Turkish Armed Forces (TAF) Satellite Communication needs, ASELSAN is responsible for the design, production, functional and environmental tests of the X-Band Satellite Communication Payload by utilizing national test infrastructure, the transportation of this payload to the satellite platform manufacturer's



facilities, providing technical support for the integration activities of the Payload to the satellite platform manufacturer and carrying out In-Orbit Tests of the Payload.

As of the end of 2018, Critical Design phase of the Project were completed in accordance with the Project schedule and the qualification model of DOCON-L Equipment comprised of Frequency Down-Converter (DOCON), Channel Amplifier (CAMP) and Harmonic Filter was manufactured. ASELSAN is currently conducting the qualification test activities of DOCON-L Equipment.

This Payload will be hosted by Türksat 6A National Communication Satellite and will be brought into service in 2021.

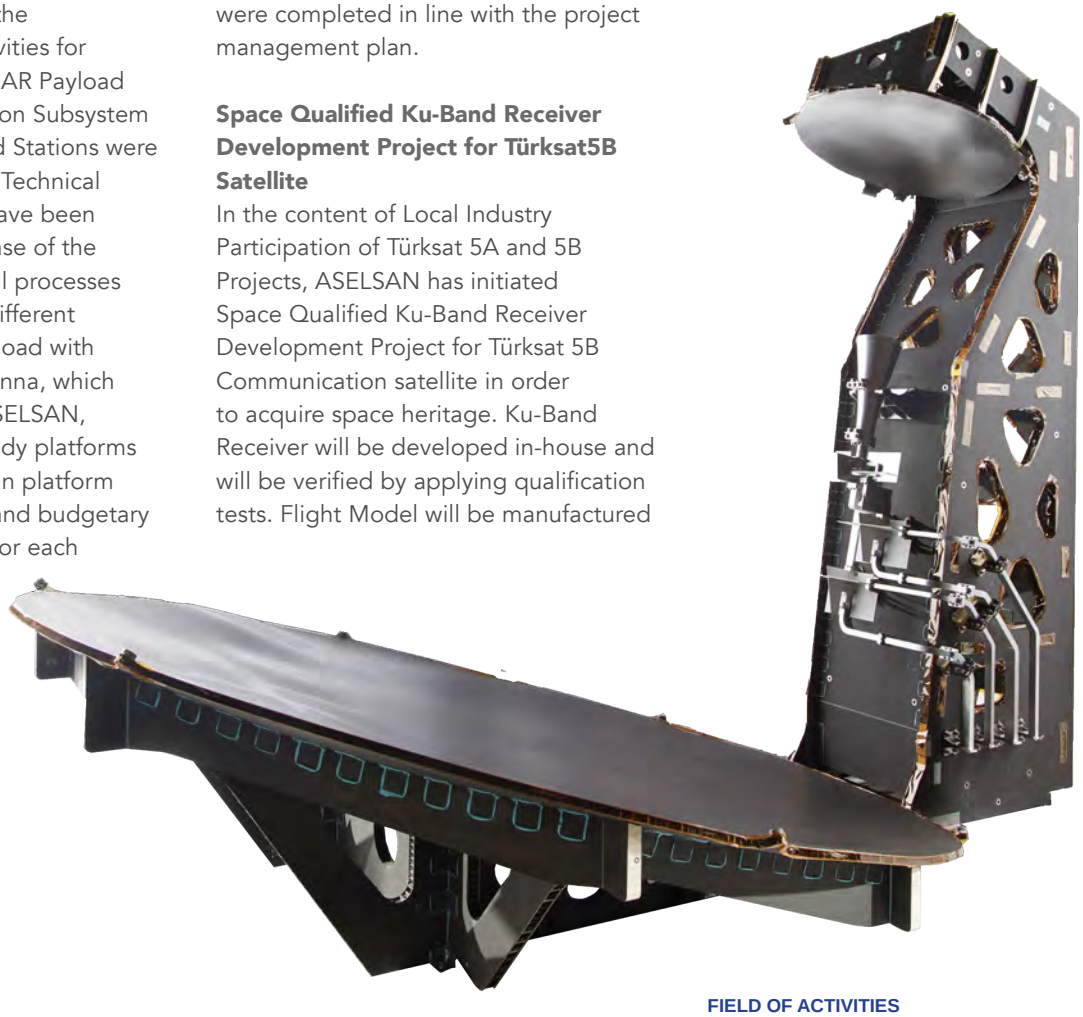
GÖKTÜRK-3 SAR Satellite
During the first phase of the GÖKTÜRK-3 Project, activities for the development of the SAR Payload Subsystem, Communication Subsystem and Fixed/Mobile Ground Stations were carried out by ASELSAN. Technical and contractual studies have been performed for the 2nd phase of the Project which will cover all processes including launch stage. Different solutions for the SAR Payload with Active Phased Array Antenna, which is being developed by ASELSAN, were formed by using ready platforms of domestic and/or foreign platform providers, and technical and budgetary studies were carried out for each solution.

EHF On-Board Processing Satellite Payload
Activities for the engineering model of the EHF On-Board Processing Satellite Payload were successfully completed, and activities for the flight model have been continued.

ASELSAT CubeSat Development
Under this Program, ASELSAN works with the Aerospace Engineering Department of İstanbul Technical University (ITU) and Mechatronics Engineering Department of Atılım University as subcontractors. The critical system design phase for the CubeSat platform that is being developed by ITU Aerospace Engineering team was completed, and flight model phase activities still is being continued in 2018. The critical design phase activities of the National Reaction Wheel, which is being developed by Atılım University, were completed in line with the project management plan.

Space Qualified Ku-Band Receiver Development Project for Türksat5B Satellite
In the content of Local Industry Participation of Türksat 5A and 5B Projects, ASELSAN has initiated Space Qualified Ku-Band Receiver Development Project for Türksat 5B Communication satellite in order to acquire space heritage. Ku-Band Receiver will be developed in-house and will be verified by applying qualification tests. Flight Model will be manufactured in-house and integrated to Türksat 5B satellite in Airbus facilities. Türksat 5B satellite will be brought into service in 2021.

Space Qualified Ka-Band LNA Development Project for Türksat-5B Satellite
In the content of Local Industry Participation of Türksat 5A and 5B Projects, ASELSAN has initiated Space Qualified Ka-Band LNA Development Project for Türksat 5B Communication satellite in order to acquire space heritage. Ka-Band LNA will be developed in-house and will be verified by applying qualification tests. Flight Model will be manufactured in-house and integrated to Türksat-5B satellite in Airbus facilities. Türksat 5B satellite will be brought into service in 2021.



TÜRKSAT6A Satelite
Ku-Band Turkey Coverage
Area Antenna

BACKED BY ITS UNIQUE ACCUMULATION OF HIGH-TECH KNOWLEDGE WITH LAND AND MARITIME SATTELITE COMMUNICATION SOLUTIONS, ASELSAN ALSO DEVELOPS SYSTEMS FOR AIR ELEMENTS, WHICH HAVE AN INCREASING PRIORITY IN THE BATTLEFIELD.

ENCRYPTION AND INFORMATION SECURITY

IP Encryption Devices

Within the scope of the TASMUS-G+ Project, the rack type 2064 IPKC V2 IP Crypto Device with 1 Gigabit/s interface has been produced; after customer acceptance tests were successfully completed, the devices were delivered to the Land Forces Command.

The 2064 IPKC F/O, which is the version with fiber optic interfaces was designed and factory acceptance tests were performed within the scope of the TASMUS-II Project.

The Mini IP Crypto Device, which is the version designed for mobile applications, has been delivered within the scope of the Ku-Band Communications Project and the KASUMSIS Project. It has also been exported to Azerbaijan within the scope of the AZRA-II Project. This device is also being tested for the transmission of UAV videos.

The mechanical and electrical design work for the 10G IP Encryption Device with 10 Gigabit/s interface, which is designed to satisfy the emerging need for high speed communications due to developing new technologies, has been continued.

Link Encryption Devices

Within the scope of the TASMUS-G+ Project, the DKC-E Link Encryption Device, a dual-port rack-type version, was produced and after the customer acceptance procedures were completed, it was delivered to the Land Forces Command.

The mechanical and electrical design work for the 10G Link Encryption Device with 10 Gigabit/s interface, which is designed to satisfy the emerging need for high speed communications due to developing new technologies, has been continued. As the result of this work, 10 Gigabit/s throughput was successfully tested on the device.

Virtual Air Gap System (VAG – SAHAB)

The new version of the VAG System was delivered. In this version, additional project support and capabilities were integrated within the scope of the Secure Network Gate System Project of the TAF, which will provide secure data sharing and voice communication between networks with different security levels, and which will be positioned in the TAF TAFICS substructure.

The new version of the VAG System was delivered to the Presidency of Defense Industries and a prototype system was installed at the National Defense Ministry for testing purposes. The tests are under way for the VAG System to be delivered with the TASMUS-II Project.

Secure Satellite Phone

The field tests of the Secure Satellite Phones, which were developed and delivered to satisfy the need stated by the General Staff for national secure satellite communication, were performed by the TAF. The requirements analysis work for the second version of the device, performed in accordance with these test results, is under way.

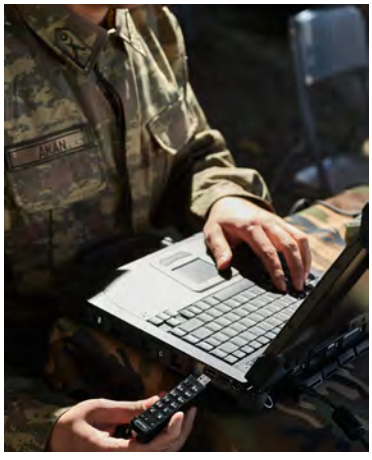
Secure USB Memory

Development activities continued for the Secure USB Memory that has storage capacity options up to 128 GByte, USB 3.0 support and high speed read/write capability; the first version of the device was produced.

The EKADAS-II Integration Project

Within the scope of the National Encryption Key Distribution System Prototype Development Project (TÜBİTAK BİLGEM's SAVTAG Project) being developed in order to distribute the keys of the devices produced by ASELSAN through the EKADAS-II system, design and integration work of the EPM Module was continued. This module is being developed with regard to the contract signed between ASELSAN and TÜBİTAK.







FIELD OF ACTIVITIES

Defense System Technologies Business Sector



Defense System Technologies Business Sector

ASELSAN IS INVOLVED IN THE DESIGN, DEVELOPMENT, PRODUCTION AND SYSTEM INTEGRATION OF COMBAT SYSTEMS AIMED AT ASSAULT BOATS, PATROL BOATS, CORVETTES, FRIGATES, LANDING SHIP TANKS, RESCUE AND SEISMIC RESEARCH VESSELS AND SUBMARINES.



NAVAL SYSTEMS

ASELSAN, with its know-how and capabilities gained so far, provides solutions for design, development, supply and integration of combat systems consisting of sensors, weapons, communication and navigation sub-systems tailored to operational requirements of naval platforms.

Combatants

In the MILGEM Combat Systems Project, the third ship TCG BURGAZADA (F513), which was equipped with more advanced systems, was commissioned in November 2018.

The combat system design work continues for Pakistan Corvette Project, which is the largest defense industry export of Turkey as of the date on the contract signed.

In the scope of combat management system modernization of the Barbaros Class Frigates contract which is between Turkish Naval Forces Command and ASELSAN-HAVELSAN Business Partnership, Project Critical Design Phase was completed successfully.

And a contract was signed between the ASELSAN-HAVELSAN Business Partnership and Presidency of Defense Industries for combat system modernization of the Barbaros Class Frigates (mid-life modernization).

Amphibious Vessels

In the Naval Forces Command Amphibious Ships (LST- Landing Ship Tank) Projects the Second Ship TCG SANCAKTAR was delivered to Naval Forces Command in April 2018.

The combat system design, sub-system development/supply and integration of the Multipurpose Landing Helicopter Dock (LHD) Project is carried out by ASELSAN with its main integrator role. In this context, factory acceptance tests (FAT) of systems's that will be mounted LHD have been successfully completed as of December 2018.

Auxiliary Ships

"Replenishment at Sea and Combat Support Ship (DIMDEG)" Project Contract has been signed by the Business Partnership, established by ASELSAN and HAVELSAN.



Final acceptance of Pakistan Naval Fleet Tanker (PNFT) ship is successfully completed and delivered to Pakistan Navy.

In the Logistic Support Ship (LDG) Projects for the Naval Forces Command, ASELSAN will undertakes procurement/ development and integration activities for the weapon and electronic sub-systems and the platform level EMI/EMC activities. Harbour acceptance tests (HAT) have been performed for the first ship.

In the scope of Test and Training Ship (TTS) Mission and Ship Systems contract which were signed in 2017, Project Critical Design Phase was completed successfully.

Naval Mission Management Systems

Within the scope of the national IFF Mode 5 Systems Procurement and Integration Project, national IFF Mode 5 Systems will be integrated to the platforms of the Turkish Naval Forces Command with a VATOZ ® based Interrogator Control and Display Unit (ICDU).

Promotional and marketing activities for VATOS ® Naval Mission Management System based Combat System Solutions have been carried on in terms of overseas sales for Offshore Patrol Vessels and small to medium sized platforms' new built and modernization requirements.

Torpedo and Under Water Systems

Within the fact of strategic importance of the underwater operational area, ASELSAN operates in a wide range of underwater fields such as acoustic systems, torpedoes, torpedo countermeasures systems, sonar systems and acoustic sensor technologies, with its technological know-how and infrastructure in the area of military electronic systems.



Submarine and Sonar Systems

Within the scope of the New Type Air Independent Submarine Project, factory acceptance tests (FAT) of the third Submarine Electronic Support System were completed successfully together with the main contractor TKSM.

Final acceptance of ASELSAN Intercept Sonar Systems (ASIST), which is developed for the AY class submarines was completed successfully and the system has been operational since March.

ASELSAN Mine Detection Sonar System (MATESS) was successfully integrated into Engin Class Mine Hunting Ship and became operational.

Within the scope of the Barbaros Class Frigate Mid-Life Modernization Project, activities started for the Hull Mounted Sonar System development.

Activities to develop the Passive Directional Sonobuoy (ASELBUOY) continued and sea trials and air platform drop tests were carried out during the period.



Within the scope of the MILGEM Project, Sea Acceptance Tests (SAT) of the KULAC Echosounder, Hull Mounted Sonar and the Underwater Telephone of the ship, were completed.

Contract negotiations were carried on for the Preveze Class Submarine Mid-life Modernization Project under the leadership of Presidency of Defense Industries. Project is expected to start in 2019. ASELSAN will take place in the project with indigenous systems developed by ASELSAN.

Torpedo and Torpedo Countermeasure Systems

Factory acceptance tests (FAT) of the "Submarine Acustic Jammer and Decoy Launcher" for Preveze and Gür Class submarines was completed and installation process of the system on the first submarine has been carried out.

Work on the international sales of the ZARGANA system and the ZOKA Decoy



family, which are the export models of the torpedo countermeasure system for submarines, has been carried out. In this context, countermeasure efficiency tests against a modern torpedo was successfully carried out for the Pakistani Naval personnel.

Purchase order of the ZOKA decoys was received from Indonesian Navy for submarines, as first export sale.

Acceptance tests of the HIZIR Torpedo Countermeasure System for TCG BURGAZADA were completed within the scope of the MILGEM project. Thus, first indigenous torpedo countermeasure system for surface ships became operational. For TCG KINALIADA, factory acceptance tests (FAT) was successfully completed.

Developmental studies started with TUBITAK 1501 Industrial R&D Projects Grant Programme of the Hard-Kill Torpedo against Torpedoes (TORK) which will support self-defense operations of platforms against torpedo attacks continued in the period. TORK successfully completed first sea trails with its first indigenous acoustic head section. Low Frequency Towed Active Sonar Project, which enables early detection of quiet threats with its long detection capability for surface ships, was signed with Department of R&D and Technology Management of Presidency of Defense Industries.

Ad-Hoc Acustic Network Project (AKUSTIKA),started with self-financed, supported by TUBITAK 1501 Industrial R&D Projects Grant Programme and equity capital, was completed.

Navigation and Platform Management Systems

Subsystem research and development activities are carried out in order to indigenously design and integrate modern navigation and platform management systems into naval platforms.

Navigation Systems

Research and development activities continued for the ASELSAN MİTOS™ Electronic Chart Display System product family with Portable WECDIS system. After the LHD and Test and Training vessel (TTV), ASELSAN MİTOS™ WECDIS will be supplied to the Replenishment at Sea and Combat Support Ship (DIMDEG).

DEMES Naval Meteorology System has a new software with modular architecture. DEMES, which has been operational in Ada Class Corvettes and is being modified per LHD and TTV needs, will be supplied to DIMDEG.

ASELSAN continued to indigenously develop the MİLPARS Electromagnetic Log System.

Platform Management Systems

Concept development continued for the ASELSAN Smart Platform Management Systems. ASELSAN Integrated Bridge System will be supplied to DIMDEG.

Propulsion and Drive Systems

DİKONS™ Dynamic Positioning System research and development activities are ongoing as planned.





ASELSAN'S AIR DEFENSE SYSTEM SOLUTIONS, WHICH WERE INITIATED WITH THE STINGER JOINT PRODUCTION PROGRAM AND CONTINUED WITH THE PEDESTAL MOUNTED STINGER (PMS) PROJECT, ARE NOW WORKING SUCCESSFULLY IN THE INVENTORIES OF THE TURKISH ARMED FORCES AND ARMIES THROUGHOUT THE WORLD.

AIR AND MISSILE DEFENSE SYSTEMS

With more than thirty years of experience of air defense and having produced Turkey's first air defense system, ASELSAN develops unique air and missile defense systems. The fact that ASELSAN develops and produces the sensor, command control, firing control and communication devices of critical importance by itself is an important advantage for it in the field of air defense. With experience in systems engineering, system level analysis and modeling and system development, ASELSAN is also ready to undertake important tasks in Turkey's ballistic missile defense system solution.

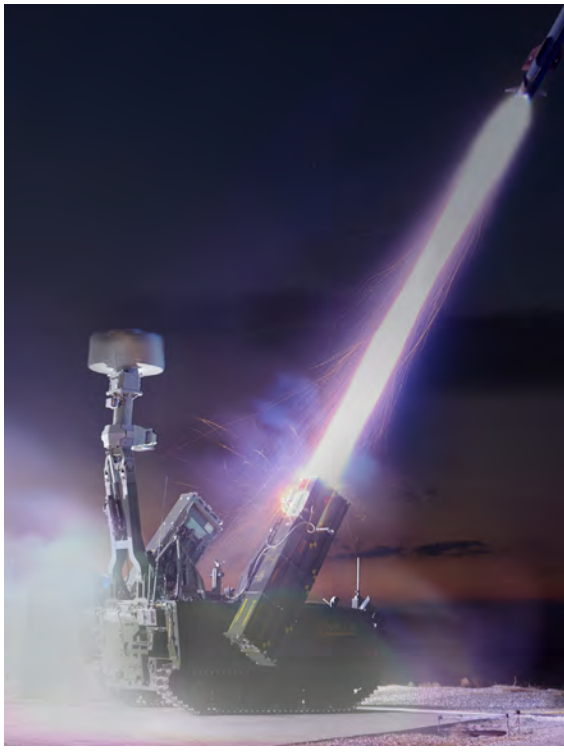
Short and Medium Range Air Defense Missile Systems (HISAR-A and HISAR-O)

Short and medium range air defense missile systems provide air defense for both stationary troops and critical assets. HISAR-A, short range air defense missile system, has two configurations in appropriate with usage areas. Self-Propelled Autonomous System and Missile Launching System, and the Short Range Air Defense Missile, compatible with launchers, are developed in the project. Product and production line qualification tests will be also administered. HISAR-O is an air defense missile system in a network centric architecture composed of a battalion and its batteries. The project includes the development, product/production line qualifications of Battalion Fire Control Center, Battery Fire Control Center, Medium Range Air Defense Radar, Air Defence early warning system with Tactical Data Link Interface (Link-16), Electro-Optical System, Missile Launching System, Missile Transportation and Loading System, and Medium Range Air Defense Missile. Missile Transportation Loading System and Education Center are also developed as supportive equipment in the HISAR projects.

In HISAR-A project, system requirement identification (Phase 1), system design (Phase 2) and subsystem development and testing (Phase 3) phases have been successfully completed. While system integration and testing (Phase-4) is currently in progress, the systemoperational tests have been carried out successfully.

In HISAR-O project, system identification (Phase 1) and system design (Phase 2) phases have been successfully accomplished and subsystem development and testing (Phase 3) is presently ongoing. The system integration tests of ground systems have been prosperously performed as the missile subsystem integration tests are currently maintained.

During the firing test campaign in Oct-Nov 2018, HISAR-A seeker guided test missiles are launched from Self-Propelled



Autonomous System and Missile Launching System successfully.

During the firing test campaign in May-June 2018, HISAR-O ballistic test missiles are launched from Missile Launching System successfully.

Long Range Region Air and Missile Defense System Projects

In January 2018, two separate contracts were signed in order to meet the requirements of the Turkish Armed Forces.

- Within the scope of 18-month "Concept Definition Study Project" which has been undertaken by ASELSAN-ROKETSAN-EUROSAM Business Partnership, concept definition studies are ongoing.
- Within the scope of SIPER Project which has been undertaken by the Business Partnership formed by ASELSAN-ROKETSAN-TÜBİTAK SAGE, System design,

development, prototype production, integration, test and acceptance will be realized. The project will be finalized in 2021.

The activities of both projects are ongoing according to their project implementation schedules.

Air Defense Fire Control System (FCS) and Modernized Towed Guns

FCS Platoon offers a state-of-the-art, low-altitude air defense solution for effective air defense of critical facilities and fixed military units to tackle modern air threats, such as air-to surface missiles, cruise missiles and unmanned aerial vehicles. The FCS Platoon consists of a Fire Control System (FCS), two 35mm Modernized Towed Guns (MTG) and a Low Altitude Air Defense Missile Launch System. FCS Platoon can work with the Air Defense Early Warning and Command Control System (HERİKKS) in an integrated manner, and can also carry out the functions of target detection, tracking and prevention autonomously in platoon level.

Battery Command and Control Centre

Battery Command and Control Centre (BKKM) comprises integrated command and control units, air defense weapons, air defense radars, communications equipment and air defense system software. These integrated systems are interoperable and can be combined to form a system within the command-control chain. BKKM controls at least 3 Fire Control Units (FCUs) and operates in coordination with Air Defense Early Warning and Command and Control Systems (HERIKKS).

BKKM is suitable for autonomous operation as well to manage the air defense activities on tactical level to engage and destroy targets at the maximum possible range with the connected weapon systems.



Battery Command and Control Operation Centre

Battery Command and Control Operation Centre (BKKHM) comprises integrated command and control units, air defense weapons, communications equipment and air defense system software. These integrated systems are interoperable and can be combined to form a system within the command-control chain. BKKHM controls at least 4 Fire Control Units (FCUs) and at least 4 Pedestal Mounted Air Defense Systems (PMADS) ZIPKIN. BKKHM is suitable for autonomous operation as well to manage the air defense activities on tactical level to engage and destroy targets at the maximum possible range with the connected weapon systems.

Contract for Serial Production of Battery Command and Control (Operation) Centre, Fire Control System, Modernized Towed Guns and 35 mm Air Burst Ammunition

In order to meet the requirements of the Turkish Army and Air Force serial production contract for the production of significant amount of Modernized Towed Guns (MTG), Fire Control System (FCS), Battery Command and Control (Operation) Centre and Air Burst Ammunition was signed in the end of 2017. Serial production of the systems are ongoing.

KORKUT Self Propelled Air Defense Gun System

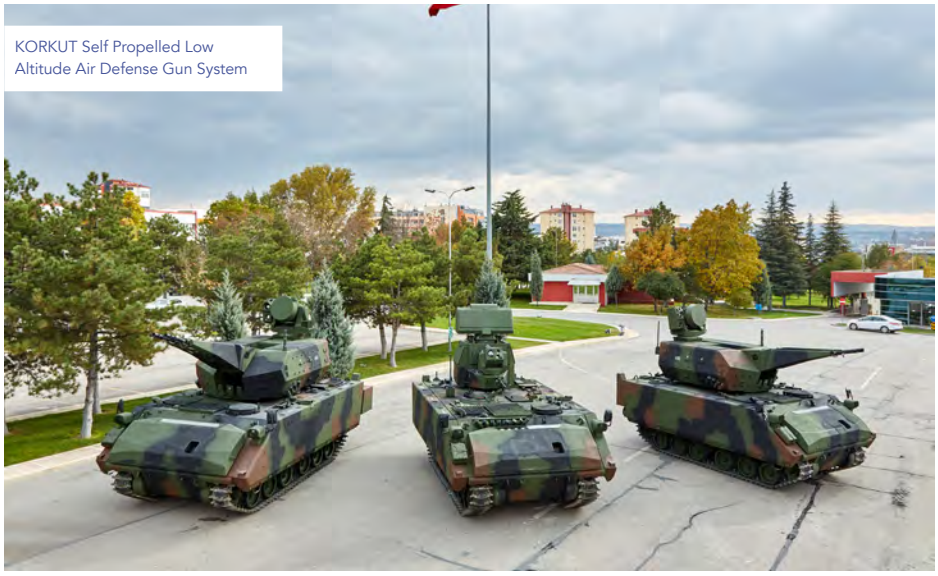
KORKUT Platoons consist of the three Gun Systems (GS) and a Command Post (CP). Each KORKUT platoon can operate with Air Defense Early Warning and Command Control System (HERIKKS) in an integrated manner, and can also perform target detection, tracking and prevention functions autonomously. KORKUT System and 35 mm Air Burst Ammunition offer an effective air defense solution against modern air threats, such as cruise missiles, air-to-surface missiles and unmanned aerial vehicles.

KORKUT Systems Serial Production

Serial production of the KORKUT systems is being continued under the contract signed in 2016 for the requirements of Turkish Army.

Firing Demonstration with KORKUT-D Close-In Weapon System (CIWS)

On 4th of May, 2018, ASELSAN demonstrated CIWS capability of KORKUT-D (naval version of KORKUT) on Turkish Navy's TCG S.MEHMETPAŞA. For demonstration of effectiveness against anti-ship missiles a challenging test scenario was selected to best represent the typical missile attack towards a naval platform. Firing trials were conducted with the attendance of delegates representing Turkish Presidency of Defense Industries (PDI) and Turkish Navy. During the test KORKUT-D system detected, tracked and destroyed the target fully autonomously without any input from the operator.



KORKUT Self Propelled Low Altitude Air Defense Gun System

Electromagnetic Launch System Development Studies

Electromagnetic Launch (EML) technology is a groundbreaking technological field that creates an alternative to the propulsion systems using rocket motors and weapon systems based on firing ammunition from the barrel with gun powder. Thanks to the use of the EMF in weapon system design, much higher barrel exit velocities can be achieved than in conventional barrel gun weapons, and the ammunition can be fired for much longer ranges. ASELSAN progressed with system and subsystem development studies in this area and conducted successful firing trials during 2018.

ATOM 40mm High Velocity Airburst Grenade

ATOM 40mm High Velocity Airburst Grenade developed by ASELSAN is a smart ammunition which is capable of being programmed to the exact time of detonation while leaving the barrel. Once fired, the time-programmable fuze starts to count down for detonation at the intended target point. Using a pre-fragmented shell which is optimized for the target set, high hit probability is ensured. It is effective against threats behind cover, wall, inside a bunker or in a room with the fragment damage caused by the air burst effect. ATOM 40mm High Velocity Airburst Grenade is programmed via ATOM 40mm Automatic Grenade Launcher Fire Control Unit which can be integrated to any automatic grenade launcher with just a few modifications to the gun if needed. With the use of Fire Control Unit, all types of 40mm grenades can be fired accurately.



ATOM 40mm

Together with an anti-drone system (capable of detecting, tracking UAVs) and remote weapon station; ATOM 40mm High Velocity Airburst Grenade offers an effective kinetic attack capability against mini/micro UAVs. The proposed system includes ASELSAN İHTAR as anti-drone system and ASELSAN SARP as remote weapon station.

İHTAR Anti-Drone System

For neutralizing mini and micro UAV threats in urban and rural environments ASELSAN developed an anti-drone system which is called İHTAR.
The system solution consists of Radar subsystem, Electro-Optic subsystem, Jammer subsystem and Command & Control system. Several units of systems are under production within the scope of other domestic and foreign needs. In

2018, many national/international demos and tests were performed.

Divert and Attitude Control Systems Development Project (DACS)

In upper layer and outer atmosphere, it is hard, and sometimes impossible, to obtain proper aerodynamic motion control due to low air density characteristics of those regions. Therefore, it is required to use special thrust systems for "divert and attitude control" in those low aerodynamic-effect regions. Divert and attitude control systems are used in most of the upper atmosphere Missile Defense Systems and almost all aerospace platforms. In this project which is funded by ASELSAN own resources, 5-DoF divert and attitude control test setup will be constructed and developed algorithms will be tested in this test setup.

LAND SYSTEMS

ASELSAN continued work on the design, development, modernization, production and logistic support activities of the Land Systems, Main Battle Tank Systems, Fire Control Systems and Command Control Communication and Computer systems. With our extensive, unique and proven





product range and more than thirty years of experience on Land Systems, we are able to rapidly offer solutions tailored to the needs of the Turkish Armed Forces, General Command of Gendarmerie, Turkish National Police and the armed forces of friendly/allied foreign countries.

ASELSAN has developed a number of sub-systems that enable firing support to be implemented in full compliance with other battlefield functional areas, and infrastructure that provide coordinated operation of these systems, in addition to the automation of the command, control and technical fire control functions of the fire support as well as target detection.

COMMAND CONTROL, COMMUNICATION AND COMPUTER SYSTEMS

ASELSAN offers its users Fire Support, Reconnaissance/Surveillance and Intelligence, Integrated Battlefield Management, Electronic Warfare, Strategic Operational and Tactical Level Command Control Information Systems and Tactical Communication Systems in its wide product range with the use of modern technologies. ASELSAN provides command and control hardware, software and communication systems that allow the vehicles, which are in the inventory of the Land Forces Command, the General Command of Gendarmerie and the Turkish National Police to function in an integrated manner into the top command control system.

Fire Support Command and Control Systems

The Fire Support Automation System enables the fire support to be executed in the battlefield in full compliance with other battlefield functional areas with the automation of the command, control and communication functions of the fire support.

The efforts to equip troops under the Land Forces Command with the Fire Support Automation Systems are continuing.

Electronic Warfare Command Control and Coordination System

Development activities for the Electronic Warfare Command Control and Coordination System (EWC3S), which integrates all the EW units and command posts on the battlefield has been continued. EWC3S will enable the most efficient and effective use of the EW resources on the battlefield providing the commanders with the timely and detailed information.





Battalion Task Force Battle Management System (BATUR)
Development continued on the Battle Management System (BATUR), which covers the command and control system requirements of the maneuver units on the battlefield.

The development of the command control and communication systems of the anti-tank weapon carrier vehicles to be brought into the Land Forces Command inventory was completed, and production of systems has already been started.

Soldier Command Control Information System (CENKER)
CENKER is an integrated information system that is designed to increase command-control, situational awareness, communication, surveillance and reconnaissance capabilities of the dismounted land force in company, team and squad levels. The position, status, emergency, tactical situation messaging, command-control and intelligence information sharing activities of the land task force are carried out in higher level of automation with wearable sensors, microprocessors, communication and display units in the system. Efforts are continued to improve the integration features of CENKER with other sensors, weapons and decision support systems in ASELSAN Network Enabled Command Control System solutions.

Network Enabled Battlefield Command and Control Systems
Work continued on the integration of the following systems and components under a common command control architecture; systems that are in the Land Forces' Command Inventory and that were developed by ASELSAN; the maneuver, intelligence, electronic warfare, fire support and air defense functional area command control information systems, aerial exploration systems, tactical communication systems, command site elements and mobile elements assigned in the tactical field.

Military Mission Computer Systems
The military mission computers, military panel computers, military handheld computers, monitors and keyboards and respective cards, which can be used by integrating them into the platforms in military systems, or can be handheld, andthat are suitable for high performance operation in the extreme conditions of the battlefield, were developed and produced.

The mass production of Friendly Force Tracking System (BTS) terminal continued for TTA-2 vehicles of Land Forces Command.

Artillery, Howitzers, Mortars and Rocket Launcher Fire Direction Systems
The design, production and delivery activities of the fire direction systems that enable the artillery, howitzer, mortar and rocket launcher unions to perform their missions in a faster and more precise manner by providing the automation of the technical fire direction process were carried out.

Air Defense Early Warning and Command and Control Systems (HERİKKS)

In order to roll out the HERİKKS to all troops of the Land Forces Command and to acquire new capabilities, the HERİKKS-VI contract was signed in December 2016, and work got under way. In addition to the existing Tactical Data Links, the HERİKKS-VI contract will pave the way for communication capabilities with the Link-16 and the JREAP tactical data links, and therefore enable the HERİKKS to work with the Air Force Systems at higher levels. The HERİKKS is designed to execute the command control of new generation air defense systems such as KORKUT, AİC, HİSAR-A and HİSAR-O which are being developed and planned to enter the inventory in the coming period. System design activities continued in 2018.

Combat Support Systems

Thanks to the capabilities brought into modern military vehicles and all kinds of platforms with domestic and national products developed by ASELSAN, our security forces have been able to adapt to the more challenging and variable war conditions of the current period.

Reconnaissance Surveillance Systems

The Electro Optical System allows ASELSAN Reconnaissance Surveillance Systems to recognize and identify elements detected from a long distance by radar. With the integration of Command Control Systems, location information pertaining to the targets can be transferred to the command center via computers and radios. Thanks to the high-tech communication systems, it has the ability to transfer a target's image to the command center with high quality.



Vehicle Tracking System

The Battlefield Fuel Tankers (AKTAN) will be followed by the Vehicle Tracking System developed by ASELSAN in line with the needs of the Turkish Armed Forces. With the AKTAN Vehicle Tracking System, information such as the tanker's position and fuel status can be followed from military headquarters and command centers in accordance with the NATO Friendly Force Information (NFFI) protocol. The position can be viewed through the map option offered in the AKTAN system. In 2018, the delivery of the all systems under the contract has been completed.

WEAPON AND WEAPON FIRE CONTROL SYSTEMS

ASELSAN develops and produces weapon- and weapon-fire control systems of different caliber and types which can be used on different platforms for land, air and naval battles, which are offered to armies throughout the world.

IN LINE WITH THE DEFENSE REQUIREMENTS FOR LAND AND SEA PLATFORMS AND FIXED FACILITIES, ASELSAN OFFERS COST EFFECTIVE STATE-OF-THE-ART SOLUTIONS FOR THE DEVELOPMENT AND INTEGRATION OF STABILIZED WEAPON STATIONS IN DIFFERENT CALIBERS.

Remote Controlled Weapon Systems (RCWS)

ASELSAN Remote Controlled Weapon Systems (RCWS) are in service of 15 allied countries including Turkey.



The production and deliveries of the Remote Controlled Weapon Systems - Stabilized Machine Gun System (STAMP), 25mm Stabilized Naval Gun System (STOP) and 30mm Stabilized Naval Gun System (MUHAFIZ) - which are developed for marine platforms, continued within the scope of orders received from Turkey and abroad.

The verification and production planning activities have continued for the new version of STAMP (STAMP-2) and STOP system with features such as advanced graphical user interface, integrated training simulator and the precision stabilized electro-optical suit. The below deck ammunition feeding system and the compatibility to fit NATO and Russian origin weapons was carried out.

Production and delivery of the 40mm and 76mm Naval Gun Fire Control Systems, within the scope of the orders have continued. Development activities for the 5/54 Naval Gun Fire Control System have got underway.

Mass production and delivery of the 12.7mm SARP Remote Controlled Weapon System, which is developed for use as a close defense weapon against land- and air- based threats to armoured vehicles or at fixed facilities, has continued, meeting the needs of the Land Forces Command, Air Force Command, Naval Force Command, Turkish National Police and General Command of the Gendarmerie. As the end of 2018, total number of SARP Systems delivered to end user reached 2200 units



The export of the SARP-DUAL NSV system, which is a version of the SARP system and that can be fitted with weapons of Russian origin, was carried out.



The qualification activities of SARP-WIRELESS system which is developed to use in tasks where the level of threat is high, were completed.

The qualification activities of SARP-ZAFER system which has under armor loading capability on which 12.7mm or 7.62mm machine gun can be fitted, were completed according to the Turkish National Police, Qatar Armed Forces and Kuwait Armed Forces requirements.

The qualification activities of the NEFER Unmanned Turret System, on which there is a 12.7mm or 7.62mm co-axial weapon with 25/30mm automatic cannons, on which anti-tank missiles of either western or eastern origin can be fitted, were completed. Developed for land vehicles and equipped with an independent electro-optical system, the NEFER System has become an important option for both countries which use NATO weapons and countries which keep weapons of Russian origin in their inventories.



-155 mm Fırtına Self-Propelled Howitzer Fire Control System

In 2018, the contract was signed for supply of important units of Next Generation FIRTINA Fire Control Systems. The effectiveness of the Next Generation FIRTINA Howitzer in the combat area has been increased by equipping with the new systems developed by ASELSAN. The Next Generation FIRTINA Howitzer with its new turret and systems has gained many additional abilities. In this context, the turret and barrel guidance systems have been driven by fully electrical and servo controlled engines. The Fire Control Systems have been designed and developed according to today's technology. The Projectile Loading System can load any projectile from the magazine to the barrel automatically. SARP, remote controlled weapon system, has been integrated for the close protection of FIRTINA howitzer.

Light Towed Air Transportable Howitzer Fire Control System

The system has been developed as part the BORAN Light Towed Air Transportable Howitzer development project, in order to meet demand for artillery weapons with a high hit accuracy and tactical flexibility, as required by constantly changing and ever more challenging combat conditions. The weapon is light weight with modern equipment, and transportable by helicopter. The fire control system fulfils fire readiness, management and control missions via computer and data connection capability to other fire support systems via digital radios. Design and prototype manufacturing activities are completed and system is ready for serial manufacturing.

Modernization of the 155mm Towed Howitzer

Modernization activities were carried out to add new features to the 155mm Towed Howitzer in order to increase its means and capabilities.

Work has been carried out to increase the effectiveness, reliability and the speed of task execution of the PANTER Howitzers by adding new features to the existing models and by integrating them with the 6x6 or 8x8 vehicle platform. The prototype weapon system was prepared and the PANTER Howitzer on the vehicle was verified with firing tests.

Multi-Barrel Rocket Launcher Weapon Management Systems

The Multi-Barrel Rocket Launcher Weapon Management Systems provide to the transition, deployment, firing preparation and firing control operations of multi-barrel rocket launchers.

Business development activities were carried out both in Turkey and abroad.

ALKAR 120 mm Automatic Mortar System

The ALKAR 120 mm Automatic Mortar Weapon System is able to load ammunition automatically, can calculate the firing command by computer and can be directed automatically according to the firing command. It can be integrated into a number of vehicles with the recoil mechanism that was originally developed by ASELSAN. ALKAR Automatic Mortar Weapon System, on which a number of grooved/smoothbore barrels from different origins mounted, has been launched after completing on vehicle firing training.

81 mm Mortar Pointing and Orientation System

For more effective, faster and reliable use of 81 mm mortars, firing tests of the system were carried out in the user units. The system allows the mortar to be pointed precisely in a very short space of time, firing commands to be calculated with the system computer at the same time and the barrel to be directed with the help of the screen display.

60 mm Mortar Sight Shooting System

The system has been developed for more effective and reliable use of the 60 mm mortars, and the firing demonstrations of the system were successfully carried out.

Ammunition Transfer Systems

Ammunition Transfer Systems (ATS) were delivered according to the additional procurement contract of Ammunition Transfer System (ATS) project, which is used for the POYRAZ Ammunition Resupply Vehicle.

SERDAR Machine Gun and Anti-Tank Missile Launching System

ASELSAN developed a remote controlled and stabilized anti-tank missile system that will provide a high level of effectiveness against land targets in all kinds of weather conditions by day or night, thanks to its computer-controlled firing control capabilities. Software development studies were carried out within the context of command control and firing control subsystems for demonstration of capability, and system integration studies have been carried out. A prototype system was qualified with two types of Anti-tank Missile firings.



In June 2018, a contract was signed with Qatar Special Forces request of numerous SERDAR Systems and a number of systems have delivered to the client. SERDAR System is equipped with two SKIF missiles, 7.62 mm machine gun and 12.7 mm machine gun which a remote controlled and stabilized anti-tank missile system.

ATMACA

The ATMACA Block-1 Stage 2 Project has been started with a signed agreement between Presidency of Defense Industries (PDI) and ROKETSAN on 29 October 2018. ATMACA is a surface to surface anti-ship missile for naval surface platforms developed for I-Class frigates of TuN. In the scope of the project, ASELSAN will produce and procure RF Seeker, Missile Mission Computer, Power Distribution Unit, Fire Control System and Fire Control System spares.

Anti-Submarine Rocket Launching System (ASRLS) Serial Production Project

ASRLS is a stabilized and modular firing platform which is a quick-reaction system that is designed to control penetrations to territory waters and main bases to deny enemy submarines. The System was developed to fire anti-submarine rockets developed by ROKETSAN and integrated onto 4 patrol boats of Turkish Navy by the year 2012.

Within the scope of the Anti-Submarine Rocket and Launching System Supply contract signed between PDI and ROKETSAN in the last quarter of 2018, ASELSAN signed a contract with ROKETSAN. In this regard, 12 ASRLS will be produced and integrated onto patrol boats of Turkish Navy and necessary trainings will be given.

MILGEM RAM & HARPOON Procurement Project

Within the scope of the MİLGEM Combat System Supply Project, the RAM Point Defense Guided Missile Weapon System and the Harpoon Missile System were first integrated onto the TCG HEYBELİADA and TCG BÜYÜKADA vessels and they recorded a full hit in the firing tests made to date. The work of integration onto the TCG BURGAZADA vessel was successfully completed whereas the integration activities for TCG KINALIADA are ongoing in accordance with the plans. The factory acceptance tests of the associated systems were successfully carried out in 2018 and the Systems were delivered to İstanbul Shipyard Command for mechanical integration onto TCG KINALIADA.

MAIN BATTLE TANK SYSTEMS

ASELSAN presents her state of the art solutions for heavy, medium and main battle tanks; which meets all mid life upgrade requirements while bringing the combat performance of the tanks beyond the existing tanks. ASELSAN's system solutions are based on the back-bone of the electronic infrastructure of the Turkish national main battle tank ALTAY.

ALTAY MBT Fire Control and Electronic Systems

Within the scope of the ALTAY Project, which ASELSAN is involved in as the main supplier of electronics, electro-mechanical and electro- optical systems, technical data package was delivered to Presidency of Defense Industries as the last deliverable of the project.
In order to meet Omani Royal Armed Forces' needs, mobility tests and firing tests with ALTAY were successfully performed in July 2018.

For the Serial Production Phase of ALTAY Project, contractual negotiations were performed with the main contractor company. In the scope of the Serial Production Phase of the project, ASELSAN is going to supply Fire Control System, Electrical Gun and Turret Drive System, Remote Weapon Station, Command Control Communication and Information System, Laser Warning Receiver System, Driver's Sight System, Battlefield Target Identification System, 360° Situational Awareness System and AKKOR Active Protection System for the upcoming ALTAYs.

Main Battle Tank Modernization

As ASELSAN is the leading company that is developing whole electronics, electro-optical and electro-mechanical solutions for MBTs, ASELSAN's qualified MBT upgrade solutions are applied on both heavy MBTs (Leopard1, Leopard2, M60) and light MBTs such as T-72. While twenty first century combat conditions require the aging MBTs to be upgraded as a new generation war machine, with enhanced capability compatible to the last generation MBTs, ASELSAN with her broad experience and advanced engineering capabilities provides optimum solutions related to weapon modernization programs.

FIRAT - M60T Modernization

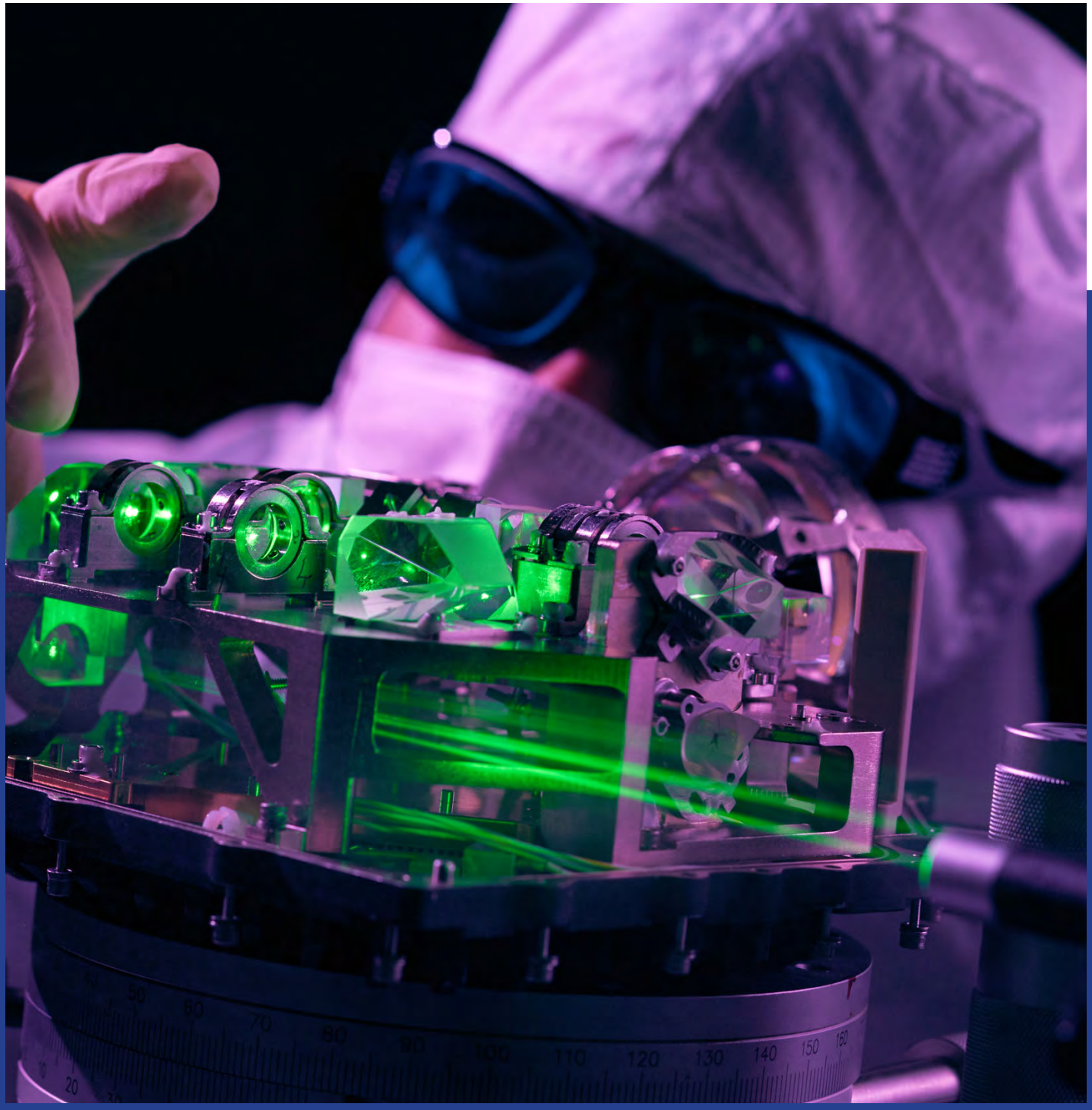
Due to confusion around the border of Turkey and hence to support the army's "Operation Euphrates Shield", ASELSAN was awarded a contract for the upgrade of whole M60T Main Battle Tank fleet of Turkey by Turkish MoD. The modernization program is intended to keep the M60Ts operation in the battlefield with full performance to the maximum extend against the ATGMs as well as to improve the fire power of main battle tanks in urban areas. ASELSAN's modernized M60T tanks, called as M60TM, are directly deployed around the border of Turkey and participated in "Operation Olive Branch" as well. All the systems that have been integrated on M60TMs are now combat-proven thanks to the successful operational deployment of M60TMs. ASELSAN's M60TM MBT modernization solution provides enhanced integration baseline to the MBTs and offers most up-to-date technology state-of-the-art-solutions with modular and flexible structure.





FIELD OF ACTIVITIES

Microelectronics, Guidance and Electro-Optics Business Sector



Microelectronics, Guidance and Electro-Optics Business Sector

ASELSAN PRODUCES AND DEVELOPS THERMAL SYSTEMS, DAYTIME VISION SYSTEMS, NIGHT VISION SYSTEMS, LASER SYSTEMS, ELECTRO-OPTIC COUNTERMEASURE SYSTEMS AND MULTI-SENSOR ELECTRO-OPTICAL SYSTEMS.

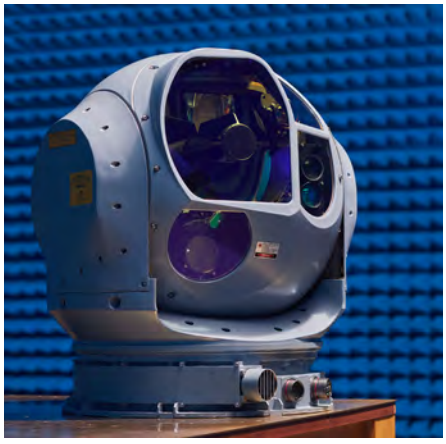
ELECTRO-OPTIC SYSTEMS

Electro-Optic System activities was carried on the development of thermal visions, daytime visions, image enhancing night visions, laser, electro-optic countermeasures and multi-sensor electro-optic systems and regarding basic technologies for portable and land, air, sea, space platform applications.

Targeting Systems

Integrated Electro Optical System Technology Development Project contract under the Turkish Fighter Development (TF-X) Program was signed and contract is still effective. Electro-Optical Systems will be indigenously designed for operational environment with high technology.

Serial production of the ASELPOD system is ongoing and deliveries have been carried out within the framework of domestic and foreign contracts. Proposals were submitted to meet the needs of various customers abroad.



CATS Electro-Optical Reconnaissance, Surveillance and Targeting System has accepted by Turkish Air Force and used in operations. The project has started to develop rotary wing version of CATS.

Deliveries of the ASELFLIR-300T Electro-Optical Reconnaissance, Surveillance and Targeting System were realized within the scope of the ATAK Project. Deliveries of the ASELFLIR-300T System aimed at the modernization of the Turkish Cobra Helicopter Program and continued international contracts.

Project has started for the common use of Electro Optical Wide Area Surveillance and ATMACA Reconnaissance and Surveillance Systems.

ATMACA, KUZGUN and FINCH Reconnaissance and Surveillance Systems are deployed on unmanned platforms. The work has been performed with potential customers.

Deliveries were carried out to the Laser Warning Receiver System (LIAS) within the electro-optic countermeasure system family. Proposal preparation and performing the pre-project activities were held on the other types of electro-optical countermeasure systems.

Reconnaissance Systems

Production of the ATS-70/71 electro-optical sensor systems that are used for the remote controlled weapon systems are in progress and more than two thousand systems were delivered. The ATS-70/71 Systems have thermal and day TV cameras with continuous optical zoom, high performance laser range finder, enhanced image processing algorithms, high shock and vibration rates. These systems are the eye and sight of the SARP Systems and used by Turkish National Police, Land Forces Command and General Command of Gendarmerie.

In order to meet domestic and foreign customers' need for high performance thermal imaging that can be deployed on various platforms, the design and qualification phase of the EYE-LR Thermal Camera Family were qualified in 2017 and deliveries started. For the supply of EYE-LR Thermal Camera to meet an international customer's need for missile sighting has been completed in 2018. Sales contracts signed for the EYE-LR Thermal Camera System Family, to meet the needs of the Naval Forces Command and the Air Force Command, has also been completed in 2018. The new generation EYE-LR Vehicle Thermal Camera System, which is designed to meet the electro-optical sensor system needs of military vehicles, was delivered under the contract signed with an



ASELPOD-
Targetting System





international customer. Two different types of vehicles have been equipped with EYE-LR Vehicle Thermal Camera Systems and have been in service of international customer. EYE-LR Thermal Camera Family has been also perfectly compatible with reconnaissance and surveillance needs of Anti-Drone Systems and deliveries for both national and international customers have been completed.

The serial production of FALCONEYE-MW Electro-Optical Sensor Systems for ATEŞ Mobile Border Security System Project and KAYI Border Security Project continues. The deliveries will be completed in 2019.

Within the scope of the sales of the PERI EYE Thermal Camera product group, all deliveries to international platform manufacturer were successfully completed during 2018.

Within the scope of SAGER STA Electro-Optical Sensor Systems Contract signed between FNSS (FNSS Savunma Sistemleri A.Ş.) and ASELSAN to meet the Turkish Land Forces Command's requirement for weapon carrier vehicles (WCV), qualification of the SAGER-STA Electro-Optical Sensor System that is produced for tracked anti-tank vehicles with KORNET-E Anti-Tank Guided Missiles is finalized and serial production deliveries are continuing.

Electronical and Electro-Optical Systems qualification tests for the prototype tank have been successfully completed within the scope of the ALTAY Turkish Main Battle Tank Period-I Electro-Optical Systems Procurement Contract. Serial Production is in progress.

Deliveries for M60T Modernization Project which was signed by the Presidency of Defense Industries to bring additional capabilities into existing systems in order to effectively protect the main battle tanks have been completed. The system includes the Close Range Surveillance System (YAMGOZ), Tank Driver Vision System (DVS), Tank Laser Warning System (TLWS) and ATS-70 equipment. A contract amendment was signed for the inclusion of 49 additional tanks, and deliveries are ongoing for those tanks.

In content of 6th phase of MGUB Modular Temporary Base Installations Project, the deliveries of FALCONEYE-MW Electro-Optical Sensor System, DAS Camera System, and ATS70

Electro-Optical System have been completed. The 7th phase of this project is in progress.

Within the scope of the Dragoneye electro-optical system project, design work was completed and qualifications tests have started. Deliveries of the Dragoneye system will be realized during 2019 for the needs of the Turkish Land Forces and Qatar Armed Forces.

Turkish Land Forces and ASELSAN have signed a contract for the serial production of thermal sight unit (TSU) and thermal electronics unit (TEU) of DNTSS Modernization Program after the successful completion of the development phase in 2018. Deliveries planned to complete within 2019.

Within the scope of the KORKUT Serial Production Project, the delivery of the Electro-Optical System which includes thermal camera, day TV camera and laser range finder was completed. Production of the remaining deliveries are being continued.

Laser Systems

Deliveries of the VIPER-Laser Designator System, whose coordinate finding performance has been enhanced by improving the existing features for the Land Forces Command Artillery Corps requirements, were successfully completed. Due to the success of the systems on the field, a new purchase order has been received. Regarding to the new purchase order, VIPER-Laser Target Designators deliveries have been completed and production of EYE Seespot Thermal Cameras has been continuing.

Sales and marketing activities of the VIPER for allied armies have been continuing. Demonstration activities using both local laser guided munitions and ASELSAN's laser guided kits has proved high hitting performance of laser designation and precise target location calculation property of VIPER on the field. Marketing activities of VIPER throughout the World has been continuing.

Laser Defense System-Mobile (LSS-M) has been designed regarding to the needs of new war technologies for 21th century. This war technology has been expected to be one of the most crucial capability for armies to be superior on the tactical field against enemies. All design phases of LSS-M has been sponsored by ASELSAN's own equity and LSS-M has been expected to be milestone of ASELSAN's ongoing Laser Defense Systems Program.



ASELSAN LSS-M has been developed to detect threats with optical target detection system, to track threats by advanced tracking algorithms and to destroy threats like suspicious packages, hand-made explosives, camouflage systems at residential areas used by terrorists and mini and micro drones/UAVs. During 2018, integration activities of LSS-M onto Turkish armored vehicle has been completed successfully.

After integration of LSS-M, effectiveness tests of laser system have been performed on the field in June 2018. ASELSAN Laser Defense System-Mobile has eliminated threats as hand-made explosives, camouflage systems at residential areas used by terrorists, mini and micro drones/UAVs for attack and/or intelligence purposes. Both stable and moving UAVs within mini hand-made explosives have been exploded on a secure distance in seconds. Besides, electro-optical suits of UAVs





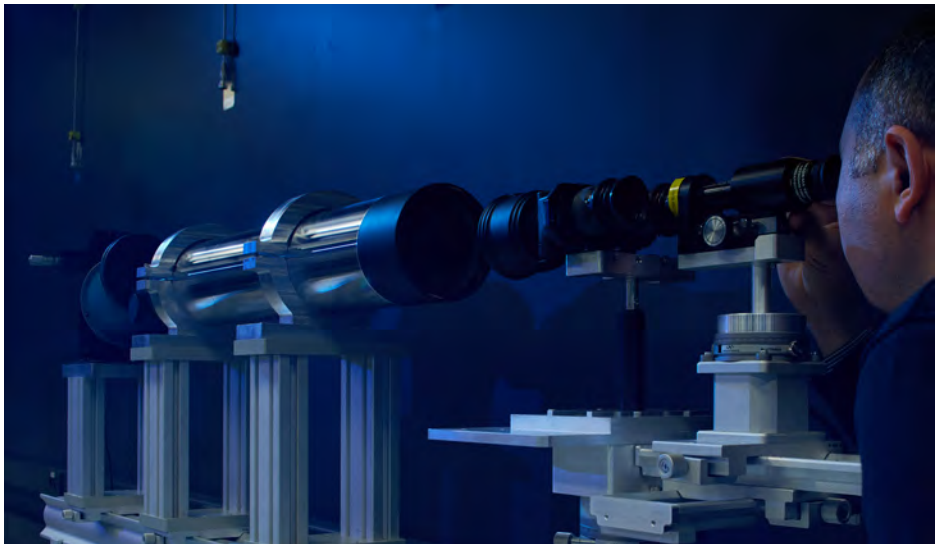
used for intelligence purposes have also been burned and eliminated. Hence, ASELSAN, the leader of laser systems in Turkey, has developed and demonstrated new laser system to users. ASELSAN has proved its laser technology capability by obtaining future needs on laser systems beforehand and has became one of the most important and lead actor in both laser technology and high power laser weapon systems.

Naval Systems

The modernization of the Burak Class Corvettes, which have been serving for a long time in the inventory of the Turkish Naval Forces, has been on the agenda. In order to determine the scope of modernization, pre-contractual exploration activities were carried out at Izmir Shipyard Command. In this context, the integration of SeaEye-AHTAPOT Electro Optical Director System and Improved Laser Warning System (G-LWS) on ships is aimed.

Within the scope of the LST Project, firing tests were carried out on 10-11 December by TCG SANCAKTAR vessel at Foça Naval Base Command. The ASELFLIR-300D Electro-Optic System, which is used during firing to the over water and air targets (round), has achieved great success in the tests.

The SDB Project which is executed by PDI was signed with the ARES Shipyard in November 2018. The meetings that was conducted for the purpose of supplying the Electro Optical Surveillance System within the scope of supplying the project with domestic solutions were successfully completed with the latest technical and administrative meetings that we held in December. In this context, SeaEye-MARTI-L Electro-Optical System will be supplied and the first delivery will be made in January 2020.





Portable Tactical Systems

With regards to two different contracts signed for the requirements of Turkish Naval Forces, thermal weapon sight, thermal weapon sight clip-on, night vision clip-on and wireless head display were delivered in 2018.

In scope of the need of Turkish Land Forces, Sharpeye and Doruk Electro-Optical Sensor System have been delivered. Doruk Electro-Optical Sensor System deliveries will be completed in 2019.

With respect to two different contracts signed for the requirements of Turkish Air Forces, stinger thermal sights were delivered in 2018.

Within the scope of the need of Turkish Gendarmerie General Command, thermal weapon sight, wireless head-up display and Sharpeye Elecetro-Optical Sensor System were delivered in 2018. Regarding the requirement of Turkish Special Police Force, the deliveries of 4X weapon sight were completed.







Within the scope of the contract signed with Turkish Land Forces, the deliveries of 1x-4x, 1,5x-6x Optical Sights, Reflex Sight, 3-12x Sniper Scope, 35mm Thermal Weapon Clip-on, 60 mm Thermal Weapon Clip-on and A600 Night Vision Clip-on were started in 2018. The deliveries will be completed in 2019.

The deliveries of Night Vision Sights (for the need of the Ministry of Defense of Ukraine) and Day Sight and Night Vision Clip-on devices (for the need of the Ministry of Defense of Qatar) were completed in 2018. The sales contract for Eye-Mobile Thermal Handheld Sight was signed for the delivery to the Polish Armed Forces and devices were delivered to the end user in 2018.

In 2018, within the scope of the Ministry of Defense, the Presidency of Defense Industry, STM Inc., Turkish Armed Forces Foundation companies and export targets, 18 new contracts have been signed and entered into force for the sale of various portable tactical electro-optical systems with the defense ministries of different countries.

Electro-Optical Product Programs

Activities for Kazakhstan ASELSAN Engineering (KAE) LLP, a joint venture company established in Kazakhstan, have continued. Within the scope of KAE Industrial Cooperation and Kit Procurement Project, night vision kits were delivered.

The Lens Production Line, qualification studies of which was initiated with the cooperation agreement signed with KAE in 2012, was put into operation and the first optical product / thermal lens of the Republic of Kazakhstan was produced in KAE facilities. Moreover, to support MGEO requirements, the first lens purchase order was delivered to KAE.

Under the Industrial Cooperation and Kit Procurement Project carried out with the joint venture company ASELSAN MIDDLE EAST (AME) LTD in Jordan, a procurement contract for thermal camera and sight requirements has been signed for various areas of use. A contract was signed with Qatar for the establishment of a joint venture company to produce electro-optical products.

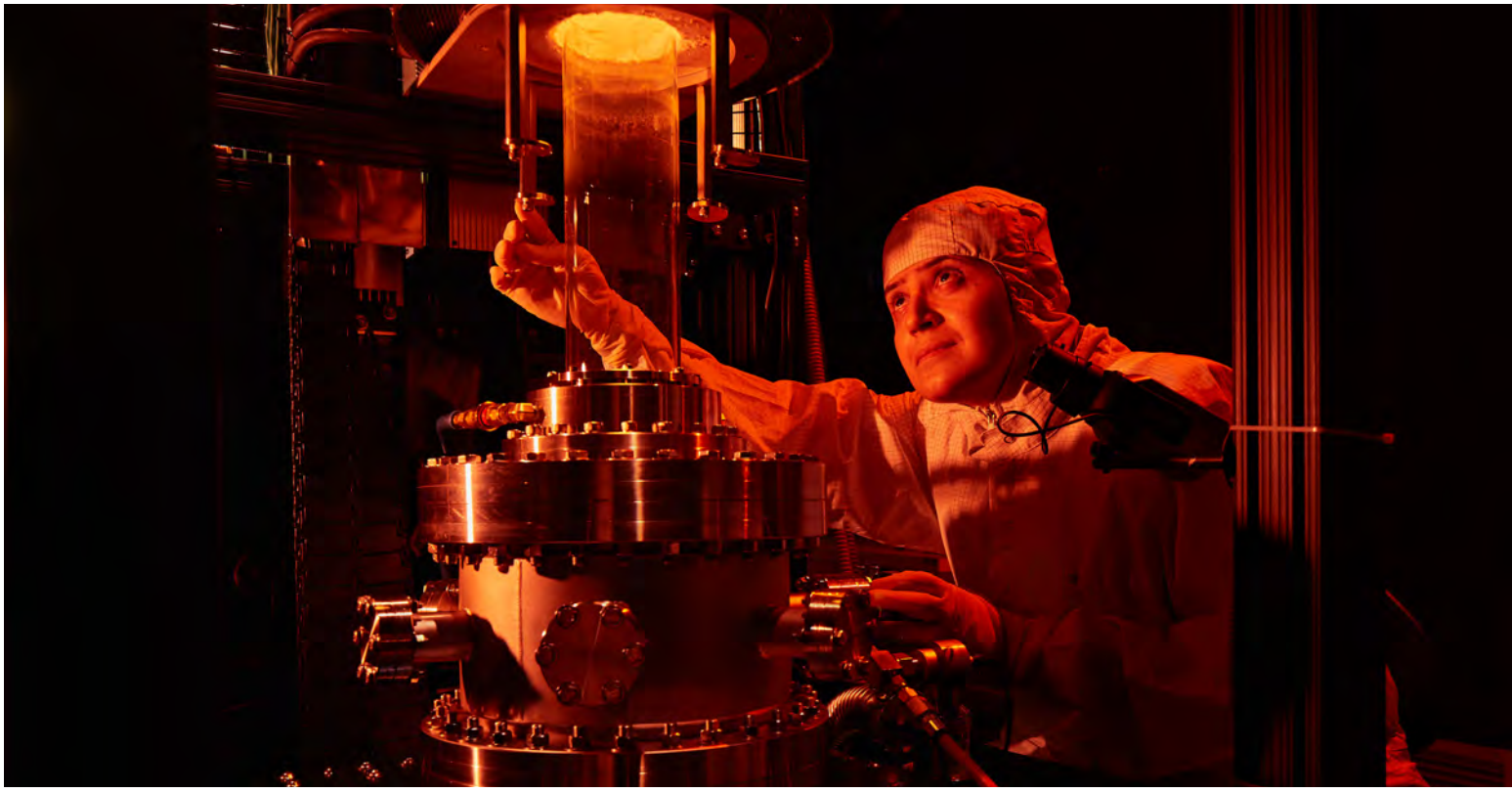
Activities in Aselsan Hassas Optik for the establishment of the necessary infrastructure for optical products and day/night vision devices which have been produced with know-how transfer made by ASELSAN to Aselsan Hassas Optik (AHO) have continued.

New generation binocular night vision glasses for A500 series were designed for use in land and air troops.

Within the scope of device sales of A100, A200, and A500 Night Vision Device families, sales contracts have been signed for various needs of users.

Cooled Infrared Photon Detectors

The TFX Integrated Electro-Optical System Technology Development Project and the Infrared Detector



Assembly Development Project are signed in July and August 2018 respectively. These projects gave the responsibility of developing infrared detectors for several critical platforms to ASELSAN and ASELSAN has started related activities.

The 640x512 format and 15µm pitch MCT (Mercury Cadmium Telluride) cooled infrared detector prototype has reached the expected electro-optical performance. Product development and qualification are planned to be completed and the detectors are planned to be placed within ASELSAN's thermal cameras in 2019-2020.

Through research and development activities aiming to obtain superlattice type cooled infrared detector technology, 640x512 format and 15µm pitch superlattice cooled infrared detector prototype is produced. This detector is planned to be placed within the ASELSAN EYE Thermal Camera family which are utilized as surveillance/reconnaissance systems.

Uncooled Infrared Thermal Detectors (Microbolometer)

Microelectromechanic Systems (MEMS) Production infrastructure to manufacture indigenously developed bolometer type uncooled detectors has been commissioned in 2018 November. By completion of process optimization and line qualification, serial production is expected to start in 2019.

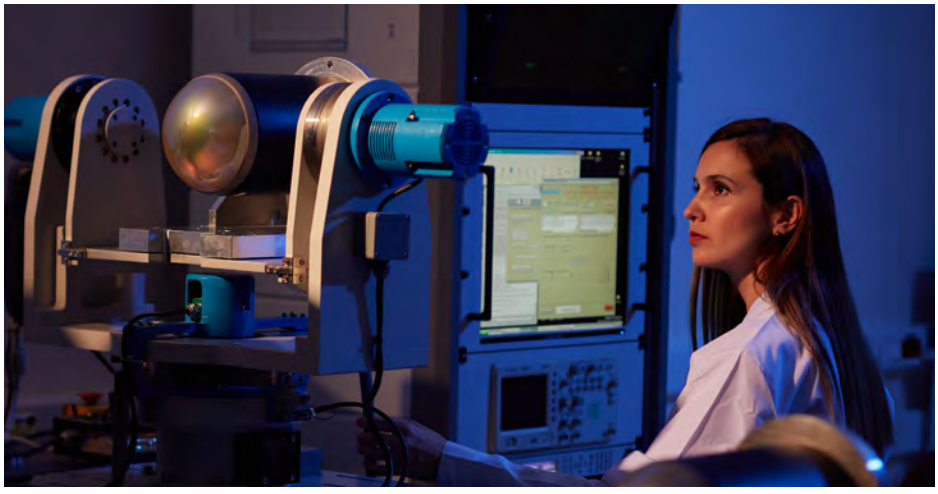
Tube production has been continuing in the production line established with the aim of manufacturing UV (Ultraviolet) Image Intensifier Tubes, which are an important subcomponent of Helicopter Missile Warning Systems.

Inertial Measurement Units

ASELSAN continued development and integration activities of the domestically designed and produced Tactical and Navigational Grade IMU's for miscellaneous platforms in 2018. The domestically designed and produced Navigational Grade Inertial Measurement Unit (IMU), namely KILAVUZ-100, integrated in ANS600 passed the qualification and flight tests done on SU-25 in Azerbaijan.



A cooperation protocol was signed with TÜBİTAK SAGE to integrate domestically designed and produced Tactical Grade Inertial Measurement Unit (KILAVUZ-10B) to Precision Guidance Unit 2. Conceptual design and prototype phases have been completed successfully and verification tests are going to be held in the coming months. It is planned to complete integration in the first half of 2019, then serial production is expected to start in the beginning of 2020.



GUIDANCE AND UNMANNED SYSTEMS

MISSILE SEEKER PROJECTS

OMTAS Mid-Range Antitank Missile Infrared Seeker serial production contract was signed between ASELSAN and ROKETSAN.

UMTAS Long-Range Antitank Missile Infrared Seeker serial production activities have been continued.

HISAR-A Low Altitude Air Defense Missile Infrared Seeker Design Project's firing tests were successfully performed. In the project, the system integration and test activities are continuing.

In the HISAR-O Medium Altitude Air Defense Missile Infrared Seeker Design Project, design activities are on-going.

In the KARAOK Short-Range Antitank Missile Seeker Design Project, preliminary design phase was successfully completed and critical design activities are continuing.







GUIDANCE AND CONTROL SYSTEM PROJECTS

Serial production contracts of Laser Guided Kits (LGK-82, LGK-84), those convert MK-82 and MK-84 general purpose bombs to laser guided bombs, were signed with Presidency of Defense Industries (PDI) and Ministry of National Defense (MND).

Serial production contracts of Precision Guided Kit (HGK-84), that converts MK-84 general purpose bombs to a GPS/INS guided bombs were signed with PDI (Presidency of Defence Industry) and MoD (Ministry of National Defense).

HGK-82, that turns MK-82 general purpose bombs into a GPS/INS guided smart bombs, serial production contract negotiations with PDI was started.

LGK-84, used with MK-84 general purpose bomb, was certified to F-16 and F-4 aircrafts and serial production activities was started.

LGK was certified to Azerbaijan's SU-25 aircraft by hitting laser designated targets with high precision. Contract negotiations was started to supply LGKs to the Azerbaijan's Air Force.

LGK and HGK international sales contract negotiations were continued.

Within the scope of contracts to meet the Turkish Air Force (TuAF) requirement for guidance kits; LGK-82, LGK-84 and HGK-84 kits serial productions are continued.

HGK-84 Laser Seeker serial production line was established and production is started.

Nationalization study of HGK-84 critical components which are currently imported from USA was continued.

Miniature Guided Bomb (MB), which is GPS/INS guided and is effective against stationary targets from a long range, is prototyped and safety of flight tests are completed.





Smart Carriage Unit (ÇTS-4), which has capability of carrying and releasing 4 MB, are prototyped and safety of flight tests are completed. Attacking 8 different targets with a single sortie will be possible by using 2 ÇTS-4 with 8 MB.

Serial production of ÇTS and MB are planned to be started in 2019 to meet the Turkish Air Force (TuAF) requirement for long range minature guided bomb.

UNMANNED MARITIME VEHICLE PROJECTS

Regarding ALBATROS Unmanned High Speed Surface Target Vessel a contract signed with Turkish Navy in February 2018 and two versions of ALBATROS, Target and Catamaran were successfully delivered in live gun firing exercises of the Turkish Navy at April, May and September of 2018.



In order to meet the requirements of the Naval Forces Navigation Hydrography and Oceanography Department, a contract was signed with the MoD for a New Type Semi-Autonomous Survey Vessel supply project.



Unmanned Ground Vehicle Projects

ERTUĞRUL Explosive Ordnance Disposal Robot, developed for the Turkish National Police, deliveries finalized 3 months earlier at November of 2018 regarding the contracted signed with PDI. With respect to contract, significant amount of ERTUĞRUL Explosive Ordnance Disposal Robot and 16 pieces of armored vehicle delivered to Turkish National Police.

NATO's standardization activities for the interoperability of unmanned vehicles have been continued. Developing automation kit has been continued for existing vehicles as part of process of converting the vehicles for unmanned operation.

UNMANNED AERIAL SYSTEMS

TEPEGÖZ Tethered Multi-Rotor Surveillance System

TEPEGÖZ Tethered Multi-Rotor Surveillance System is designed to provide jamming resistant long-term protection and early warning capability for critical facilities and forward operating bases. The system put into action at the EFES 2018 military exercise and watching the exercises from the air.

Mini Unmanned Aerial Systems (MUAS)

Within the scope of BOTAŞ Oil and Natural Gas Pipelines security, MİUS contract was signed to provide protection for critical facilities and pipelines.

SERÇE Multi Rotor UAS

Deliveries of SERÇE-1 system had been continued in 2018 which the contract was signed with STM/PDI in December 2016 required by Land Forces Command, Air Forces Command, Gendarmerie General Command and General Directorate of Security.

The tender for SERÇE-3 systems required by Land Forces Command and Air Forces Command systems has been submitted to the tender. In case the tender remains on our side, works have been continued for starting the deliveries in 2019.

SERÇE system contract has been signed in the scope of KAYI Project and delivery will be made in 2019.

The delivery of SERÇE systems integrated to MGÜB were continued in 2018 and the systems to be delivered in 2019 were made ready.

Land Forces need for drop bombs kit with SERÇE system has started working with ROKETSAN. Also METİ kit studies have started with the School of Challenging.

KARAGÖZ Aerostat Surveillance System

Balloon Wide Area Surveillance System contract has been signed under the KAYI Project. Two ATMACA E/O Sight and one Wide Area Surveillance Sight will be used as optical cameras in the said system. The design and production phases of the systems have been started and the delivery will be made in 2019.





AVIONIC SYSTEMS

ASELSAN continued manufacturing and delivery activities regarding Gendarmerie Helicopter Modernization, ATAK, ANKA, Turkish Utility Helicopter, Turkish Light Utility Helicopter and HÜRKUŞ-B New Generation Basic Trainer Aircraft Programs.

Helicopter Programs

ASELSAN is responsible for the development of hardware and software of Avionic Central Control Computer (ACCC) and the integration of all other avionic and weapon systems managed by ACCC for T-129 ATAK Helicopter Program. Besides, serial production, delivery of avionic systems and logistics support activities for the program has been performed.

Within the scope of T-129 ATAK Helicopter Program, deliveries of indigenously developed and manufactured avionics systems, primarily Avionic Central Control Computer, cockpit display and control systems, E/O detection and targeting sight, navigation, communication, electronic warfare and self-protection, mission and weapon management systems for one (1) Prototype Helicopter, nine (9) EDH Helicopters, twenty-nine (29) ATAK Phase-1 Helicopters and twenty-one (21) ATAK Phase-2 Helicopters were completed.

THE FLIGHT MANAGEMENT, NAVIGATION, ELECTRO-OPTIC, COMMUNICATION, RADAR, ELECTRONIC WARFARE, WEAPON AND MISSION SYSTEMS DESIGNED AND MANUFACTURED BY ASELSAN HAVE BEEN FIELDED AND USED BY THE TURKISH ARMED FORCES FOR MANY YEARS.

By the end of 2018, nine (9) EDH and twenty-nine (29) ATAK Phase-1 Helicopters have been registered to the inventory of Turkish Land Forces and four (4) ATAK Phase-1 Helicopters have been registered to the Ministry of Interior. In accordance with helicopter acceptance tests, technical and integrated logistic support activities are continuing.

The design and integration of Helmet Integrated Cueing System (AVCI), which was specifically developed for T-129 ATAK Helicopter is completed. AVCI is the world's first hybrid (optic-inertial) head tracker capability helmet system, first time integrated on a specific helicopter platform. With high performance tracking capability, AVCI automatically aligns EO targeting and weapon systems to the pilot's line of sight. The serial production and kit deliveries of AVCI has been continued.





In scope of AH-1W Helicopter Modernization Program for Turkish Land Forces, integration phase has been continued.

For various air platforms of Turkish Land Forces, design and integration activities concerning ASELSAN Software Defined Networking Radios (SDNR) and Identification of Friend or Foe (IFF) Systems have been continuing.

To the scope of the contract signed in 2014 and activated in 2016 with Sikorsky for Turkish Utility Helicopter Program (TUHP), ASELSAN will execute the development, production and integration of critical avionic systems including mission, navigation, communication and electronic warfare systems. After integration of ASELSAN indigenous IMAS (Integrated Modular Avionics System) System, the helicopter S-70i will be renamed as T-70. Within the context of the Program, hardware and software development activities are completed and testing and verification process have been continued. Platform flight test will be scheduled in the first half of 2019.

AS A PART OF GÖKBEY LIGHT UTILITY HELICOPTER PROGRAM, EXECUTED BY PDI, ASELSAN DEVELOPS CIVIL CERTIFIED COCKPIT AVIONICS, AUTOMATIC FLIGHT CONTROL COMPUTERS, HEALTH AND USAGE MONITORING COMPUTERS, MISSION AND FLIGHT MANAGEMENT SOFTWARE.

Within the scope of the Avionic Modernization of Gendarmerie Helicopter Program, ASELSAN is responsible for the avionic modernization of Sikorsky S-70, AB-205 and Mi-17 helicopters currently existing in inventory of Turkish Gendarmerie. Integration activities for Mi-17 and AB-205 helicopters are completed and activities for S-70 helicopters are still running. Modernization of S-70 helicopters in Turkish Special Forces inventory has been started with the contract change in Avionic Modernization of Gendarmerie Helicopter Program and prototype integration activities have been continued.

ASELSAN signed an export contract with TUSAS for the modernization of AH-1E Cobra Helicopters in 2015. This contract is a leading milestone in achieving progress in development and integration capabilities for ASELSAN export potential. Within the scope of the contract, existing avionics of the helicopter including mission computer, cockpit display systems, thermal sight system, weapon and navigation systems will be retrofitted by ASELSAN advanced avionics. In June 2017, the scope of the contract has been expanded by additional of AH-1F Cobra Helicopters' modernizations. Serial production deliveries have been achieved in compliance with the contract.

As a part of GÖKBEY Light Utility Helicopter Program, executed by PDI, ASELSAN develops civil certified cockpit avionics, automatic flight control computers, health and usage monitoring computers, mission and flight management software. Besides development activities of the Program, currently existing ASELSAN avionic systems will be integrated to the helicopter as well. Within the scope of the Program, for civil configuration the phase of test readiness has been completed. The production and delivery activities of equipment developed by ASELSAN are continuing. First flight of GÖKBEY Helicopter with ASELSAN cockpit displays and avionic systems was successfully accomplished on September 6th, 2018.

In the scope of the contract signed on 15 August 2017 between STM and ASELSAN, deliveries of HTAWS (Helicopter Terrain Awareness and



Warning System) integrated to the tablets have been completed in 2017. Serial integration and after-sales activities have been continued in 2018 for fifteen (15) different configuration helicopters of seven (7) different End Users.

In the scope of the contract signed with PDI, newly developed HTAWS (Helicopter Terrain Awareness and Warning System) will be integrated to helicopters of Turkish Land Forces (S-70A Blackhawk, UH-1H/AB-205 and AS-532 Cougar). Development and procurement activities are still ongoing.

The integration activities of TEMREN Guidance Missiles to Sea Hawk Helicopters of Turkish Naval Forces have been continued and firing tests will be executed in 2019.


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Aircraft Programs

As part of Turkish Airborne Reconnaissance Program (TARP), the integrated logistic support under warranty period is continuing for the delivered and operational EO/IR reconnaissance systems on F-16s. Furthermore, the scope of the TARP contract has been expanded to meet the additional needs identified by TurAF. The newly added part of the contract has been initiated in 2018 and the deliveries are scheduled for 2019-2020.

Under ANKA UAV Program, Flight Control Computer (FCC), Mission Computer (MC), Inertial Navigation System (ANS), Electro-Optical Reconnaissance, Surveillance and Targeting System (CATS) are indigenously developed and integrated by ASELSAN. The deliveries of FCC, MC and ANS are completed according to the delivery schedule. The delivery of CATS systems has been continuing and the deliveries will be completed in 2019.

Under the scope of the New Generation Basic Trainer Aircraft Project (HÜRKUŞ-B) avionic suite is developed by ASELSAN. The on-board equipment are integrated to Central Control Computer. The Operational Flight Program (OFP) and Digital Map Software are also developed by ASELSAN. The deliveries of serial production avionic suites and OFP have been completed.

In the scope of National IFF Program, indigenous IFF Systems will be designed by ASELSAN. The IFF systems will be integrated to airborne platforms of TurAF and Naval Forces under MGEO responsibility. The development and design activities for integration are already started in 2018 and progressing as scheduled.

Navigation Systems

The navigation necessity of Turkish Armed Forces has been supplied by integration of ANS-510, ANS-511, ANS-310, ANS-311 and ANS-313 indigenous ASELSAN navigation systems to various land, naval and airborne platforms through different programs since 2010.

As part of the land platforms, delivery of ANS-310K, tactical navigation systems for Fuel Tanker AKTAN Program has been successfully completed. Delivery of ANS-510K navigation systems for SAKARYA program has been also continued in compliant with the delivery schedule.

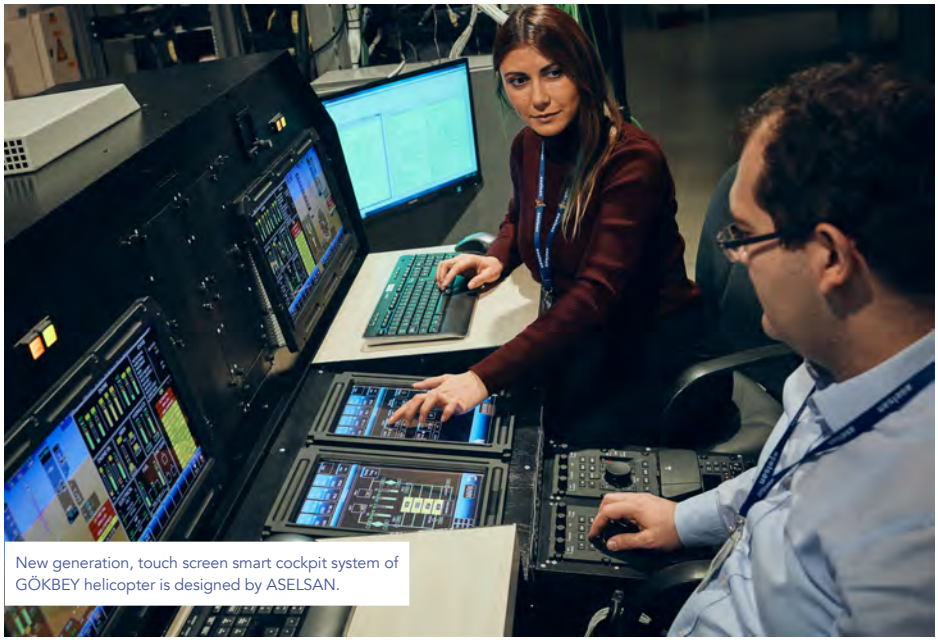
The deliveries of ANS-310K Tactical Grade Land Navigation System have been continued to Qatar under AGAMA Program.

Manufacturing activities of ANS-510K for Fire Support and Automation (ADOP), Air Defense Systems (KORKUT), Portable Mortar Locating Radar (HTR) and Air Defense Radar (KALKAN) have been continued.

Besides, within the scope of requirements of New Generation FIRTINA Howitzer, development activities of ASELSAN Land Navigation System for high-shock artillery gun systems has been continued.

Regarding naval platforms, ANS-510D Naval Navigation Systems have been delivered for Landing Helicopter Dock (LHD) Program. In regards of the needs of the Turkish Naval Forces, a new contract was signed. Within the scope of this new contract, ASELSAN Naval Systems (ANS-510D) will be integrated on Gabya and Barbaros platforms. Deliveries are planned to be started in 2019.

Delivery of ANS-510 and ANS-511 Airborne Navigation Systems to ATAK, HÜRKUŞ and ANKA platforms, has been continued in compliant with the delivery schedule. In ANKA Program, tactical navigation system (ANS-313) has been integrated on an air platform successfully for the first time.

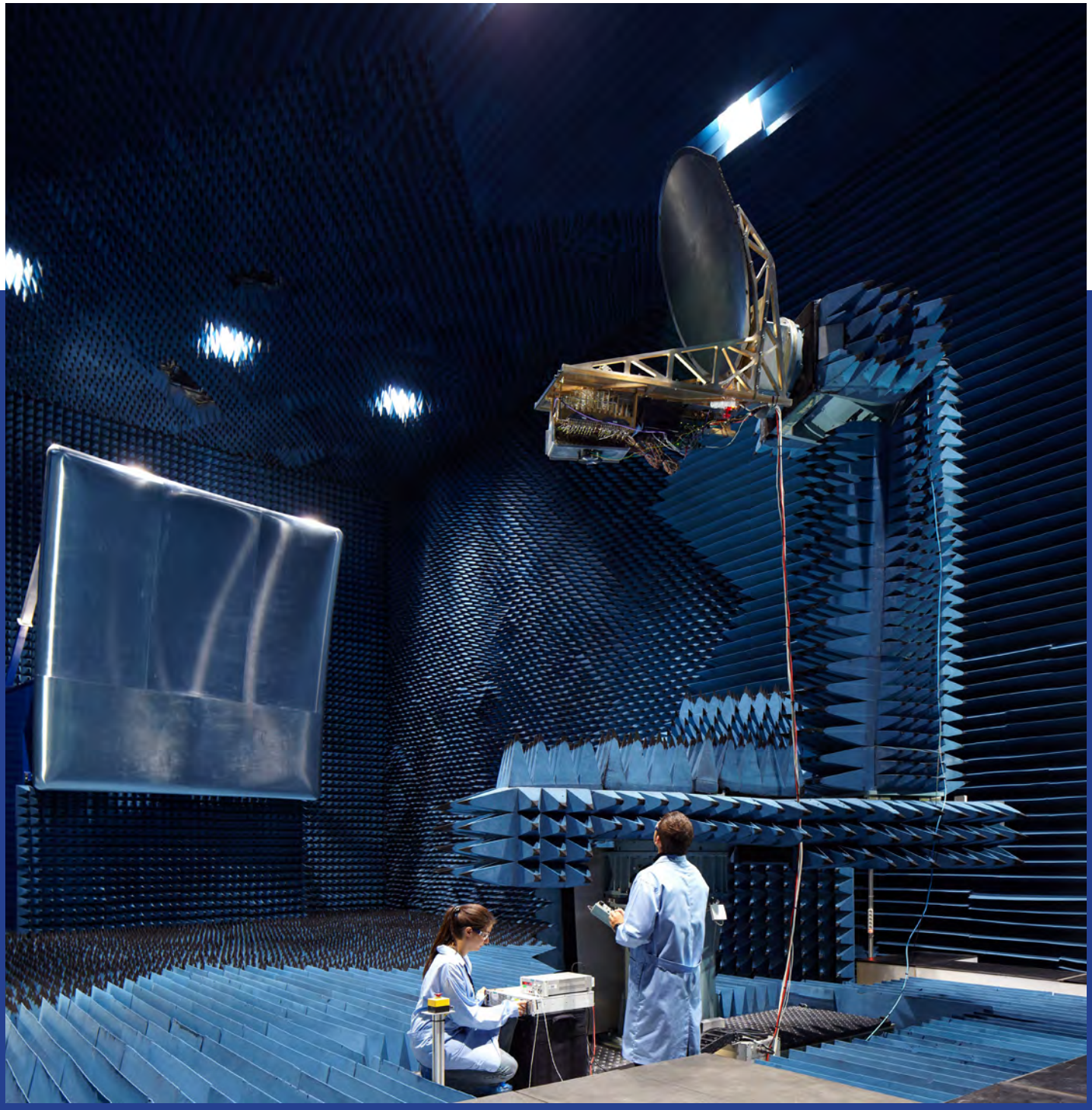


New generation, touch screen smart cockpit system of GÖKBEY helicopter is designed by ASELSAN.


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FIELD OF ACTIVITIES

Radar and Electronic Warfare Systems Business Sector



Radar and Electronic Warfare Systems Business Sector

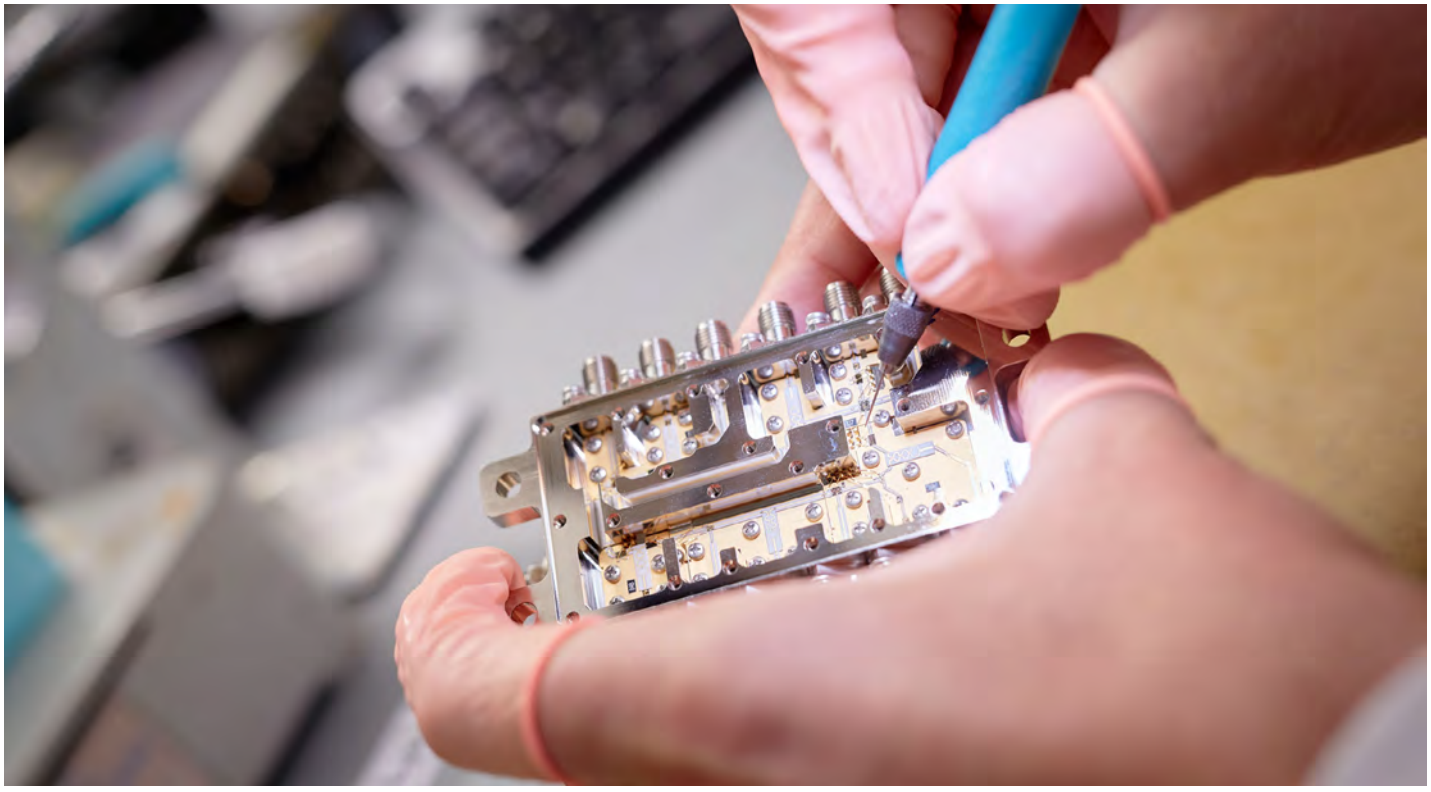
ASELSAN DESIGNS AND MANUFACTURES MICROWAVE COMPONENTS AND MODULES TO BE USED SPECIFICALLY IN TECHNOLOGY CRITICAL AREAS.

MICROWAVE PRODUCTS

The Microwave Products Business Line designs and manufactures technologically critical and functionally dedicated microwave modules to meet the needs of radar, electronic warfare, satellite and communication systems developed by ASELSAN. It has continued to design and produce high-performance transmitters, transmitter/receiver modules, front-end modules, frequency converters, power amplifier modules, Digital Frequency Discriminators (DFD), Detector Logarithmic Video Amplifiers (DLVA) and filter modules. In addition, the Microwave Products Business Line develops monolithic microwave integrated circuits (MMIC) and thin-film based components for mission critical radar, electronic warfare and satellite systems.

Battlefield Target Identification System (BTIS) Project

The Microwave Products Business Line designs and produces microwave modules used in the Interrogator and Transponder RF Units of the Battlefield Target Identification System. Qualification, Factory Acceptance and Platform Verification Tests on the ALTAY Battlefield Tank were successfully performed. And the delivery of Customer Prototypes and Technical Data Package was completed.



The mass production for the ALTAY Battlefield Tank, as well as other platforms, are planned to begin in the coming period.

GaN Based RF Power Transistor Project

The GaN Based Radio Frequency (RF) Power Transistor on Silicon Carbide (SiC) Substrate Project, which was signed with the Presidency of Defense Industries in 2013, is still in progress.

GaN Based T/R Module Components (AKASYA) Project

In 2018, the Contract for Development of GaN Based T/R Module Components (AKASYA) Project was signed and entered into force between the Presidency of Defense Industries and ASELSAN. The project aims to develop and produce the prototypes for Diamond Reinforced Aluminum Matrix Composite Thermal Conductor Material, GaN Based Driver Amplifier, GaN Based Switch and GaN Based Input Protected Low Noise Amplifier; and demonstration of the GaN Based Transmitter/Receiver Module that will be produced by using these GaN Based prototypes.

The Project for the Generation of Standard Cell Library for the 0.25µm Silicon Germanium (SiGe) BiCMOS Technology

SiGe BiCMOS technology helps high-performance RF and control circuits to work simultaneously by integrating SiGe based Bipolar Transistors (HBTs) with silicon-based CMOS processes. SiGe based HBTs have advantages of lower noise and higher gain in microwave and millimeter frequencies compared with silicon-based RF devices, owing to the transistor design architecture and material properties. The Generation of Standard Cell Library for the SiGeC BiCMOS Technology Project was signed between the Presidency of Defense Industries (PDI) and ASELSAN, and runs in collaboration with Semiconductor Technologies Research Laboratory (TÜBİTAK-YİTAL) and Mikroelektronik Araştırma Geliştirme Tasarım ve Ticaret Ltd. The project aims to manufacture chip prototypes of active/passive RF and CMOS models after the completion of Process Design Kit (PDK) for SiGeC BiCMOS Technology. The project continues with the critical design phase activities.

4-Channel Phased Array Unit for 5G Applications Project

Launched in 2016, the project comprises the design, prototype development and verification of low cost multi-layer packages that involves 28 GHz 4-channel multi-functional power amplifier MMIC, phase shifter MMIC and an antenna, and that can be used in the RF front-ends of 5G mobile communication systems. The project runs in partnership with VIPER-RF, a UK firm. The design activities are in progress.

Ka-Band Low Noise Amplifier (LNA) Project for TURKSAT-5B Satellite

ASELSAN has launched an equity-financed project for the development of Ka-Band Low Noise Amplifier (LNA) module for the TURKSAT 5B Project.

Space Environmental Testing

Cooperation between Turkish and Japanese public and private sectors has been initiated as part of the Memorandum of Understanding, titled "Cooperation on Space and Aviation" signed between the relevant ministries of Japan and Turkey. In this context, microwave modules to be used in ASELSAN's satellite sub-systems have been chosen as experimental materials in 2016. As planned, ASELSAN modules were attached to the ExHAM mechanism of the Kibo module of the International Space Station (ISS). The ASELSAN modules were sent to space in April 2017 for the space environment exposure experiment. After completing a 397-day mission, they finally returned to the Earth in May 2018. The ASELSAN modules were delivered in October 2018 at a ceremony held at Tsukuba Space Center of the Japan Aerospace Exploration Agency.

This collaboration marks an important milestone both for ASELSAN and for Turkey in terms of ASELSAN microwave modules gaining heritage in space.



ELECTRONIC WARFARE SYSTEMS

ASELSAN has been working on equipping national platforms, which are used by the Turkish Armed Forces and other institutions, with national and original state-of-the-art Land-Based/ Airborne/Naval Electronic Warfare systems to increase their mission survivability and maximize situational awareness. Besides ASELSAN's domestic work, ASELSAN has also been focusing on export activities to meet the international users' needs for electronic warfare systems. ASELSAN has also undertaken several concept development activities to reduce the size of its existing systems to make them more compatible with the latest technologies, and improve their technical performance.

As part of the contracts signed with the Presidency of Defense Industries, ASELSAN has been working with several Small and Medium-sized Enterprises (SMEs) and sub-industry companies to meet ASELSAN's Industrial Participation/ Offset (IP/O) commitments. In line with the strategic plans of ASELSAN, Electronic Warfare Business Line has been fully cooperating with domestic sub-contractors to promote domestic production by preferring domestic producers when for the procurement of necessary materials and services. These include power generators, air-conditioning units, power distribution units, power amplifier modules, antenna adaptation units, power supplies, easy-to-install antenna mechanisms and masts.

With the Land-Based Electronic Warfare Systems Projects, ASELSAN develops high-technology systems that are increasingly needed for the national defense and the fight against terrorism as well as for civilian purposes. ASELSAN has been undertaking various national and original projects to increase the survivability of its platforms, to spot the locations of adverse electromagnetic emissions, to provide situational awareness to the decision-makers in an operation, to monitor enemy communications and to degrade them where necessary. In this context, it cooperates with various institutions and organizations including the Presidency of the Republic of Turkey, the Ministry of National Defense, the Presidency of Defense Industries, the Turkish Land Forces, the Turkish Naval Forces, STM A.Ş., the Gendarmerie General Command, the Coast Guard Command, the Special Forces Command, governorships, the Directorate General of Coastal Safety, the Information and Communication Technologies Authority and various international customers. The systems developed and produced as part of these projects were used effectively in the Operation Euphrates Shield and Operation Olive Branch, contributing significantly to the fight against terrorism.

Within the scope of the Fırat-M60T Project, ASELSAN has signed contracts for these projects: the Development and Provision of PULAT Active Protection System; National Monitor System; Mobile Electronic Jammer System; the Anti-Drone/Mini UAV Jammer System; the Provision of Radio Direction Finding System; the Improvised Explosive Device (IED) Detection and Disposal System with Electronic Circuit; the Vehicle Type Jammer System for Turkish National Police; Manpack/Vehicle/Suitcase Type Jammer System for Turkish National Police; and Vehicle/Manpack Type Jammer for Gendarmerie.

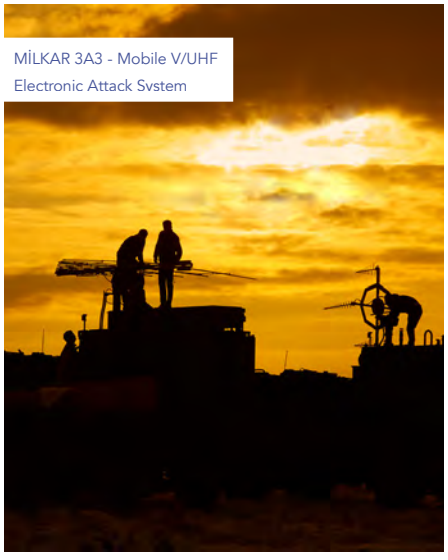
The development, testing, production and integration activities were carried out regarding the AKKOR and PULAT Active Protection System Development Projects, Radio Direction Finder System for the Turkish Straits Surveillance and



Design and production activities of microwave components and modules are held in more than 2,000 m² clean room facilities.

Monitoring Project, Radar Electronic Support (ES) / Electronic Attack (EA) Systems Project, Radar Jamming and Deception Simulator (RAKAS) Project, High-Frequency Electronic Attack (HF-EA) System Project, High-Frequency Monitoring/Direction Finding (HF-ES) System Project, Mobile V/UHF Electronic Attack (EA) System Project, and Mobile Electronic Attack (EA) System Project. The deliveries of these projects have been completed: Anti-Drone/Mini UAV RF Jammer System, Second Generation Backpack Type RF Jammer system (MİLKAR-5T5), KANGAL Jammer System for Special Forces, Jammer System for Ballistic Protected Personnel Vehicles (BPPV), Modular Temporary Base Area (MTBA) and Fixed Facility Protection GERGEDAN System as part of İHTAR Project, Portable Jammer System, Mobile V/UHF Electronic Attack System (MİLKAR-3A3), Communication Jamming and Deception System (MUKAS), Remote-Controlled Jamming System without an Operator (OPKAR), and Fixed Site V/UHF Monitoring/Direction Finding System.

ASELSAN promoted and showcased GERGEDAN and İHASAVAR, anti-drone and anti-mini-UAV systems, to the end-users in Kuwait, Saudi Arabia, Azerbaijan and Indonesia. At the TEKNOFEST event in Istanbul, PUHU Systems were used for monitoring airspace safety. The İHASAVAR Anti-Drone/Mini UAV RF Jammer System was also exhibited in this event. Moreover, the PULAT Active Protection System was presented at the 4th Future Armored Vehicles Survivability (FAVS) conference in London. The system garnered the attention of various countries.



MİLKAR 3A3 - Mobile V/UHF Electronic Attack System

These R&D projects were conducted with experts from Turkish universities and companies: the Development of Microorganism-based Explosive Material Detection and Identification Technologies Project (BİRMO), the Electronic Warfare (EW) Implementation Project with Distributed Sensors in the Swarm UAV Concept, the RF Rotary Joint Development Project, the Speech and Speaker Recognition System Project, the Project for Seizing Control of Civilian Rotary-Wing Mini UAVs, and the Superhydrophobic Surface Development Project.

In response to TÜBİTAK-SAVTAG's call for the development of remote detection of explosives, improvised explosives and mines, ASELSAN has cooperated with various domestic universities on critical technologies. Developed entirely with domestic and national resources, Turkey's first Active Protection System PULAT has underwent qualification tests. The PULAT System will enable the main battle tanks to perform safer operations against anti-tank missiles and rocket threats and will be one of the first Active Protection systems in the world that is used in the field.



MUKAS - Communication Jamming and Deception System



İHASAVAR - Anti-Drone/Mini UAV RF Jammer System

ASELSAN submitted its proposal to NATO's call for Future Afghan Sustainable Electronic Counter Measures (FASE). It has also applied for TESID Innovation and Creativity Awards with the MİRKET Pocket Receiver. The results haven't been announced yet.



PULAT - Active Protection System

As part of the Airborne Electronic Warfare Projects, ASELSAN submitted various proposals to domestic and international users for the Electronic Warfare Self Protection (EWSP) System, the Communication Electronic Support (ES) System and the Radar Electronic Support (ES) System solutions.

ASELSAN has continued its operations on schedule for the projects under the current contracts.

For the R&D projects conducted with its own resources, ASELSAN performed several concept development activities to miniaturize the components of Electronic Warfare systems and increase their performance. It also took part in the 1007 R&D program supported by TÜBİTAK.

Under the HEWS RWR/RFJ/LWR/SCPU Procurement and Integration Contract, ASELSAN continued the mass-produced HEWS deliveries, and delivered a large number of systems. In 2018, platform integration and testing were completed for the S-70A-28D and S-70A-28DSAR helicopters. Concerning the Electronic Warfare Support Center (EWSC) Service Building construction, the temporary acceptance processes were completed.


KİRPİ™ Software Defined Manpack RCIED Jammer

Technical support was provided for the EW Self-Protection Systems in ATAK Helicopters regarding the helicopter integration of the Phase-2 systems consisting of the Radar Warning Receiver, RF Jammer and Laser Warning Receiver sub-systems.

For the Utility Helicopter Project, ASELSAN delivered the documents concerning the EW Self-Protection Systems, produced the systems, and convened a meeting to review the systems' critical design.

Within the scope of the contract signed with a Latin American country to meet its needs for electronic warfare systems, the on-site integration and testing processes were completed, and the platforms were delivered.

CMDS (Countermeasure Dispensing System) Support Center activities under the HEWS-CMDS/CFD (Chaff Flare Decoy) Project continued with ROKETSAN. Following the construction of the Electronic Warfare Support Center (EWSC) Building, in which the HITL Simulator will be installed, a Flight Motion Simulator (FMS) has been installed. Dual Chaff ammunition production and qualification activities continued in collaboration with the Mechanical and Chemical Industry Company (MKEK) and the ammunition shells were produced by ASELSAN.


KANGAL™ Vehicle Type RF Jammer System

As part of the development of the Next-Generation Countermeasure Dispensing System (NG-CDS), the Magazine and Dispenser Base Unit (MDBU) was cooperatively developed with KAREL. ASELSAN worked as a member of the NATO's new Smart Stores Communication Interface (SSCI) group. And with its MDBU Desktop prototype system, it participated in the international meetings held jointly with numerous CMDS and ammunition producers from various NATO countries. In these presentations, the ASELSAN prototype successfully communicated with the systems of all ammunition/ ammunition simulator producers, and then programmed and dispensed the ammunitions to achieve full success.

Non-warranty maintenance repair work continued under the Maritime Patrol Aircraft Electronic Warfare Self Protection System (ASES-235M) Project, all deliveries of which were completed.

Integration support was provided to Airbus DS for the Processor Unit (MPB S3) and the Power Supply (PSU S3P) under the A400M Project. The mass production of these units has continued.

Within the scope of the Self Protection Electronic Warfare Systems (SPEWS-II) Project, suitability and performance tests were carried out for the Second Package F-16 Aircrafts. After achieving positive outcomes from these tests, ASELSAN went on to make the SPEWS-II System functional on a greater number of aircrafts. As of December 2018, the warranty period has started for the systems for which the aircraft integration processes were completed. The ASELSAN team repeated the pilot and O-level maintenance trainings in the Air Force bases, and systems were put into active use. ASELSAN also continues





to support and give trainings to the Air Force Command on the preparation of operational mission data files.

Within the scope of the project signed with the Presidency of Defense Industries, ASELSAN undertook the modification and certification works of the business jet that will be delivered after integrating the special mission systems developed and/or procured by ASELSAN. A detailed design process has been completed for the integration of the mission system units on the aircraft. The modification kit design and production, as well as the aircraft modification and kit integration processes, have continued. The preparations for the certification of the modified aircraft have continued. As part of this process, the certification plan prepared by the subcontractor and the certification was submitted for the approval. The mission system development, material procurement, prototype units' production and testing/ verification stages have continued. The software-hardware integration and sub-system functional testing activities were initiated for the prototype sub-systems developed under the Mission System at System Integration Laboratory established in ASELSAN as part of the project. The production of the sub-system units under the Mission System began and continued. The supply, integration and site/position installation works of ground support systems were performed. The communication ES sub-system, factory acceptance procedure and the ground support systems' temporary acceptance procedure were prepared and submitted to the Presidency of Defense Industries for approval.

Integrated Logistics Support were given within the scope of the HİK aircraft (Peace Eagle) Electronic Support Measures (ESM) System Contract. In order to re-arrange the connections between the RF Processor Unit and the Sub-Band Antennas, the modification procedure was agreed on with the aircraft manufacturer and integrator BOEING, and the tests were carried out in accordance with this procedure. Calibration and data collection flights were flown with aircraft no. 3 between April 9 - 13, 2018. The data collected was sent to ELTA for review and the calibration tables were created at ELTA, Israel with the participation of the Air Force Command. ELTA is expected to complete final review of the calibration tables.

Within the scope of the certification activities for aircraft modifications, a Design Organization was established within ASELSAN to obtain a Design Organization Approval (DOA) in accordance with EASA Part 21 (Airworthiness and Environmental Certification). ASELSAN participated in several panels concerning the certification activities.

The Integrated RF System of the National Combat Aircraft (TF-X) Development Project was signed on July 3, 2018 and entered into force as of September 17, 2018. The project is currently in progress. Design





MİLKAR-3A3 - Mobile V/UHF Electronic Attack System

IN TODAY'S WARFARE CONCEPT, ELECTRONIC WARFARE SYSTEMS OFFER EXCELLENT SOLUTIONS WITH STATE-OF-THE-ART RECEIVERS, PROCESSORS, ANTENNA UNITS AND USER FEATURES. ASELSAN DEVELOPS NUMEROUS ELECTRONIC SUPPORT (ES) AND ELECTRONIC ATTACK (EA) SOLUTIONS FOR THE BATTLEFIELD.

and modeling studies for the Radar Absorbing Composite Structure were carried out and the relevant business development activities continued.

The Contract for the Stand-Off Jammer Aircraft (AIRBORNE SOJ) Project, which is needed by the Air Forces Command, was signed with the Presidency of Defense Industries on August 9, 2018. ASELSAN has reached a mutual agreement with the Presidency of Defense Industries and TUSAŞ that TUSAŞ would undertake the aircraft procurement and modification and the contract will be transferred to ASELSAN-TUSAŞ business partnership.

The business partnership agreement with TUSAŞ was signed on October 10, 2018. To transfer the contract to ASELSAN-TUSAŞ business partnership, an amendment was made on December 25, 2018. ASELSAN determined the Project Implementation Schedule (PIS) and the advance payment conditions, undertook technical studies for risk reduction, and conducted contract negotiations with subcontractor candidates.

Proposals were submitted to customers abroad for the MULTI-INT Special Mission Aircraft and Ground Support Center which are being developed by ASELSAN.
Additionally, various proposals were submitted to our domestic and international customers regarding the Self Protection System, and ELINT and COMINT systems.

Procurement activities continued for the Directed Infrared Countermeasure System (DIRCM) to be integrated onto airborne platforms to eliminate the growing threat posed by infrared (IR) missiles.





High-Frequency Monitoring/ Direction Finding (HF-ES) System.

Naval Electronic Warfare (EW Systems)

The Naval Electronic Warfare Suite, which was designed and produced through domestic resources and with the knowledge and experience of the Naval Forces Command and ASELSAN's extensive EW experience, was integrated for the first time onto the TCG FATİH and TCG YILDIRIM Platforms and was successfully delivered following a series of challenging field performance tests. The Harbor Acceptance Tests of the EW system of the TCG YAVUZ, the third ship within the YAVUZ class, were successfully completed in 2018. The EW Suite integration onto the platform of TCG TURGUTREİS, the fourth ship, was completed and all acceptance processes are expected to be finished in 2019.





ASELSAN introduced a new phase for the National Electronic Warfare Suite (NEWS) system, which was designed and produced within the scope of the Yavuz project and successfully integrated onto the relevant platforms and which has already proven itself with its field performance. The contract for the Half-Life Modernization of BARBAROS Class Frigates EW Suite was signed in 2018 and entered into force.



In accordance with the contract signed for the electronic warfare modernization of AGOSTA90E submarines in the Pakistani Navy's inventory, the factory acceptance tests of the first developed system were successfully completed with the participation of the Pakistani delegation. In 2019, the factory acceptance tests of other systems and harbor/sea acceptance tests of the first system will continue.



The factory acceptance tests of the first ship's RWR/GPS antenna and Signal Distribution Unit (SDU) were successfully completed. The systems were exported to Germany, to HENSOLDT, the

periscope supplier to the Pakistan AGOSTA90E project. The delivery of other systems continues.

The factory acceptance tests of the ARES-2N Electronic Support System produced for TCG KINALIADA, the fourth ship of Turkey's Naval Combat System MİLGEM, were successfully completed in 2018.

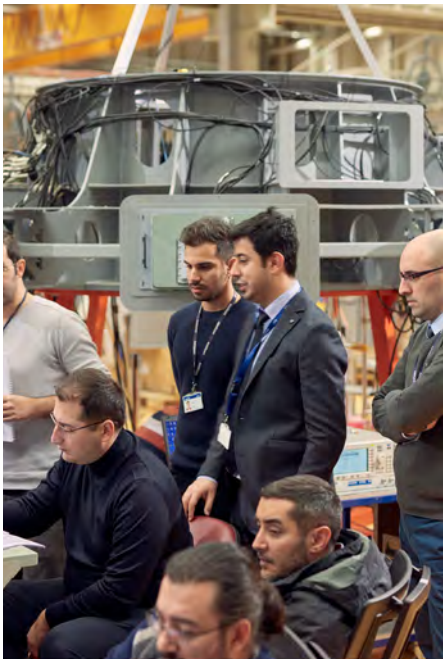
The harbor and sea acceptance tests of the ARES-2N Electronic Support System for the TCG BURGAZADA, the third ship of MİLGEM, were successfully completed in 2018, and she was commissioned into Naval fleet.

Within the scope of the New Type Submarine project, the periscopes to be integrated onto the first submarine by German periscope manufacturer HENSOLDT were covered with Radar Absorbing Material (RAM) by ASELSAN. The factory acceptance tests of the products were accomplished in 2018 and other systems will continue to be delivered in 2019.

ASELSAN's ARES/AREAS series Electronic Warfare Systems have proven themselves in the field under the direction of ASELSAN's Naval Forces Command.

Accordingly, ASELSAN has been making efforts to export these systems to the navies around the world. After winning internationally competitive tenders, ASELSAN signed new contracts with Pakistan, a close ally of Turkey, to meet its navy's needs.

Within the scope of Electronic Warfare Signature Management Technologies, ASELSAN has drawn upon its long EW experience and created national products in the field of Signature Management. And by deploying these products, it successfully developed applications to reduce the platforms' Radar Cross Section (RCS). ASELSAN worked on radar absorbing paint and composite to reduce RCS for the periscope and movable masts that will be used in Turkey's New Type Submarine Project. These products will



also be utilized by the German periscope and submarine mast manufacturers HENSOLDT and GABLER GmbH.

ASELSAN contributes to RCS reduction in all land, air and naval platforms thanks to its extensive know-how.



RADAR SYSTEMS

In 2018, ASELSAN continued business development, concept definition, design, development, production, test and after sales support activities for various radar programs in cooperation with domestic solution partners and universities at ASELSAN Gölbaşı Radar and Electronic Warfare Center. In addition to meeting the radar needs of Turkish Armed Forces with advanced technology and indigenous systems, it is aimed to boost the international sales of our radar systems and to expand the field of activity into the arena of civil radars.

In line with the targets; business development, conceptual definition, design, production, platform integration, test, delivery and post-delivery support activities were continued within the scope of various radar programs.

Mobile Tracking Radar (MAR) and Fire Control Radar (AKR) mass production continues in line with the contract awarded to ASELSAN by Presidency of Defense Industries (SSB). Tests were carried out for HİSAR-A MAR and HİSAR-O KALKAN Radars.

AS TURKEY'S RADAR TECHNOLOGY CENTER, ASELSAN OFFERS CUTTING-EDGE RADAR SYSTEMS TO MEET THE NEEDS OF TURKISH ARMED FORCES IN LINE WITH THE DEFENSE INDUSTRY EXECUTIVE COMMITTEE DECISION IN 1991.

Business development, demonstration and test activities are carried out for RFQs and requests that have been received for KALKAN and MAR from international customers during the calendar year of 2018.

Within the scope of twenty-one (21) units of KALKAN-II serial production contract, the production activities of KALKAN-II Air Defense Early Warning Radar were continued. The first batch deliveries will take place in the first quarter of 2019.



The Critical Design Phase of TEIRS (Transportable Early Warning Radar System), with Active Electronic Scanning Array (AESA) antenna, is completed. Building block and sub-system level prototyping and qualification activities are ongoing. Production of T/R (Transmit/Receive) building blocks are planned to start in the beginning of the second quarter of 2019.

Long Range Air and Missile Defense System Project Phase C Contract (SIPER System) was awarded in the first quarter of 2018. Long Range Surveliance Radar, Multi-Function Fire Control Radar and Radar Seeker for the missile will be developed and manufactured within the scope of this contract. In 2018, the System Design Definiton Phase of the project was completed. System and Subsystem design activites were started.

In 2018, ASELSAN spent intensive effort for the development of the concept demonstration prototype of the Multi-Function Active Phased Array Radar System-ÇAFRAD, which is an integrated radar suit that performs radar functions essential for effective air and surface warfare capability. This Multi-Face, Multi-Function Radar Suite is comprised of Multi-Function Radar, Guided Missile Illuminator, Long Range Radar and long range non-rotating antenna IFF system. Following the successful completion of System Level Tests and Factory Acceptance Tests, the system was integrated onto TCG GÖKSU frigate of Turkish Navy, crowned with successful interception of a jet drone with an ESSM guided missile, in the first trial. All acceptance tests were completed in 2018. The GaN Power Amplifier and Driver MMICs for both systems are being manufactured in AB MikroNano Company. The IFF System has a cylindrical AESA antenna and is capable of performing interrogations up to 250 NM. By completing the demonstrator



system, ASELSAN now has proved that it has achieved all necessary know-how and technology base for X-band DAR (Digital Array Radar).

The first batch delivery of SERHAT-II Radars to Turkish Armed Forces has been fulfilled, in accordance with the contract signed in 2018. SERHAT Radars that have already been produced and delivered to Turkish Armed Forces are still being used effectively and intensively. Extensive support has continued to be provided to Turkish Armed Forces for effective usage of SERHAT Radars; a very critical asset for protecting the areas under mortar threat, both abroad and in domestic regions and at various critical locations around the borders. As SERHAT Radar is receiving interest and demand from foreign countries due to its superior performance compared to its competitor systems; ASELSAN continues to work on export opportunities to various countries.

Within the scope of the Weapon Locating Radar Project (STR) contract between MSB and ASELSAN, the system requirements and critical design phases of Weapon Locating Radar System which is capable of detecting/tracking and calculating the launch and impact points of rockets, artilleries and mortars from very long distances were completed in 2018. Besides, module and subsystem production, verification and preparation of system integration activities were continued.

ASELSAN continued to work on various applications of ACAR Surveillance Radar for domestic and international requests. In this context, ACAR-UAV radar with

wide elevation coverage has been developed and its production has been started in line with the requirements. ACAR Ground Surveillance Radar and ACAR-UAV Radar are attracting great interest from abroad as well as in Turkey. Within this scope, sales to Argentinian Army were agreed upon in 2018 and the radars were produced and delivered.

The critical design phase of the Air Traffic Control Radar System Project which is being developed for Turkish Air Force has been completed. The integration and testing of the system will start in 2019.

Development activities of a new generation Imaging Radar with Ground Penetration capability (YENER) to detect and identify buried metal/plastic mines and handmade Improvised Explosives Devices (IEDs) by appropriate imaging within the scope of counter terrorism activities have been continued. YENER, with its highly successful special imaging algorithms, can be integrated to both manned and unmanned vehicles. It is expected that a development and prototype system production contract is going to be signed with SSB in the first quarter of 2019.

Drawing upon its wide military experience and know-how, ASELSAN continues to develop civil radars that our country needs. In this context, the X-Band Meteorological Radar testing continued in 2018.

Within the scope of AKKOR Active Protection System Development Project, Radar Sensor studies have been continued. Also, within the scope of PULAT Project, development of the Radar Sensor, which detects and tracks RPG and Anti-Tank guided projectiles fired from close-in ranges, has been completed and field tests have been carried out successfully.

Within the scope of the Coastal Surveillance Radar Systems, a contract was signed with Coastal Safety Directorate, Department of Transportation for four (4) SERDAR-7M Radars. SERDAR-7M configuration was upgraded to have a redundant transceiver architecture. In addition; two contracts were signed with Turkish Coast Guard Command for coastal security. In regard to these contracts, one (1) SERDAR-4M Radar and one (1) SERDAR-7M Radar were manufactured and installed.



Within the scope of Landing Ship Tank (LST) Project, sea acceptance tests of the Radar systems were completed in 2018.

Acceptance tests for radar systems of MILGEM-3 and Factory acceptance tests of MILGEM-4 radars were successfully completed.

Regarding Multi-Function Amphibious Assault Ship (Landing Helicopter Dock - LHD) Project; ASELSAN continued the production and integration of radar systems to the platform and combat management system of the vessel.

Based on the requirements of the Barbaros Class Frigate Mid-Life Modernization Project, design and manufacturing activities for fire control radars with CW illumination capability have been initiated.

ASELSAN has signed a contract with TUSAŞ in 2018 for the Integrated RF System of the TF-X National Fighter Aircraft Development Project. Within the scope of this contract, ASELSAN continued preliminary design activities for multi-functional nose aperture radar functions and technology readiness level studies of critical technology elements.







Multi-function AESA radar development studies for F-16 platforms in the inventory have been started in accordance with the protocol signed between ASELSAN, SSB and TurAF.

The design and development activities of AKINCI Unmanned Aerial Vehicle Nose Radar, which will be used for air-to-air and air-to-ground missions, have been started in 2018.

Production of three (3) SARPER Synthetic Aperture Radars, the first national imaging and ground moving target indicating radar system developed for airborne platforms, have been completed and the radars were delivered to TUSAŞ. One of the delivered radar systems has been integrated onto ANKA UAV and flight tests have been completed successfully.

Design, prototype production and validation activities including hardware in the loop tests for various radar seeker units have been continued for various missile projects. Contract negotiations have been conducted for the serial production of ATMACA surface-to-surface missile radar seekers.

With the experience and know-how gained through military radar system projects, ASELSAN continued to develop radar systems for civil applications. In this context, X-Band Weather Radar test and validation activities were continued in 2018.



FIELD OF ACTIVITIES

Transportation, Security, Energy And Automation Systems Business Sector



Transportation, Security, Energy and Automation Systems Business Sector

ASELSAN AIMS TO BECOME A LEADING SOLUTION PROVIDER IN THE FIELDS OF TRANSPORTATION SYSTEMS, SECURITY SYSTEMS, ENERGY SYSTEMS, TRAFFIC & AUTOMATION SYSTEMS AND MEDICAL TECHNOLOGIES.

Within the scope of transportation, security, energy and automation projects, UGES Business Sector continues activities for technological solutions, hardware, software, device and system development, production, domestic and international sales and after-sales support for Rail Vehicle Systems, Electric and Hybrid Vehicle Systems, Rail Vehicle Signaling and Control Systems, Border Security Systems, Coastal Security Systems, Public Security Systems, Toll Collection Systems, Traffic Management and Automation Systems, Medical Technologies Systems, Power Management and Renewable Energy Systems.

R&D Activities

Within the scope of the R&D and technological development studies for transportation and energy systems, in order to develop the building blocks by including the latest innovations in technology, the prototype development and verification stage was completed in studies for the SiC Switching Element Based High Efficiency / High Power Density Power Converters and the Super-capacitor Based Energy Recovery System Development.

Projects started for studies of GaN Based Power Switching Element Development, Solution Development for Flawless Detection of Errors in Traction Systems and Development of Contactless Powertrain Technologies under the university-industry collaboration programs. In these studies, the goal is to develop efficient, compact and lightweight building blocks that aim to distinguish themselves.

Within the scope of R&D studies into critical sub-systems of transportation solutions, prototype system solutions are tested on metro, tram and bus platforms in the following studies, and the projects for locomotive and electric regional train trials have continued.

- Development of Traction System for Light Rail Vehicles,
- Train Control and Management System Development,
- Development of Traction Components for Tramway Vehicles,
- Development of Traction and Control System for Hybrid and Electric Vehicles,
- ERTMS (European Rail Traffic Management System) Level 1-2 On-Board Automatic Train Protection and Control System Development,
- Development of Acoustic Sensor System (MIDAS-R) for Railways,
- Communication Based Train Control System Development.





In addition, the following studies have been carried out for the systems that are aimed at the production, transmission, distribution and utilization of electricity in a safe, sustainable and efficient manner.

- Development of Power Quality Measurement and Analysis Devices for Low Voltage Distribution Systems,
- Development of Advanced Terminal Unit for Electric Transmission Network,
- Development of Full Scale Power Converter Units for Wind Turbines,
- Development of Hybrid Energy and Micro Grid Systems,
- Development of High Efficiency Rear-Connected Solar Cell
- Development of SCADA and Energy Management Systems

Within the scope of security systems, the Algorithm Development and Platform Optimization for Video Processing in Multi-Core Heterogeneous Platforms, Handmade Explosive (HME) Inspection System Prototype Development, Intelligent Distributed Acoustic Intrusion Detection System Development, Gun Shot Detection System Development studies have largely been completed; performance improvement and field trials are ongoing. Also new versions are being developed for new application needs. In the medical field, development and prototyping studies are going on for the Development of Radiology (X-Ray) Imaging Systems, Magnetic Resonance (MR) Imaging System Development, War and Emergency Aid Smart Toll Gate (HAYAT) Development.

TRANSPORTATION IS ONE OF THE AREAS OF ACTIVITY IN WHICH ASELSAN IS SPECIALIZED WITHIN UGES.

TRANSPORTATION SYSTEMS

Activities in the field of Transportation Systems are carried out in Railway Vehicle and Signaling Systems with Electric Vehicle Systems programs.

RAILWAY VEHICLE SYSTEMS

Traction Control Systems
Described as the core of railway vehicles, the traction system, which had been imported, is now domestically produced thanks to the development of unique hardware, software and algorithms produced by ASELSAN nationally.



The traction control system, which has modular architecture including new generation IGBT (Insulated Gate Bipolar Transistor) technology and the DSP (Digital Signal Processing) based control electronics, has been developed in accordance with the rail vehicle standards such as EN50155, EN50125, EN50163, EN50121, EN61287 and EN61377.

The developed systems have been integrated into Ankara Metro and Silkworm vehicles, and the system has been put to use flawlessly during the operation tests. Due to modular structure of the developed system, it can easily be adapted to rail vehicles such as high-speed trains, regional electric train sets, main lines and shunting locomotives. Projects have been carried out with TÜLOMSAŞ and TÜVASAŞ to use the system in locomotives and on regional train platforms. Working together with TÜLOMSAŞ, the traction control system has been developed for hybrid shunting locomotives. Developed prototype locomotive was launched in InnoTrans 2018 at Berlin/Germany.

A proposal was submitted for the traction chain tender for the National Electric Train Set designed by TÜVASAŞ. The contract was signed in 2018 and design processes finished and production period begins. Traction systems will be delivered to TÜVASAŞ in 2019.

Auxiliary Power Systems
In accordance with different power requirements; ASELSAN develops Auxiliary Power Units for railway vehicles as tram, metro, regional train, locomotive etc. The developed systems are developed and produced by using the new generation IGBT or SiC components and applicable to international railway vehicle standards.



ASELSAN Auxiliary Power Systems are designed to be used in Hybrid Shunting Locomotive, National Electric Train and ANKARAY light rail systems. Produced auxiliary power units will be delivered in 2019.

Train Control and Management System
Considered as the brain of railway vehicles, the Train Control and Management System (TCMS) has been developed by ASELSAN to offer a high level of safety and reliability and to include innovative architecture, algorithms, hardware and software for high speed trains, regional trains and metro trains.

Within the scope of Train Control and Management System, extremely safe and reliable computer hardware, software and control algorithms have been developed, which are considered as the most important components of railway transportation vehicles. Designed in a modular architecture, Train Control and Management System (TCMS) computer offers the highest levels of safety (SIL-4 level) and reliability, as required by recognized standards (IEC61508, EN50155) for railway transportation vehicles. The computer has been developed through entirely original components with its architecture, control, safety and reliability algorithms, hardware and embedded software.

The modular computer system developed under this project can be configured to be used as the Central Control Unit (CCU), Automatic Train Operation System (ATO), Automatic Train Protection System (ATP), Human Machine Interface (HMI), or Signaling and similar critical computer systems. Furthermore, the developed modular computer system can be used in all vital computer systems required in all types of railway vehicles, such as high speed trains, regional trains, metro rail vehicles and tram vehicles.

The TCMS is used in Ankara Metro and the work is underway with Türkiye Lokomotif ve Motor Sanayii A.Ş. (TÜLOMSAŞ) and Türkiye Vagon Sanayi A.Ş. (TÜVASAŞ) to install the TCMS in locomotives and regional electric train sets. The train control and management system required for hybrid maneuvering locomotives has been developed by ASELSAN, working together with TÜLOMSAŞ. In addition, a contract was signed between TÜVASAŞ and ASELSAN for the development of the National Electric Train Set, train control and monitoring system, which is designed by TÜVASAŞ. For this project the design processes was finished and production of prototypes will be completed in 2019.

Energy Management Systems
Thanks to the energy management system, in which super capacitor and new generation batteries are used together, the regenerative energy spent by railway vehicles in the form of heat energy during braking can be efficiently stored and used efficiently when desired. ASELSAN has begun her activities to develop the energy management system which improves efficiency for railway transportation vehicles and reduces costs. Thanks to this system, it will become possible to reduce the electricity consumption of railway transportation vehicles and allow railway vehicles to be operated without a catenary system.

With its modular structure, which can be used in both the vehicle and the station, the Energy Management System (EMS) allows railway vehicles, particularly trams, to be operated

without a catenary system, allowing energy savings of up to 30% on public railway lines.

In this context, the Energy Management System has been developed in order to store the braking energy in the Hybrid Shunting Locomotive, to achieve emission-free operation in the close areas, to reduce the noise level and to ensure fuel saving.

Main Line and Metro Signaling System

To bring about the highly energy efficient, reliable and safe main line and urban rail transportation systems of the future, hardware and software of the signaling protection systems which meet international standards are developed with state-of-the-art technology. ASELSAN's railway signaling studies are carried out for two main product families, including metro lines and main lines. ASELSAN continues its R&D activities for both product families in an eco-system involving customers, TUBITAK, universities and subcontractors that are competent in the field.

ERTMS (European Railway Traffic Management System) based signaling systems are used for main lines, with the main customer being the Republic of Turkey State Railways. Within this scope, the TUBITAK TEYDEB project is carried out in order to develop on-board protection equipment for mainline vehicles. Negotiations are carried out with the Maritime Transport and Communications Ministry (MTCM) General Directorate of Infrastructure and the leading companies of the sector within the scope of business development activities, and prospective cooperation is evaluated.

CBTC (Communication Based Train Control) based signaling systems are used for metro lines, where the main customers are municipal enterprises (such as Metro İstanbul). In 2018, a cooperation protocol aimed at the development of National CBTC was signed between Metro Istanbul and TUBITAK to bid in the tender for the modernization of the M1 metro line signaling system. Technical and administrative solution work is carried out together with the Metro Istanbul and TUBITAK in cooperation, where ASELSAN is the project technical manager. In 2018, the tender for the development of National CBTC System won by ASELSAN and the contract will be signed in 2019 for the on board signaling system of the M1 metro cars. Technical and administrative solution work will be carried out by ASELSAN together with the Metro Istanbul and TUBITAK in cooperation.



Railway Signalization Systems

Railway Inspection and Security Systems

High-tech sensor, diagnosis and display system algorithms, software and hardware are developed in order to ensure the safety and increase the efficiency of railway lines.

Providing railway security against external attacks is possible by regular monitoring of the line and by warning operators of any extraordinary situations. With the different algorithms added to monitoring systems, regular monitoring and preventive examination of the line can be carried out. The MIDAS-R system, which is based on acoustic sensing and developed for these purposes, ensures that the line is maintained at a low cost and with a high level of efficiency.

Electric Vehicle Systems

Development, production and testing activities are carried out with the aim of providing vehicle safety software and hardware (such as autonomous vehicle control and automatic breaking) along with Battery Management System, Traction System (Engine Driver Unit and Electric Engine), Vehicle Control



Electric Bus

and Management System, advanced sensor (day / night vision camera, LIDAR, RADAR etc.) units - which are the basic critical components for land, sea and airborne electric vehicles - to vehicle manufacturers and organizations (such as factories and shipyards) in a cost effective manner.

Preliminary works related with TEMSA Avenue EV 12 mt. Electric Bus that is powered by ASELSAN electric traction system which will be used on a daily basis in real life conditions has been completed. The first prototype which was codeveloped together with Anadolu ISUZU was showcased in IAA (International Motor Show Germany) Fair.

The design activities for electric public transportation vehicles, which are required by public institutions in Turkey, have been carried out at the level of joint feasibility studies with the authorities requiring them. Promotional activities have been carried out at municipalities, especially for electric busses that are needed by municipalities for public transportation.

ASELSAN develops Critical Infrastructure Security Systems for the detection and identification of all types of threats that may arise from sea or land as well as the provision of situational awareness, information management, management of countermeasure/response units, and the provision of communication networks inside and outside the critical infrastructure.

SECURITY SYSTEMS

The activities within the field of the Security Systems have been maintained within the scope of the programs of "Internal Security Systems", "Urban Security Systems" and "Security System Technologies".

Internal Security Systems

The works have been performed within the scope of the Internal Security Systems activities under below subheadings;

- Border Security,
- Mobile Platform Integrated Security Systems,
- Coastal Security,
- Patrol and Base Security,
- Critical Facility and Infrastructure Security,
- Fight against Mines/Improvised Explosive Devices,
- Oil and Natural Gas Pipeline Security.

Border Security and Mobile Platform Integrated Security Systems

The production activities were carried out within the scope of the Integrated Surveillance System for the Western Border Security of Turkey, which was awarded in the tender that was funded by the support of the Pre-Accession Financial Assistance Intermediary Instrument that was open to all EU countries. For the first Lot of the procurement project to increase surveillance capacity of Turkey's western and eastern borders, which is another tender and consists of 4 Lots, a contract was signed with the Ministry of Finance and Treasury. In these projects, high-tech electronic systems such as electro-optical sensor system, land surveillance radar, military radio systems and sniper detection system which are designed and produced by ASELSAN are used.

The Border Security Project (KAYI) contract was signed with the Presidency of Defense Industries for the establishment of the Integrated Border Security System in the Syrian borderline. The project aims to prepare infrastructure for monitoring the border line on 7/24 basis, control and recording of data in border patrol stations selected in the border region of Hatay province, and for the installation and integration of ASELSAN and other domestic sensor systems.

Within the scope of the project, Advanced technological electronic systems such as electro-optical sensor system, land surveillance radar, military radio systems and gunshot detection systems to be designed and produced by ASELSAN and other sample systems to be produced by domestic companies




F 511
F 511

ASELSAN DEVELOPS CRITICAL INFRASTRUCTURE SECURITY SYSTEMS FOR THE DETECTION AND IDENTIFICATION OF ALL TYPES OF THREATS THAT MAY ARISE FROM SEA OR LAND AS WELL AS THE PROVISION OF SITUATIONAL AWARENESS, INFORMATION MANAGEMENT, MANAGEMENT OF COUNTER MEASURE/RESPONSE UNITS, AND THE PROVISION OF COMMUNICATION NETWORKS INSIDE AND OUTSIDE THE CRITICAL INFRASTRUCTURE.

Within the scope of the contract signed with Qatar Armed Forces, 1 set shelter-based Border Security System including sensor systems and security management software to be designed and produced by ASELSAN was integrated into the vehicle provided by the user.

Coastal Security Systems

The guarantee period activities were maintained for the Aksaz and Foça Underwater and Surface Surveillance and Detection System (YUNUS) Project.

The YUNUS Project ensures uninterrupted monitoring of underwater and surface water activities at port entrances using advanced technology based on Electro-Optics, RADAR and Underwater sensors and full protection of Aksaz/Foça Marine bases are assured.

The Prototype Mobile Radar (MORAD) Vehicle Development was completed and delivered to the Coast Guard Command. In the scope of the project, ASELSAN's Coast Guard Radar System, Electro-optical System (thermal camera, day camera and laser distance meter) and Communication System were installed on a panelvan type vehicle in the Coast Guard Command inventory and it was integrated with ASELSAN SECANS Security Management Software.

In the scop e of the Turkish Straits Vessel Traffic Services (TBGTH) Management System Upgrade and Addition Project, a subcontractor contract was signed between the contractor HAVELSAN and ASELSAN on 17 April 2018. Within the scope of the contract, 4 Coastal Surveillance Radar Systems, 9 Radio Direction Finder (RYB) systems and 13 Electro-Optic (EO) Systems will be used after ASELSAN designs and manufactures together with the spare parts of the aforementioned systems. In addition, ground installations, testing and commissioning works of said systems, technical support for HAVELSAN's integration into Ship Traffic Management System Software will be provided, along with a replacement service for the transfer of 1 existing radar system to a different Traffic Monitoring Station.

Patrol and Base Security

With relation to the Modular Base Security Solutions (MGUB) Project for which the contract was signed on 5th of February, 2013 and has been continued with changes in contract from phase to phase, the works of MGUB-4-5-6-7 and 8th phases were successfully achieved in 2018 and on 11 January 2018 MGUB-7th phase and on 24 July 2018 MGUB-8th phase contracts have been signed.

The components to meet the "electronic and physical security", "Ballistic Protection" and "Surviving" needs along with the requirements to be defined by the Land Forces Commandership, Gendarmerie General Commandership and Coast Guard Commandership are provided. 7/24 uninterrupted system maintenance and logistics support activities are continued at the bases where the installation is completed.

Also, along with the additional needs coming from the Land Forces Commandership, the works for following MGUB phases are being continued.

In order to establish a security system in the Turkish Task Force Command in





Somalia within the scope of activities for base security, a contract was signed with Defense Technologies Engineering and Trade Inc. on 2 May 2018, and the contract covers integrated operation of Remote Control Weapon System, Reconnaissance Surveillance System and the Security Management Centre providing systems and works in an integrated manner with necessary energy and data transmission infrastructure. The works are expected to be completed in the first quarter of 2019.

Critical Facility and Infrastructure Security



Within the scope of the Urban Security Management System and Plate Recognition System Project signed with the Presidency of Defense Industries, DORUK Security System was delivered to ensure the environmental safety of 4 observation points located in the internal security zone of the Security General Directorate. The integration of electronic systems such as thermal camera system, civilian cameras, seismic sensors, etc. into security management system was realized within the scope of the heat and motion sensitive security system in question. In addition, to ensure the physical safety of the surveillance point wire-fence, automatic door system, lighting, such as the installation of systems was done.

In order to meet the security needs of the Land Forces Commandership, IP-based Environmental Imaging Systems have been delivered within the scope of the Barracks and Headquarters Physical Security System project carried out by the Presidency of Defense Industries. Deliveries will continue in the following phases of the project.

In the context of the environmental security of the Air Force Commandership facilities and the integrated security system requirements for sensors in the bases, contract negotiations are underway to ensure the environmental security of a critical facility.

Fight against Mine/Improvised Explosive Devices (EYP)

The ÇAKI Robotic Arm System is a system that can be applied on all kinds of armoured vehicles in order to ensure the safety of the road and convoy against the Improvised Explosive Devices.

With the use of the ÇAKI Robotic Arm System, the ability to detect and intervene Improvised Explosive Devices and control cables placed on the side of the road and the vents will be able to be performed from a distance.

As of the end of 2018, the development project was completed and a contract was signed on 31 December 2018 for the supply of a total of 30 pieces of ÇAKI-2 Robotic Arm System for use in 10 pieces of PMKI and 20 METI vehicles to be provided to the Land Forces Commandership services.

Oil and Natural Gas Pipelines Security

The works have continued within the scope of the Security of Oil and Natural Gas Pipelines. ASELSAN-Havelsan Business Partnership has been commissioned to ensure the safety of all oil and natural gas pipelines in Turkey under BOTAŞ administration. Within the scope of the project, for the first time in Turkey an Integrated Security System for the Safety of Oil and Natural Gas Pipelines will be designed and produced. The project will be completed in 3 phases and works for the first phase have been started. The designed system includes system solutions for the safety of pipelines, various manned and unmanned stations and marine terminals on the lines. This modular system solution is designed to be used in all pipelines where necessary, and the system uses ASELSAN fiber optic sensor system (MIDAS), electro-optical imaging and recording systems (ECHINOX and ÇINAR) and unmanned air vehicles (MIUS).

Urban Security Systems

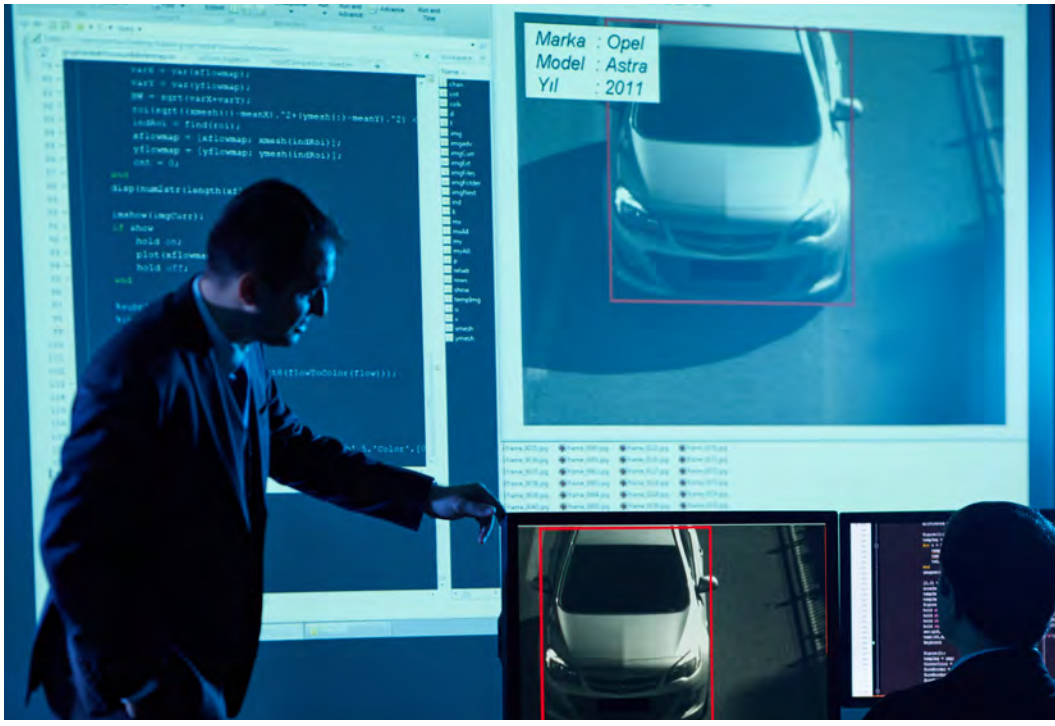
Under the Urban Security and Security Management System programs, the works under below headings are under process:

- Urban Security Management System (KGYS) and Plate Recognition System (PTS),
- Safe School

IN THE FIELD OF PUBLIC SECURITY, ASELSAN CONDUCTS RESEARCH ON APPROPRIATE SOLUTIONS FOR THE EMERGING NEEDS SUCH AS SAFE CITIES, SOCIAL EVENTS, COUNTERTERRORISM, AVIATION SECURITY, NATURAL AND ARTIFICIAL DISASTERS, LAND TRANSPORTATION SECURITY, AND THE SAFETY OF CRITICAL INFRASTRUCTURES.

The installations within the scope of the Urban Security Management System (KGYS) and the Plate Recognition System (PTS) projects which were signed between the Presidency of Defense Industries and ASELSAN to supply the needs of Security General Directorate for Camera Recording and Monitoring System, Plate Recognition System and Security Systems Sensitive to Heat and Motion across the country. In the current situation, installation activities have been completed in 103 regions of the project which has been divided into 106 regions. Installation activities are currently underway in 3 regions from the remaining regions. The acceptance procedures of 63 regions have been completed. In 28 of 68 provinces operating within the scope of the 1st additional package, installation activities were completed and the acceptance of 12 regions was completed. The 2nd Additional package was signed within the scope of the project for extra expansion demands.

As part of the Urban Security Management System, a Safe School Project contract was signed. Within the scope of the project, 762 schools with security risks across the country will





ASELSAN has developed a remote controlled counter system for mines and improvised explosive devices.

be secured. The Project Management Authority of the project to be realized within the scope of the needs of the Ministry of National Education and General Directorate of Security is the Presidency of Defense Industries. Within the scope of the contract, camera systems of 750 schools were established and the activities of transferring the camera images to the Urban Security Management System Centre in the district where the school is located were completed. All admission activities are expected to be achieved in third quarter of 2019.

Negotiations for the establishment of an Urban Security Management System in the Turkish Republic of Northern Cyprus (TRNC) have started. Within the scope of the project, Urban Security Management System will be established, approximately at 161 points 300 lanes Plate Recognition System, 550 different types of cameras will be installed. With the work to be done, the Plate Recognition System will be enabled the Central Concern Query capabilities. In the project, a fiber enterprise communication network of approximately 65 km will be formed. Within the scope of the project, it is aimed to gain TRNC police forces the Turkish police forces capabilities.

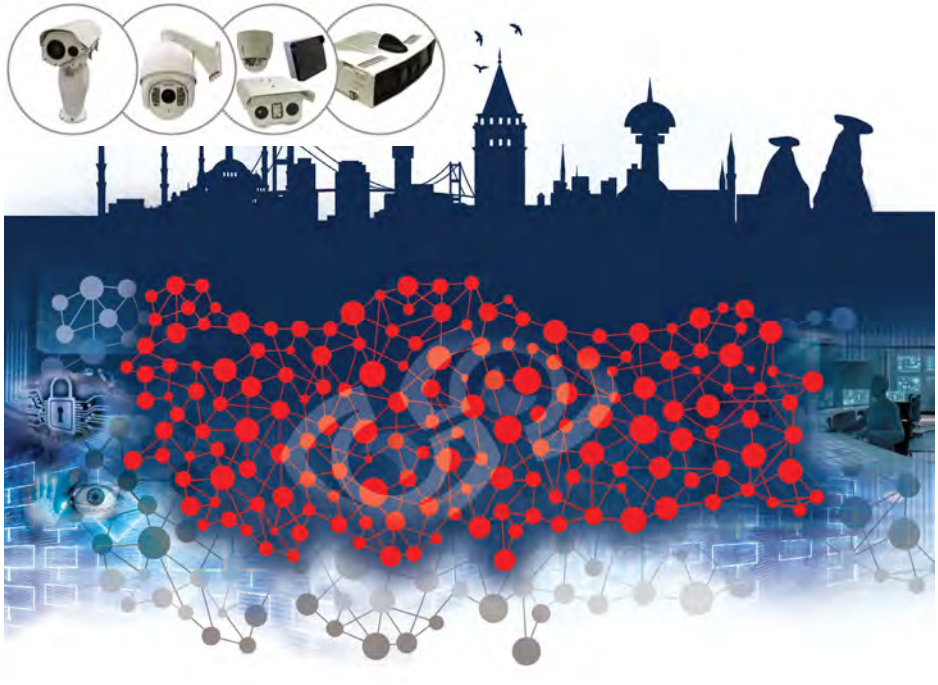
Security System Technologies

The works on below systems and products in the field of security system technologies are being carried out.

- KGYS Smart Support Software Development
- EKİNOKS Imaging System
- ÇINAR Network Video Recording System
- GEKO Plate Recognition System
- MÜGAS Portable Mast-On Surveillance System
- MİDAS Distributed Acoustic Sensor
- SEDA Shooting Location Detection System

KGYS Smart Support Software Development

The KGYS Smart Support Software Development Project, which is being carried out with the assistance from TÜBITAK, continues to be developed in line with the needs of the General Directorate of Security. Within the scope





of this project, video analysis product family has been developed and high-level analysis algorithm studies built on video analysis capabilities have been gathered under one roof.

MİDAS

MİDAS system is a new generation Intrusion Detection System developed using Distributed Acoustic Detection (DAS) technology. The system has been started to be employed in BOTAŞ Oil and Natural Gas Pipeline Security, Hatay borderline security and Istanbul IGDAŞ urban infrastructure security projects in addition to other projects. MİDAS, which can also be used effectively in ensuring the security of critical facilities, has started to have orders from abroad for this purpose and the export is planned to take place in the year 2019. With its wide range of applications, ease of installation, low cost and state-of-the-art technological solution, it distinguishes itself from other systems and becomes an advantageous shelf ready commercial (RAHAT) product.

The new versions of MİDAS is being developed in the field that is a growing market in wired-fence security, and a new product launch is planned for this area in 2019. In addition, in the field of railway safety and signalization, feasibility studies were carried out and the product road map was prepared for the dissemination of the product in these areas.

SEDA

The SEDA Shooting Location Detection System to be developed using acoustic detection technology for the purpose of locating the sharpshooter has proved itself with high success in the shooting tests performed.

Developed in 3 different product types suitable for stationary, vehicle-top and disposable use, SEDA has started to be used primarily in domestic safety applications and base areas. The deliveries of the Modular Temporary Base Zone (MGUB) are under process that the production and deliveries are planned to be completed in 2019 within the scope of the Security Vehicles Project (KAYI), developed by the company BMC, EU West – East Border Security projects and the project signed with the Qatar Armed Forces. In order to meet the needs of the domestic and foreign security units for SEDA, which is in the On-Shelve Commercial (RAHAT) product structure and started to produce the series, efforts are continuing intensively to gain additional capabilities.

MUGAS

ASELSAN MUGAS Mobile Mast Mounted Surveillance System is a remote mobile security and surveillance system with advanced electronic systems and security management software that provides detection, definition and monitoring of potential threats, developed to meet the security units' evolving surveillance and security needs, regardless of location and without requiring infrastructure. In order to meet the urgent security needs of the Land Forces Commandership and the Turkmenistan Armed Forces, it has been installed in various places and is still being used.

ASELSAN CARRIED OUT BUSINESS DEVELOPMENT AND R&D ACTIVITIES IN THE AREAS OF POWER SYSTEMS AND RENEWABLE ENERGY POWER CONVERSION TO DEVELOP THE TECHNOLOGY AND EXPERTISE NECESSARY OF IMPLEMENTING STATE-OF-THE-ART SMART POWER GRIDS.

ENERGY SYSTEMS

ASELSAN carries out the Energy Systems Program with the goal of becoming a leading domestic technology provider among the companies producing energy system solutions by taking advantage of the Company's rooted engineering know-how through innovative approaches.
It is aimed at developing efficient, reliable and affordable products and services, which will reduce Turkey's external dependence and meet the needs of stakeholders in the global market in the entire sub-headings of the energy systems covering electricity generation, transmission, distribution, consumption and management areas.

To this end, activities had been carried out to offer system solutions covering R&D, design, production, integration and after-sales support by focusing on Energy Management and Smart Grid Systems and Renewable Energy Systems.

Energy Management and Smart Grid Systems

System solutions consisting of critical hardware, algorithms and software for the National Smart Grid Network





DEPAR Power Quality Analyser and Measurement Device

Management have been developed in order to transmit electricity efficiently, flexibly and effectively from the generation of electricity to its consumption throughout the country. In this context, the following have been carried out through national means in order to reduce external dependency and to provide energy distribution and transmission securely.

- Developmental work of Advanced Energy Measurement and Management Unit and Power Quality Measurement Devices, as smart network power and control equipments, has continued. DEPAR Power Quality Analyzer and Measurement Devices, which were developed under the project implemented together with Boğaziçi Elektrik Dağıtım A.Ş. were installed, tested and commissioned Development work continued on the National SCADA and National Energy Management systems, including the critical information security algorithms and software required for energy transmission and distribution. The design of the ARTU - Advanced Remote Terminal Unit has largely been completed and preparations for the first experiments in live systems have got underway by continuing algorithm and software development studies. Necessary preliminary studies were carried out for the qualification tests and certification process - which will be carried out in 2019 - of ARTU, which is targeted to be widely used in electricity, natural gas, oil and water transmission and distribution systems.
- Preliminary work of National SCADA system for crude oil pipeline automation project has been carried out.

Renewable Energy Systems

Activities have been carried out to develop innovative and original technologies which will provide an efficient and uninterrupted supply of electricity from Turkey's extensive renewable energy resources, specifically aimed at solar and wind energy. Critical components have been developed with the maximum national means in order to provide a competitive advantage in microgrid base hybrid renewable energy system solutions.

- In the field of wind energy, the design, development and production processes of full scale wind energy power converter systems and power grid connection algorithms, which are required by wind turbine manufacturers, have been completed. The first 300 kW power converter systems, which was ordered by the Northel EMK Company, has been successfully commissioned in the field.

In the field of solar energy, very high efficiency c-Si photovoltaic cell and module development studies have been continuing with the IBC (Interdigitated Back Contact) technology. Within the scope of the joint studies carried out with GÜNAM at METU (Middle Eastern Technical University), production infrastructure has been completed and prototype IBC solar cells have been manufactured.

- Hybrid energy system solutions have been developed for military and civilian applications, providing reliable, economical and clean energy from the sun and wind. The design and production of the GURU Kompakt, a hybrid system integrated within a container, was completed and systems are in use in the field.
- Preliminary work for Renewable Energy Micro Grid System R&D project has been completed. Detailed studies and designs will be performed in 2019.



DEVELOPED BY ASELSAN IN ACCORDANCE WITH THE REQUIREMENTS OF SAFETY AND SECURITY INSTITUTIONS, VEHICLE AND LICENSE PLATE RECOGNITION SYSTEMS ARE USED WITH GREAT SUCCESS IN DIFFERENT REGIONS OF TURKEY.

TRAFFIC, AUTOMATION AND MEDICAL SYSTEMS

Intensive work has been carried out in the fields of Toll Collection Systems, Traffic Management Systems, Plate Recognition Systems and Medical Systems.

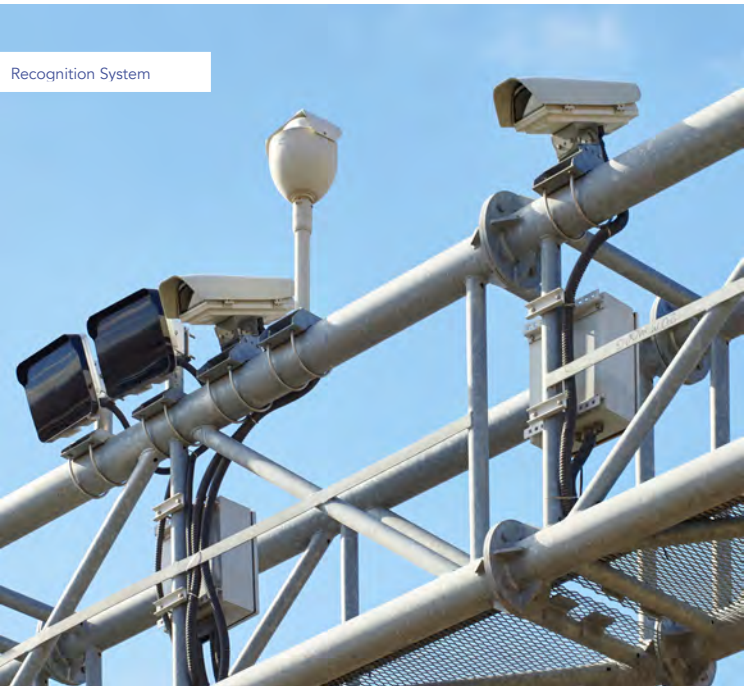
Toll Collection Systems

ASELSAN, as the leading Turkish company in toll collection systems, has carried out intensive work in this field in 2018 as well. On the Istanbul-Izmir Highway, Yavuz Sultan Selim Bridge and Northern Ringroad, along the newly opened road sections, new toll collection stations have been added to the existing tolling systems. The toll collection system for the new ambitious Northern Marmara Highway is provided by ASELSAN. The Northern Marmara Highway extends approximately 500 kms from Çorlu to Adapazarı and ensures transportation to Istanbul's new airport IGA. In this important project, 45 Multilane Free Flow Electronic Toll Collection (MLFF-ETC) stations and 350 Lane-Based Toll Collection Systems will be installed. The activities for this important tolling project will be continued in 2019 as well. Furthermore, a new contract is signed in 2018 for the Toll Collection Systems on Menemen-Aliağa-Çandarlı Highway.

In 2018, ASELSAN's tolling systems achieved a record by collecting tolls from about 300 million vehicles both on the 2,200 km long state operated highways and on the highways operated by private concessions.

In addition to securing tolls for the constructed highways, ASELSAN toll collection systems also play an important role in the revenue reconciliation and auditing of private concessions by state institutions. For this task, special solutions were developed in order to provide security, integrity, traceability and controllability of the data recorded in the system.

The "average speed enforcement corridor system" installed by ASELSAN on the 2,200 km long state operated highway is the largest scale Electronic Speed Enforcement System in the country. The system helped increasing the safety level on our highways. In 2018, on the highway where the system is installed, the accidents were dropped by 7%, although the traffic was increased by



Recognition System





26% compared to previous year. In Corridor 10 Toll Collection System developed for the Republic of Macedonia, 4 out of total 7 stations at Romanovce, Sopot, Otovica, Petrovec are completed and opened for traffic. The state of the art tolling system developed by ASELSAN integrates microwave DSRC based tolling, contactless smart card tolling and classic cash based tolling schemes. Activities for the remaining toll stations will be completed in 2019.

Automation And Traffic Management Systems

Within the scope of the Gendarmerie Integrated Communications and Information System (JEMUS) project, installation, acceptance and inspection activities continued in the Vehicle and License Plate Recognition System (A-PTS), which identifies vehicle license plates, their brand and color to a high degree of accuracy in free traffic flow conditions. In this context, the deliveries of gantry based fixed systems and mobile systems mounted on the vehicles are ongoing. The newly developed Mobile License Plate Recognition System fulfills a very important security need. The mobile system offers all the features of the fixed system on a mobile platform that may be carried on the roof top of a vehicle. As a result of the increase in the number of Mobile License Plate Recognition systems in 2018, the effectiveness of the Gendarmerie's operation is increased and the mobile system has become a vital instrument for the public security inspection.

Medical Technologies

ASELSAN has been working on projects and solutions in order to reduce dependency on foreign manufacturers in the field of Medical Technologies and to increase local design and production capabilities. In this context, design activities continued in the development of the Mobile Digital X-Ray System project and Magnetic Resonance Imaging System (MRI) project

The tender documents for the Industry Cooperation Project concerning five items of medical device supply (magnetic resonance imaging, computed tomography, ultrasonography, patient monitor, digital radiography) has been released in May 2018. The tender will be held in accordance with the Industry Cooperation Program regulation prepared under the leadership of the Ministry of Science, Industry and Technology. The commitments on domestic production, technology transfer to the country, investment and exports are taken into account in addition to the supply price. The bid preparation activities have been conducted for this tender which was postponed to 10th of January 2019.

Collaboration opportunities for joint product development with local medical device manufactures are being assessed. On this point, ASELSAN decided to initiate two separate programs, one with METSİS, local defibrillator manufacturer and the other is with BİOSYS, local intensive care unit ventilator manufacturer, in a spirit of collaboration for product partnership. Additionally, talks have begun with BICAKCILAR on co-development of life support systems for surgeries.

Moreover, with the aim of developing identification, diagnosis, analysis and simulation systems aimed at the biological defense, which is a critical area of civil and military defense, with the national means and acquiring necessary technologies within this scope, research programs have continued for Bio-diagnosis and CBRN (Defense Systems against Chemical, Biologic, Radiologic and Nuclear Threats) systems.


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WE ARE **ONE OF THE BIGGEST 100 GLOBAL** DEFENSE COMPANY

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ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Consolidated Statement of Financial Position as of 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

		Audited	
	Note References	31 December 2018	Restated(*) 31 December 2017
ASSETS			
Current Assets		**11.616.680**	**6.058.387**
Cash and Cash Equivalents	3	3.115.691	1.262.904
Trade Receivables	6	3.072.113	1.581.229
From Related Parties	5	*772.851*	*460.841*
From Third Parties		*2.299.262*	*1.120.388*
Other Receivables	7	204.117	112.761
From Related Parties	5	*24*	*34*
From Third Parties		*204.093*	*112.727*
Inventories	9	3.576.618	2.221.631
Prepaid Expenses	10	1.319.330	657.683
From Related Parties	5	*311.668*	*92.555*
From Third Parties		*1.007.662*	*565.128*
Other Current Assets	18	328.811	222.179
Non-Current Assets		**7.856.951**	**5.580.209**
Financial Investments	29	778.665	568.914
Trade Receivables	6	2.826.939	1.574.956
From Related Parties	5	*1.976.539*	*1.085.679*
From Third Parties		*850.400*	*489.277*
Other Receivables	7	764	661
From Third Parties		*764*	*661*
Equity Accounted Investments	8	93.586	83.324
Property, Plant and Equipment	11	1.336.297	1.090.843
Intangible Assets	12	1.082.067	891.216
Prepaid Expenses	10	504.399	442.731
From Related Parties	5	*155.933*	*165.487*
From Third Parties		*348.466*	*277.244*
Deferred Tax Assets	27	734.092	650.775
Other Non-Current Assets	18	500.142	276.789
TOTAL ASSETS		**19.473.631**	**11.638.596**

The accompanying notes are an integral part of the consolidated financial statements.

(*) Group has implemented TFRS 15 and TFRS 9 as of 1 January 2015. Details are presented under Note 2.2

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Consolidated Statement of Financial Position as of 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

		Audited	
	Note References	31 December 2018	Restated(*) 31 December 2017
LIABILITIES			
Current Liabilities		**4.684.478**	**3.691.713**
Short-term Financial Liabilities	30	698.526	404.312
Short-term Portion of Long-term Financial Liabilities	30	67.277	67.624
Trade Payables	6	2.548.583	1.790.231
To Related Parties	*5*	*593.911*	*512.270*
To Third Parties		*1.954.672*	*1.277.961*
Employee Benefit Obligations	17	34.873	46.133
Other Payables	7	2.732	1.494
To Related Parties	*5*	*60*	*65*
To Third Parties		*2.672*	*1.429*
Government Grants and Incentives	13	53.818	41.643
Deferred Income	10	632.645	900.106
To Related Parties	*5*	*510.751*	*686.837*
To Third Parties		*121.894*	*213.269*
Corporate Tax Liability	27	2.836	717
Short-term Provisions		634.951	425.907
For Employee Benefits	*17*	*49.382*	*42.301*
Other	*15*	*585.569*	*383.606*
Other Current Liabilities	18	8.237	13.546
Non-Current Liabilities		**4.612.132**	**3.178.760**
Long-term Financial Liabilities	30	20.234	62.207
Trade Payables	6	1.768.283	1.262.015
To Related Parties	*5*	*1.617.969*	*1.048.376*
To Third Parties		*150.314*	*213.639*
Other Payables	7	106	105
To Third Parties		*106*	*105*
Deferred Income	10	2.296.513	1.642.766
To Related Parties	*5*	*1.669.160*	*1.461.346*
To Third Parties		*627.353*	*181.420*
Long-term Provisions		526.996	211.667
Long-term Provisions for Employee Benefits	*17*	*198.611*	*168.742*
Other	*15*	*328.385*	*42.925*

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ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Consolidated Statement of Financial Position as of 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

		Audited	
	Note References	31 December 2018	Restated(*) 31 December 2017
EQUITY		**10.177.021**	**4.768.123**
Equity Attributable to Equity Holders of the Parent		**10.132.601**	**4.767.581**
Share Capital	19	1.140.000	1.000.000
Inflation Adjustments on Share Capital Differences	19	98.621	98.621
Share Premiums		2.796.723	--
Other Comprehensive Income / (Expense) that will not be Reclassified to Profit or (Loss)		189.358	209.087
Gain on Revaluation of Property, Plant and Equipment	26	*207.431*	*207.431*
Gain/ Loss on Remeasurement of Defined Benefit Plans	26	*(18.073)*	*1.656*
Other Cumulative Comprehensive Income / (Expense) will be Reclassified to Profit/Loss		755.119	540.690
Gain on Revaluation of Available for Sale Financial Assets	*26*	*729.612*	*535.444*
Cumulative Translation Adjustments	*26*	*25.507*	*5.246*
Restricted Reserves	19	172.687	124.062
Retained Earnings		2.661.896	1.419.220
Net Profit for the Year		2.318.197	1.375.901
Non-Controlling Interests		**44.420**	**542**
TOTAL LIABILITIES AND EQUITY		**19.473.631**	**11.638.596**

The accompanying notes are an integral part of the consolidated financial statements.

(*) Group has implemented TFRS 15 and TFRS 9 as of 1 January 2015. Details are presented under Note 2.2.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

		Audited	
	Note References	1 January-31 December 2018	Restated(*) 1 January-31 December 2017
PROFIT OR LOSS			
Revenue	20	9.008.516	5.412.253
Cost of Sales (-)	20	(6.797.424)	(3.946.278)
GROSS PROFIT		**2.211.092**	**1.465.975**
General Administrative Expenses (-)	21	(221.719)	(177.622)
Marketing Expenses (-)	21	(150.760)	(164.431)
Research and Development Expenses (-)	21	(114.408)	(97.300)
Other Operating Income	22	5.654.167	1.935.905
Other Operating Expenses (-)	22	(5.153.276)	(1.678.420)
OPERATING PROFIT		**2.225.096**	**1.284.107**
Income From Investing Activities	23	4.789	9.302
Shares of Profit of Equity Accounted Investees	8	(8.951)	9.302
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		**2.220.934**	**1.302.711**
Financial Income	24	876.479	245.542
Financial Expense (-)	25	(855.647)	(383.291)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**2.241.766**	**1.164.962**
Tax Income from Continuing Operations		**77.581**	**211.018**
- Current Corporate Tax Expense(-)	27	(11.022)	(2.036)
- Deferred Tax Income	27	88.603	213.054
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**2.319.347**	**1.375.980**
Profit for the Period Attributable to			
Non-Controlling Interest		1.150	79
Owners of the Company	28	2.318.197	1.375.901
		2.319.347	**1.375.980**
Earnings for per 100 Shares (in full kuruş)	**28**	**214,69**	**137,60**

The accompanying notes are an integral part of the consolidated financial statements.

(*) Group has implemented TFRS 15 and TFRS 9 as of 1 January 2015. Details are presented under Note 2.2.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

		Audited	
	Note References	1 January-31 December 2018	Restated(*) 1 January-31 December 2017
PROFIT FOR THE YEAR		**2.319.347**	**1.375.980**
OTHER COMPREHENSIVE INCOME			
Items that will not to be Reclassified Subsequently in Profit or Loss		**(19.729)**	**(10.268)**
Gain on Revaluation of Property, Plant and Equipment	26	--	3.034
Gain on Remeasurement of Defined Benefit Plans	17	(24.662)	(2.033)
Deferred Tax Expense	27	4.933	(11.269)
Items that may be Reclassified Subsequently to Profit or Loss		**214.429**	**54.660**
Gain on Revaluation of Available for Sale Financial Assets	26	204.387	52.735
Cumulative Translation Adjustments	26	20.261	4.562
Deferred Tax Expense	26-27	(10.219)	(2.637)
OTHER COMPREHENSIVE INCOME		**194.700**	**44.392**
TOTAL COMPREHENSIVE INCOME		**2.514.047**	**1.420.372**
Total Comprehensive Income Attributable to			
Non-Controlling Interest		1.150	79
Owners of the Company		2.512.897	1.420.293
		2.514.047	**1.420.372**

The accompanying notes are an integral part of the consolidated financial statements.

(*) Group has implemented TFRS 15 and TFRS 9 as of 1 January 2015. Details are presented under Note 2.2.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

				Other Comprehensive Income / Expense that will not to be Reclassified Subsequently to Profit or Loss		Other Comprehensive Income / Expense that may not to be Reclassified Subsequently to Profit or Loss			Retained Earnings				
	Share Capital	Inflation Adjustments on Share Capital	Share Issuance Premiums/ (Discounts)	Revaluation Reserves	Remeasurement of Defined Benefit Plans	Fair Value Reserves	Translation Reserves	Restricted Reserves	Retained Earnings	Net Profit/ (Loss) for the Year	Equity Attributable to Owners of the Company	Non-Controlling Interests	Total
Balance as of 1 January 2017 (as previously reported)	**1.000.000**	**98.621**	**--**	**216.072**	**3.283**	**485.346**	**684**	**94.158**	**997.649**	**795.191**	**3.691.004**	**463**	**3.691.467**
Effect of TFRS 15	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**(228.939)**	**(36.921)**	**(265.860)**	**--**	**(265.860)**
Effect of TFRS 9	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**(6.531)**	**4.175**	**(2.356)**	**--**	**(2.356)**
Balance as of 1 January 2017 Restated (*)	**1.000.000**	**98.621**	**--**	**216.072**	**3.283**	**485.346**	**684**	**94.158**	**762.179**	**762.445**	**3.422.788**	**463**	**3.423.251**
Transfers (Restated)	--	--	--	--	--	--	--	29.904	657.041	(686.945)	**--**	--	--
Total Comprehensive Income	--	--	--	(8.641)	(1.627)	50.098	4.562	--	--	1.375.901	**1.420.293**	79	**1.420.372**
Dividends	--	--	--	--	--	--	--	--	--	(75.500)	**(75.500)**	--	**(75.500)**
Balance as of 31 December 2017	**1.000.000**	**98.621**	**--**	**207.431**	**1.656**	**535.444**	**5.246**	**124.062**	**1.419.220**	**1.375.901**	**4.767.581**	**542**	**4.768.123**

The accompanying notes are an integral part of the consolidated financial statements.

(*) Group has implemented TFRS 15 and TFRS 9 as of 1 January 2015. Details are presented under Note 2.2.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

				Other Comprehensive Income / Expense that will not to be Reclassified Subsequently to Profit or Loss		Other Comprehensive Income / Expense that may not to be Reclassified Subsequently to Profit or Loss			Retained Earnings				
	Share Capital	Inflation Adjustments on Share Capital	Share Issuance Premiums/ (Discounts)	Revaluation Reserves	Remeasurement of Defined Benefit Plans	Fair Value Reserves	Translation Reserves	Restricted Reserves	Retained Earnings	Net Profit/ (Loss) for the Year	Equity Attributable to Owners of the Company	Non-Controlling Interests	Total
Balance as of 1 January 2018 (as previously reported)	**1.000.000**	**98.621**	**--**	**207.431**	**1.656**	**535.444**	**5.246**	**124.062**	**1.687.436**	**1.387.770**	**5.047.666**	**542**	**5.048.208**
Effect of TFRS 15	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**(265.860)**	**(13.506)**	**(279.366)**	**--**	**(279.366)**
Effect of TFRS 9	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**(2.356)**	**1.637**	**(719)**	**--**	**(719)**
Balance as of 1 January 2018 (as previously reported)	**1.000.000**	**98.621**	**--**	**207.431**	**1.656**	**535.444**	**5.246**	**124.062**	**1.419.220**	**1.375.901**	**4.767.581**	**542**	**4.768.123**
Transfers	--	--	--	--	--	--	--	48.625	1.242.676	(1.291.301)	**--**	--	--
Capital Increase	140.000	--	2.796.723	--	--	--	--	--	--	--	**2.936.723**	--	**2.936.723**
Total Comprehensive Income	--	--	--	--	(19.729)	194.168	20.261	--	--	2.318.197	**2.512.897**	1.150	**2.514.047**
Consolidation Effect of New Establishment	--	--	--	--	--	--	--	--	--	--	**--**	42.728	**42.728**
Transfers	--	--	--	--	--	--	--	--	--	(84.600)	**(84.600)**	--	**(84.600)**
Balance as of 31 December 2018 (Closing Balance)	**1.140.000**	**98.621**	**2.796.723**	**207.431**	**(18.073)**	**729.612**	**25.507**	**172.687**	**2.661.896**	**2.318.197**	**10.132.601**	**44.420**	**10.177.021**

The accompanying notes are an integral part of the consolidated financial statements.

(*) Group has implemented TFRS 15 and TFRS 9 as of 1 January 2015. Details are presented under Note 2.2.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Consolidated Statement of Cash Flows for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of ''Foreign Currency'' unless otherwise stated.)

		Audited	
	Note References	1 January-31 December 2018	Restated(*) 1 January-31 December 2017
A.Cash Flows from Operating Activities		**(758.732)**	**662.532**
Profit for the Period		2.319.347	1.375.980
Adjustments to Reconcile Profit for the Period		**177.842**	**357.785**
- Adjustments for Depreciation and Amortization Expense	11-12	171.391	132.625
- Adjustments for Impairment Loss (Reversal of Impairment Loss)		(36.780)	7.118
Adjustments for Impairment Loss (Reversal of Impairment Loss) of Receivables	*6*	*(19.239)*	*1.476*
Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories	*9*	*(17.541)*	*5.642*
- Adjustments for Provisions		747.129	214.975
Adjustments for (Reversal of) Provisions Related with Employee Benefits	*17*	*55.008*	*31.375*
Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions	*15*	*385.888*	*29.350*
Adjustments for (Reversal of) Warranty Provisions	*15*	*305.852*	*155.138*
Adjustments for (Reversal of) Other Provisions	*15*	*381*	*(888)*
- Adjustments for Interest (Income) Expenses		(112.645)	114.307
Adjustments for Interest Income	*22-24*	*(657.252)*	*(192.040)*
Adjustments for Interest Expense	*22-25*	*544.607*	*306.347*
- Share of profit of Equity Accounted Investees	*8*	8.951	(9.302)
- Adjustments for Tax (Income)/Expenses	27	(77.581)	(211.018)
- Adjustments for Losses/(Gains) on Disposal of Non-Current Assets	12	132.003	111.313
- Adjustments for Stage of Completion of Construction or Service Contracts in Progress		(731.312)	35.761
-Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		108.318	(19.559)
-Other Adjustments to Reconcile Profit (Loss)		(31.632)	(18.435)
Changes in Working Capital		**(3.016.894)**	**(956.305)**
- Decrease (Increase) in Trade Receivables		(1.268.990)	385.312
- Decrease (Increase) in Other Receivables Related with Operations		(91.459)	(28.415)
- Decrease (Increase) in Inventories		(1.316.341)	(612.500)
- Decrease (Increase) in Prepaid Expenses	10	(723.315)	(503.556)
- Increase (Decrease) in Trade Payables		770.883	561.079
- Increase (Decrease) in Employee Benefit Obligations		(11.260)	9.297
- Increase (Decrease) in Other Operating Payables		1.239	(4.692)

The accompanying notes are an integral part of the consolidated financial statements

(*) Group has implemented TFRS 15 and TFRS 9 as of 1 January 2015. Details are presented under Note 2.2.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Consolidated Statement of Cash Flows for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

		Audited	
	Note References	1 January-31 December 2018	Restated(*) 1 January-31 December 2017
- Increase (Decrease) in Government Grants and Subsidies		12.175	13.375
- Increase (Decrease) in Deferred Income		(87.993)	(609.111)
- Other Increase (Decrease) in Working Capital		(301.833)	(167.094)
Cash Flows From Operations		**(519.705)**	**777.460**
Payments Related with Provisions for Employee Benefits	17	(25.426)	(16.724)
Payments Related with Other Provisions	15	(204.698)	(96.458)
Income Taxes Refund (Paid)		(8.903)	(1.746)
B.Cash Flows From Investing Activities		**(715.071)**	**(568.246)**
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		1.057	1.279
Purchase of Property, Plant and Equipment	11	(343.541)	(211.714)
Purchase of Intangible Assets	12	(396.391)	(349.750)
Dividends Received	23	5.222	8.938
Other Cash Outflows		18.582	(16.999)
C.Cash Flows From Financing Activities		**3.268.754**	**(21.154)**
Proceeds from Borrowings		1.128.345	905.412
Repayments of Borrowings		(991.092)	(863.072)
Payments of Finance Lease Liabilities		2.936.723	--
Dividends Paid	19	(84.600)	(75.500)
Interest Paid	25	(25.142)	(15.508)
Interest Received		304.520	27.514
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		**1.794.951**	**73.132**
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**30.685**	**20.727**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**1.825.636**	**93.859**
E.CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**1.261.752**	**1.167.894**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	**3**	**3.087.388**	**1.261.753**

The accompanying notes are an integral part of the consolidated financial statements.

(*) Group has implemented TFRS 15 and TFRS 9 as of 1 January 2015. Details are presented under Note 2.2.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

1. ORGANIZATION AND OPERATIONS OF THE GROUP

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") was established in order to engage principally in research, development, engineering, production, tests, assembly, integration and sales, after sales support, consultancy and trading activities, to provide and conduct all sorts of activities for project preparation, engineering, consultancy, service providing, training, contracting, construction, publishing, trading, operation and internet services regarding various software, equipment, system, tools, material and platforms in the fields of electrical, electronics, microwave, electro-optics, guidance, computer, data processing, encryption, security, mechanics, chemistry and related areas within the army, navy, air force and aerospace applications to all institutions, organizations, companies and individual consumers.

The Company was established at the end of 1975 as a corporation by Turkish Land Forces Foundation. The Company commenced its production activities in Macunköy Facilities in early 1979.

As of the reporting date, the Company has been organized under five divisions under the Vice Presidential Sector with regard to investment and production requirements of projects. These divisions comprise Communication and Information Technologies Vice Presidency (''HBT''), Radar and Electronic Warfare Systems Vice Presidency (''REHİS''), Defense Systems Technologies Vice Presidency (''SST'') and Microelectronics, Guidance & Electro-Optics Vice Presidency (''MGEO'') and Transportation, Security, Energy and Automation Systems Vice Presidency (''UGES'').

In addition to the Vice Presidencies above, the Company organization also includes the Financial Management Vice Presidency, Corporate Management Vice Presidency, Technology and Strategy Management Vice Presidency and Business Development and Marketing Vice Presidency making a total of four Vice Presidencies; in addition to these, there are also Legal Affairs and Private Secreteriat.

The Company maintains engineering operations in Ankara, Middle East Technical University (METU) Teknokent; production and engineering operations in Macunköy, Akyurt and Gölbaşı. General Management is located in Ankara Macunköy. Furthermore SST and REHİS Sector Presidency management offices and Product Support Management of UGES Sector Presidency are located in Istanbul Teknopark.

Turkish Armed Forces Foundation ("TSKGV") is the main shareholder of the Company which holds 74,20 percent of the capital and maintains control of the Company. TSKGV was established on 17 June 1987 with the law number 3388, in order to manufacture or import guns, equipment and appliances needed for Turkish Armed Forces.

The Company is registered to Capital Markets Board of Turkey ("CMB") and its shares have been quoted in Borsa İstanbul Anonim Şirketi ("BIST") since 1990. As of 31 December 2018, 25,70 percent of the Company's shares are publicly traded (31 December 2017: 15,30 percent) (Note 19).

The Company's trade registry address is Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle/Ankara. The average number of personnel employed by the Group as of 31 December 2018 is 5.694 (31 December 2017: 5.440).

The Company's consolidated subsidiaries are ASELSAN Baku Şirketi ("ASELSAN Baku"), Mikroelektronik Ar-Ge Tasarım ve Ticaret Limited Şirketi ("Mikro AR-GE"), ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Limited Şirketi ("ASELSANNET"), ASELSAN Malaysia Sdn. Bhd. (ASELSAN Malaysia) and ASELSAN Konya. They are collectively referred as the "Group" in the accompanying notes.

1 Due to the retirement of Yavuz BAYIZ, the Vice President responsible of Communication and Information Technologies, our Board of Directors Member, Bayram GENÇCAN shall be appointed as the Vice President responsible of Communication and Information Technologies as of 05 February 2019, alongside his duty as a member of the Board of Directors, In order to support our "export-based growth" strategy, which is one of the most important aspects of our company's organic growth potential, and to be able to compete more effectively with global players; the Directorate of Business Development and Marketing shall be restructured as a vice presidency within the organizational structure and Osman Devrim FİDANCI, the Director of Business Development and Marketing, shall be appointed as the Vice President as of 1 February 2019.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

The Company has two branch offices; Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi EP Co. (''ASELSAN South Africa'') and ASELSAN Makedonya Corridor-10 Highway Toll Collection System Project (''ASELSAN Macedonia'') located in South Africa and Macedonia, respectively. All of the branches are included in the consolidated financial statements.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 The Basis of Presentation

Statement of Compliance to TAS

The accompanying consolidated financial statements are prepared in accordance with the requirements of CMB Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets" ("Communiqué"), which were published in the Official Gazette No: 28676 on 13 June 2013 and in accordance with the Turkish Accounting Standards ("TAS") and Interpretations that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA").

In addition, the consolidated financial statements and its notes are presented in accordance with the requirements announced by the CMB's announcement on 7 June 2013.

The consolidated financial statements are prepared according to historical cost accounting except for the revaluation of land and financial instruments.

Approval of the Consolidated Financial Statements

These consolidated financial statements have been approved for issue by the Board of Directors with the resolution number 1037 on 26 February 2019. There is no authority other than General Assembly and legal entities has the right to amend the consolidated financial statements.

Functional Currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment ("Functional Currency") in which the entity operates.

The Company's reporting currency is Turkish Lira (''TL''). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional, and presentation currency of the Company for the consolidated financial statements. Amounts are expressed in thousands of TL or Foreign Currency unless otherwise stated. Kuruş, Turkish Currency subunit and 1 TL is equal to 100 Kuruş.

Preparation of Financial Statements in Hyperinflationary Periods

CMB, with its resolution dated 17 March 2005 numbered 11/367 declared that companies operating in Turkey which prepare their financial statements in accordance with CMB Accounting Standards, effective 1 January 2005, will not be subject to the application of inflationary accounting. Consequently, in the accompanying financial statements ("TAS/TAS 29") "Financial Reporting in Hyperinflationary Economies" has not been applied since 1 January 2005.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

Basis of Consolidation

Subsidiaries:

The details of the subsidiaries of the Group are as follows:

			Group's proportion of ownership and voting power held (%)		
Subsidiaries	**Location**	**Functional Currency**	**31 December 2018**	**31 December 2017**	**Main Activity**
ASELSANNET	Turkey	TL	100	100	Communication systems
ASELSAN Baku	Azerbaijan	AZN	100	100	Marketing and sales of the group products
Mikro AR-GE	Turkey	TL	85	85	Microelectronic R&D projects
ASELSAN Malaysia	Malaysia	MYR	100	100	Remote controlled weapon systems
ASELSAN KONYA	Turkey	TL	51	--	Weapon and weapon systems
ULAK Haberleşme Anonim Şirketi ("ULAK")	Turkey	TL	51	--	Communication systems

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Company reassesses whether or not it controls an investee when if facts and circumstances arise there are changes to one or more of the three elements of control listed above.

Establishment of ASELSAN Malaysia has completed as of July 2017, in order to operate in producing remote control weapon systems. The company has a capital of 100 MYR (Malaysia Ringits) and owned 100% by Aselsan and planned to expand its operations according to the Project potential and find new local partnerships.

Aselsan Konya Silah Sistemleri A.Ş. has esablished with the Corporation of Konya Savunma Sanayi A.Ş. and registration of the entity has completed in 12 November 2018. Capital structure is as follows; 51% ASELSAN, 49% Konya Savunma Sanayi A.Ş.

Share transfer agreement has signed as of 1 October 2018 in order to transfer 51% shares of ULAK Haberleşme A.Ş. which have fully owned by SSTEK Savunma Teknolojileri A.Ş. New capital structure is as follows; 51% ASELSAN Elektronik Sanayi ve Ticaret A.Ş., 49% SSTEK Savunma Teknolojileri A.Ş. Since, Extraordinary General Assembly has not held the meeting for share transfer, the entity has not included to consolidation process.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

Even though the Company has voting rights less than a majority, if it has ability to manage the operation of the investee unintentionally, then the Group assess that it has control over that investee. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- comparison of voting rights of the Group and the others,
- potential voting rights held by the Group, and others,
- rights arising from contractual arrangements; and
- any additional facts and circumstances that indicate the Group has, or does have, the current ability to direct the relevant activities at the time that decisions need to be made (including voting patterns at previous shareholders' meeting).

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Each item of profit or loss and other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to align with the Group accounting policies and the Group's accounting policies.

All intragroup balances, equity, income and expenses, profits and losses and cash flows relating to transactions between members of the Group are eliminated during consolidation.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

Joint Ventures

The details of the Group's interests in joint ventures as of 31 December 2018 and 2017 are as follows:

			Group's proportion of ownership and voting power held (%)	
Joint Ventures	**Principal Activity**	**Country of incorporation and operation**	**2018**	**2017**
Hassas Optik Sanayi ve Ticaret Anonim Şirketi ("ASELSAN Optik")	Sensitive optic technologies	Turkey	50	50
Mikro Nano Teknolojileri Sanayi ve Ticaret Anonim Şirketi ("ASELSAN Bilkent")	Production of micro and nano sized devices which contains semi-conductive and similar technological materials	Turkey	50	50
International Golden Group ("IGG") ASELSAN Integrated Systems LLC ("IGG ASELSAN")	Production, integration, sales and technical maintenance service of high technology product	United Arab Emirates	49	49
Kazakhstan ASELSAN Engineering LLP ("ASELSAN Kazakistan")	Production, sales and technical maintenance service of electronic and electro-optic devices and systems	Kazakhstan	49	49
ASELSAN Middle East PSC ("ASELSAN Ürdün")	Production, sales and technical maintenance service of electronic and electro-optic devices and systems	Jordan	49	49
Saudi Arabian Defense Electronics Corporation ("SADEC LLC")	Production and sale of radar, electronics, warfare and electro-optic products	Saudi Arabia	50	50
YİTAL Mikroelektronik Sanayi ve Ticaret Anonim Şirketi ("YİTAL")	Production of micro and nano-sized devices containing semiconductor	Turkey	51	51
BARQ QSTP LLC ("BARQ QSTP LLC")	Command and control systems, thermal and night vision camera, crypto, remote-controlled weapon systems	Qatar	48	--
Teknohab Teknoloji Geliştirme Bölgesi Yönetici Anonim Şirketi ("TEKNOHAB")	To create investment opportunities in technology intensive areas, provide job opportunities to researchers and skilled people, help technology transfers and facilitate foreign capital to enter our country that will enable high technology	Turkey	30	--

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

ASELSAN Optik has established on March 2014 and it is owned by the Company and Sivas Optik Malzemeleri Sanayi ve Ticaret Anonim Şirketi with 50 percent ownership each. The production of precision optical technology for ultraviolet, visible and near infrared bands get designed and produced abroad by the Company fulfilled by the facility established in Sivas. Construction of optics production facility and setup of production machines have completed in February 2016. Manufacturing plant has started mass production in March 2016.

ASELSAN Bilkent has established in November 2014 and it is owned by the Company and İhsan Doğramacı Bilkent University with 50 percent ownership each. Construction of the company's facility have completed in January 2016. It has established to produce all varieties of semi-conductive and micro and nano sized devices containing similar technological materials. The facility was opened in the fourth quarter of 2016.

SADEC LLC corporation has established to manufacture and sell radar, electronic, warfare and electro-optic products in Saudi Arabia on 27 December 2016; 50 percent of the share belongs to the Company and 50 percent belongs to TAQNIA DST. It is planned that the necessary infrastructure and production facility investments of the company will be completed within two years. The company titled YİTAL has been established in order to operate in the field of micro and nano-sized devices containing semiconductor and similar technological materials. 51 percent of the company belongs to ASELSAN whereas, TÜBİTAK and Presidency of Defence Industries hold 29 percent and 20 percent stake respectively. The entity's establishment was registered on 4 October, 2017.

The company titled "BARQ QSTP LLC" was established in order to operate with command and control systems, thermal and night vision camera, crypto, remote-controlled weapon systems. 51% of the new company belongs to BARZAN HOLDINGS, 48% belongs to ASELSAN and 1% belongs to SSTEK. The entity's establishment was registered on October 3rd, 2018.

Teknohab Teknoloji Geliştirme Bölgesi Yönetici Anonim Şirketi ("TEKNOHAB") has established in order to create investment opportunities in technology intensive areas, to provide job opportunities to researchers and skilled people, to help technology transfers and to facilitate foreign capital to enter our country that will enable high technology in which the entity is owned 30% by ASELSAN, %30 by TUSAŞ, 30% HAB Uzay ve Havacılık İhtisas Organize Sanayi Bölgesi and 10% Gazi University. The entity's establishment was registered on November 8th, 2018.

The Group's joint ventures; IGG ASELSAN and ASELSAN Kazakhstan has established in 2011, ASELSAN Jordan has established in 2012 and ASELSAN Optik and ASELSAN Bilkent which were established in 2014, and SADEC LLC has established in 2016, were included in the condensed consolidated interim financial statements by using the equity method. Since BARQ QSTP LLC and TEKNOHAB have not started to operate yet, there is no consolidation effect on the Group's financial statements.

2.2 Comparative Information and Restatement of Prior Period Consolidated Financial Statements

In order to determine the financial position and performance trends, the Group's consolidated financial statements are presented comparatively with the corresponding figures. For the purpose of having consistency with the current term's presentation of consolidated financial statements, comparative information is reclassified and significant differences are explained if necessary. The group has applied TFRS 15 Revenue from Contracts with Customers and TFRS 9 Financial Instruments, that are effective from 1 January 2018 to prior periods retrospectively with the date of initial application of 1 January 2015, in accordance with the transition requirements of the respective standards and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

a) The following tables summarise the impacts of adopting TFRS 15 and TFRS 9 on the Group's annual consolidated statement of financial position and statement of profit or loss and other comprehensive income as at and for the years ended 31 December 2016 and 31 December 2017:

		TFRS 15		TFRS 9	
31 December 2016	**As Previously Reported**	**Effect of Change in Measurement**	**Effect of Significant Financing Component**	**Effect of Impairment**	**Restated 31 December 2016**
ASSETS					
Current Assets	**5.062.438**	**233.991**	**--**	**(19.060)**	**5.277.369**
Trade Receivables	2.039.695	--	--	(19.060)	2.020.635
Inventories	1.187.398	226.295	--	--	1.413.693
Prepaid Expenses	380.150	7.696	--	--	387.846
Non-Current Assets	**3.535.423**	**60.870**	**202.925**	**589**	**3.799.807**
Trade Receivables	385.592	38.269	147.089	--	570.950
Intangible Assets	697.131	11.972	--	--	709.103
Deferred Tax Assets	384.573	10.629	55.836	589	451.627
TOTAL ASSETS	**8.597.861**	**294.861**	**202.925**	**(18.471)**	**9.077.176**
LIABILITIES					
Current Liabilities	**2.235.678**	**337.375**	**426.271**	**--**	**2.999.324**
Trade Payables	1.052.907	337.375	--	--	1.390.282
Deferred Income	370.581	--	426.271	--	796.852
Non-Current Liabilities	**2.670.716**	**--**	**--**	**(16.115)**	**2.654.601**
Long Term Provisions	203.133	--	--	(16.115)	187.018
EQUITY	**3.691.467**	**(42.514)**	**(223.346)**	**(2.356)**	**3.423.251**
Equity Attributable to Equity Holders of the Parent	**3.691.004**	**(42.514)**	**(223.346)**	**(2.356)**	**3.422.788**
Retained Earnings	997.649	(92.132)	(136.807)	(6.531)	762.179
Net Profit	795.191	49.618	(86.539)	4.175	762.445
TOTAL LIABILITIES AND EQUITY	**8.597.861**	**294.861**	**202.925**	**(18.471)**	**9.077.176**

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PROFIT OR LOSS					
Revenue	3.768.116	122.289	(39.837)	--	3.850.568
Cost of Sales (-)	(2.845.098)	(60.266)	--	5.219	(2.900.145)
GROSS PROFIT	**923.018**	**62.023**	**(39.837)**	**5.219**	**950.423**
OPERATING PROFIT	**810.003**	**62.023**	**(39.837)**	**5.219**	**837.408**
OPERATING PROFIT BEFORE FINANCE EXPENSE	**818.953**	**62.023**	**(39.837)**	**5.219**	**846.358**
Financial Income/Expense	(84.930)	--	(68.337)	--	(153.267)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**734.023**	**62.023**	**(108.174)**	**5.219**	**693.091**
Tax Income from Continuing Operations	61.178	(12.405)	21.635	(1.044)	69.364
- Deferred Tax Income	62.726	(12.405)	21.635	(1.044)	70.912
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**795.201**	**49.618**	**(86.539)**	**4.175**	**762.455**
Earnings per 100 Shares (in full kuruş)	79,52	4,96	(8,64)	0,42	76,24
Total Comprehensive Income	**892.731**	**49.618**	**(86.539)**	**4.175**	**859.985**

		TFRS 15		TFRS 9	
31 December 2017	**As Previously Reported**	**Effect of Change in Measurement**	**Effect of Significant Financing Component**	**Effect of Impairment**	**Restated 31 December 2017**
ASSETS					
Current Assets	**5.798.135**	**280.788**	**--**	**(20.536)**	**6.058.387**
Trade Receivables	1.601.765	--	--	(20.536)	1.581.229
Inventories	1.944.389	277.242	--	--	2.221.631
Prepaid Expenses	654.137	3.546	--	--	657.683
Non-Current Assets	**5.120.082**	**164.082**	**295.842**	**203**	**5.580.209**
Trade Receivables	1.198.294	153.101	223.561	--	1.574.956
Intangible Assets	868.997	22.219	--	--	891.216
Deferred Tax Assets	589.529	(11.238)	72.281	203	650.775
TOTAL ASSETS	**10.918.217**	**444.870**	**295.842**	**(20.333)**	**11.638.596**
LIABILITIES					
Current Liabilities	**2.671.635**	**420.431**	**599.647**	**--**	**3.691.713**
Trade Payables	1.369.800	420.431	--	--	1.790.231
Deferred Income	300.459	--	599.647	--	900.106
Non-Current Liabilities	**3.198.374**	**--**	**--**	**(19.614)**	**3.178.760**
Long Term Provisions	231.281	--	--	(19.614)	211.667

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31 December 2017	As Previously Reported	Effect of Change in Measurement	Effect of Significant Financing Component	Effect of Impairment	Restated 31 December 2017
EQUITY	**5.048.208**	**24.439**	**(303.805)**	**(719)**	**4.768.123**
Equity Attributable to Equity Holders of the Parent	**5.047.666**	**24.439**	**(303.805)**	**(719)**	**4.767.581**
Retained Earnings	1.687.436	(42.514)	(223.346)	(2.356)	1.419.220
Net Profit	1.387.770	66.953	(80.459)	1.637	1.375.901
TOTAL LIABILITIES AND EQUITY	**10.918.217**	**444.870**	**295.842**	**(20.333)**	**11.638.596**
PROFIT OR LOSS					
Revenue	5.360.279	31.775	20.199	--	5.412.253
Cost of Sales (-)	(4.005.346)	57.045	--	2.023	(3.946.278)
GROSS PROFIT	**1.354.933**	**88.820**	**20.199**	**2.023**	**1.465.975**
OPERATING PROFIT	**1.173.065**	**88.820**	**20.199**	**2.023**	**1.284.107**
OPERATING PROFIT BEFORE FINANCE EXPENSE	**1.191.669**	**88.820**	**20.199**	**2.023**	**1.302.711**
Financial Income/Expense	(20.646)	--	(117.103)	--	(137.749)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**1.171.023**	**88.820**	**(96.904)**	**2.023**	**1.164.962**
Tax Income from Continuing Operations	216.826	(21.867)	16.445	(386)	211.018
- Deferred Tax Income	218.862	(21.867)	16.445	(386)	213.054
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**1.387.849**	**66.953**	**(80.459)**	**1.637**	**1.375.980**
Earnings per 100 Shares (in full kuruş)	138,79	6,69	(8,04)	0,16	137,60
Total Comprehensive Income	**1.432.241**	**66.953**	**(80.459)**	**1.637**	**1.420.372**

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The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below.

Type of product/service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Product sales	Customers obtain control of products when the goods are delivered to and have been accepted at their premises. Invoices are generated and revenue is recognized at that point in time. Invoices are usually payable within 1 year.	Under TAS 18, revenue for these contracts or orders was recognized when a reasonable estimate of the returns could be made, provided that all other criteria for revenue recognition were met. If a reasonable estimate could not be made, then revenue recognition was deferred until the return period lapsed or a reasonable estimate of returns could be made. There has been no significant impact in the financial statements resulting from the sale of products due to the application of TFRS 15 accounting policies.
Sales from long term contracts	Long term contracts include the design, production integration and delivery of a product or a group of products. Design is available for the customer and customer can benefit from design on its own or together with other readily available resources. Whether the client has the intellectual and industrial property rights to the design are specified in the contracts. Design creates a customer specific asset with no alternative use to the Group. Production and integration is to make the designed product ready for economic benefit for the customer. It is clearly stated in the contracts whether the Group has a legally enforceable right to payment for performance completed to date. The contract may include an advance payment. Advance payments help to ensure the financing of the Group to meet its obligations. The Group's long term contracts may include technology acquisition, training, maintenance-repair, and spare parts delivery obligations other than design and production. Performance obligations that do not meet the criteria for over time revenue recognition are accounted for point in time using output method.	Under TAS 11 "Construction contracts" where the outcome of a contract could be estimated reliably, revenue was recognised over the the contract term. The Group used the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion was measured by the reference to the contracts cost incurred up to the reporting date as a percentage of total estimated cost for each contract. For long term contacts, TFRS15 had a significant impact on the Group's accounting policies. In long-term contracts, performance obligations are classified as design, production and other. Other performance obligation consists of acquisition of technology, training, maintenance-repair, delivery of spare parts. Transaction prices include a significant financing component due to the long term nature of contracts and the inclusion of advance payments. The timing of payments provides a significant benefit to the customer or business by financing the transfer of goods or services to the customer. The performance obligations that meet the over time revenue recognition criteria are measured by the input method and are accounted for by the percentage of completion method. If a performance obligation does not meet the over time criteria, it is accounted for at a point in time. Revenue is recognized when the Customer takes control of the promised asset. TFRS 15 has significant effects for long term contracts for two main reasons: a) Changes on methods of recognition of revenue With the TFRS 15, it has been assessed that some of the performance obligations of these contracts do not meet the over time accounting criteria, and revenue is recognized at a point in time and with the output method. The impact of this change on the financial statements is presented in the note 2.2 a. b) Significant financing component Under TFRS 15, for long term contracts involving an important financing component, when the contracted goods or services are transferred, the contract price is adjusted to reflect the cash selling price. The impact of this change on the financial statements is presented in the note 2.2 a.

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2.3 Accounting Policies, Changes in Accounting Estimates and Errors

Significant changes in accounting policies and errors are applied retrospectively and prior period financial statements are restated, changes in accounting estimates are reflected to the financial in current period profit/loss.

When change in estimate in accounting policies are related with only one period, changes are applied on the current period but if the estimated changes are for the following periods, changes are applied both on the current and following periods prospectively.

2.4 New and Revised Turkish Accounting Standards

Standards Issued But Not Yet Effective and Not Early Adopted as of 31 December 2018

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

TFRS 16 Leases

On April 2018, Public Oversight Accounting and Auditing Standarts Authority ("POASA") has issued the new leasing standard which will replace TAS 17 Leases, TFRSI 4 Determining Whether an Arrangement Contains a Lease, TASI 15 Operating Leases – Incentives, and TASI 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to TAS 40 Investment Properties. TFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts TFRS 15 Revenue from Contracts with Customers. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRS 16.

Amendments to TFRS 9 - Prepayment features with negative compensation

On December 2017, POASA has issued amendments to TFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of TFRS 9. Under TFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TFRS 9.

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Amendments to TAS 28- Long-term Interests in Associates and Joint Ventures

In December 2017, POASA has issued amendments to TAS 28 to clarify that entities also apply TFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies TFRS 9 to such long-term interests before it applies related paragraphs of TAS 28. In applying TFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying TAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TAS 28.

TFRSI 23 – Uncertainty Over Income Tax Treatments

On May 2018, POASA issued TFRSI 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. TAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. TFRSI 23 provides requirements that add to the requirements in TAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRSI 23.

The revised Conceptual Framework

The revised Conceptual Framework issued on 25 October 2018 by POASA. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing TFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no TFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards.

The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no TFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

TASB issued Annual Improvements to TFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to TFRSs will have significant impact on its consolidated financial statements.

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The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (TASB) but not issued by POASA

The following standards, interpretations and amendments to existing TFRS standards are issued by the TASB but these standards, interpretations and amendments to existing TFRS standards are not yet adapted/issued to TFRS by the POASA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the TASB but not yet issued by the POASA are referred to as TFRS or TAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

Annual Improvements to TFRSs 2015-2017 Cycle

Improvements to TFRSs

TFRS 3 Business Combinations and TFRS 11 Joint Arrangements

TFRS 3 and TFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

TAS 12 Income Taxes

TAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

TAS 23 Borrowing Costs

TAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

Amendments to TAS 19 - Plan Amendment, Curtailment or Settlement -

On 15 January 2019, POASA issued Plan Amendment, Curtailment or Settlement (Amendments to TAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TAS 19.

TFRS 17 –Insurance Contracts

On 16 February 2019, POASA issued TFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. TFRS 17 replaces TFRS 4, which was brought in as an interim Standard in 2004. TFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies.

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TFRS 17 solves the comparison problems created by TFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. TFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier.

The Group does not expect that application of TFRS 17 will have significant impact on its consolidated financial statements.

Definition of a Business (Amendments to TFRS 3)
On 22 October 2018, the TASB issued amendments to the guidance in TFRS 3, "Business Combinations', that revises the definition of a business. To be considered a business, an acquisition would have to include an input and substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). This amendments have an effective date of 1 January 2020.

Definition of Material (Amendments to TAS 1 and TAS 8)
The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in TFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all TFRS Standards. This amendments have an effective date of 1 January 2020 but companies can apply it earlier.

Resolutions promulgated by the Public Oversight Authority
In addition to those mentioned above, the POASA has promulgated the following resolutions regarding the implementation of Turkish Accounting Standards. The resolutions shall become effective for the annual reporting periods beginning after 31 December 2018.

2018-1 Accounting of Combinations under Common Control
In accordance with the resolution promulgated on 17 October 2018, the resolution promulgated in 2013 was revised. With this decision, using the pooling of interest method will be continued and alson in order to ensure the uniformity of accounting policies regarding combination under common control , descriptive provisions have been introduced. This resolution did not have any impact on the consolidated financial statements of the Group.

2.5 Summary of Significant Accounting Policies

Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity').

a. A person or a close member of that person's family is related to a reporting entity if that person:

i. has control or joint control over the reporting entity;
ii. has significant influence over the reporting entity;
iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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b. A person or a close member of that person's family is related to a reporting entity if that person:

i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
iii. Both entities are joint ventures of the same third party.
iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
v. The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled or jointly controlled by a person identified in (a).
vii. A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Transaction with related party is a transfer of resources, services or liabilities between the reporting entity and the related party, disregarding it is with or without a value.

Revenue

TFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.

It replaces existing revenue recognition guidance, including TAS 18 Revenue, TAS 11 Construction Contracts and TFRYK 13 Customer Loyalty Programmes.

General model for revenue recognition

TFRS 15 requires revenue recognition for all contracts with customers to follow the five-step approach to revenue recognition.

Step 1: Identifying the contract with customers

A contract exists only if it is legally enforceable, the collection of the consideration is probable, the rights to goods and services and payment terms can be identified, the contract has commercial substance; and the contract is approved and the parties are committed to their obligations.

If either contracts were negotiated as a single commercial package, or consideration in one contract depends on the other contract or goods or services (or some of the goods or services) are a single performance obligation the Group accounts the contracts as a single contract.

Step 2: Identifying the performance obligations

Group defines 'performance obligation' as a unit of account for revenue recognition. The Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either a good or service that is distinct; or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

A contract may contain promises to deliver a series of distinct goods or services that are substantially the same. At contract inception, an entity determines whether the series of goods or services is a single performance obligation.

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Step 3: Determining the transaction price

In order to determine the transaction price, the Group assesses how much consideration it expects to be entitled to by fulfilling the contract. In arriving at the assessment, the Group considers variable elements of consideration, as well as the existence of a significant financing component.

Significant financing component

The Group revises the promised amount of consideration for the effect of a significant financing component to the amount that reflects what the cash selling price of the promised good or service.

As a practical expedient, the Group does not adjust the transaction price for the effects of a significant financing component if, at contract inception, the entity expects the period between customer payment and the transfer of goods or services to be one year or less. In cases where advance for the services are received and the payment scheme is broadly aligned with the Group's performance throughout the period, the Group concludes that the period between performance and payment is never more than 12 months, therefore the expedient is applied.

Variable consideration

The Group identifies items such as price concessions, incentives, performance bonuses, completion bonuses, price adjustment clauses, penalties, discounts, credits, or similar items may result in variable consideration if there is any in a customer contract.

Step 4: Allocating the transaction price to performance obligations

If distinct goods or services are delivered under a single arrangement, then the consideration is allocated based on relative stand-alone selling prices of the distinct goods or services (performance obligations). If directly observable stand-alone selling prices are not available, the total consideration in the service contracts is allocated based on their expected cost plus a margin.

Step 5: Revenue Recognition

The Group recognises revenue over-time if any of the following conditions is met:

- customer simultaneously receives and consumes the benefits as the entity performs, or
- the customer controls the asset as the entity creates or enhances it, or
- Group's performance does not create an asset for which the entity has an use; and alternative there is a right to payment for performance to date.

For each performance obligation that is satisfied over time, an entity selects a single measure of progress, which depicts the transfer of control of the goods or services to the customer. The Group uses a method that measures the work performed reliably.

The Group uses cost incurred to measure the progress towards to completion of the project where the input method is used and uses units transferred to measure the progress towards to completion of the project where the output method is used.

If a performance obligation is not satisfied over time, then the Group recognise revenue at the point in time at which it transfers control of the good or service to the customer.

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The Group recognises a provision in accordance with TAS 37 "Provisions, Contingent Liabilities and Contingent Assets" when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits.

Contract modifications

The Group recognises a contract modification as a separate contract if the modification results in a promise to deliver additional goods or services that are distinct and an increase in the price of the contract by an amount of consideration that reflects the entity's stand-alone selling price of those goods or services adjusted to reflect the circumstances of the contract.

Sözleşmede yapılan değişiklik, ayrı mal veya hizmet yaratmazsa, işletme, ilk sözleşme ile birlikte, ek mallar veya hizmetler ilk sözleşmenin bir parçasıymış gibi, birleşik olarak muhasebeleştirir.

If the goods or services are distinct, then the entity accounts for the modification as if it were a termination of the existing contract and the creation of a new contract. If the modification to the contract does not add distinct goods or services, then the entity accounts for it on a combined basis with the original contract, as if the additional goods or services were part of the initial contract. Under TFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Inventories

Inventories are stated at the lower of cost and net realizable value. Inventories are valued on the basis of the project according to the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to realize sales. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of profit or loss in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

Property, Plant and Equipment

Land held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

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Any increase in the fair value arising on the revaluation of such land is recognized in gain on revaluation of property.
A decrease in the carrying amount arising on the revaluation of such land is recognized in profit or loss to the extent that it exceeds the balance in the accumulated in the equity, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve inequity is transferred directly to retained earnings.

Land is not depreciated. Property, plant and equipment other than lands are carried at cost less accumulated depreciation and any accumulated impairment losses.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Borrowing cost is capitalized when the assets took a substantial period of time to get ready for their intended use or sale.

These assets are classified to property, plant, and equipment when the assets are completed and ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. If the ownership of the finance lease is not obvious at the end of the leasing period, it is depreciated over their expected useful lives or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of Property, Plant and Equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The maintenance and repair expenses arising from changing any part of the fixed assets can be realized if the economic benefit of the asset is increased. All other expenses are recognized in the expense accounts in the consolidated profit and loss when they are realized.

The useful lives of Property, Plant and Equipment are as follows:

	Useful life
Buildings	5-50 years
Land improvements	7-25 years
Machinery and equipment	2-35 years
Motor vehicles	5-18 years
Furniture and fixtures	2-50 years
Other tangible assets	4-20 years

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Intangible Assets

Intangible assets acquired

Intangible assets acquired are recognized at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization methods are reviewed at the end of each annual reporting period, with the effect of any changes in accounting estimates for on a prospective basis.

Trademarks and Licenses

Acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

Internally generated intangible assets – Research and Development

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale,
- The intention to complete the intangible asset and use or sell it,
- The ability to use or sell the intangible asset,
- How the intangible asset will generate probable future economic benefits,
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The useful lives of the intangible assets are as follows:

	Useful life
Rights	2-15 years
Computer software	2-11 years
Development expenditures	1-5 years
Leasehold improvements	2-11 years

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Impairment of Assets

Non-derivative Financial Assets

For financial assets that are not recognized in profit or loss, including shares in investments accounted for by equity method, it is assessed if there is objective evidence of impairment at each reporting period.

Objective evidence of impairment in financial assets includes the sentences below.

- failure to fulfill the commitment or obligation by debtor;
- depending on the circumstances that the Group may not take into consideration;
- the possibility of bankruptcy of the debtor or the issuer;
- arise of a negative status in debtor or issuer's payment status;
- elemination of a marketable asset from the active market or
- observable information indicating a measurable decrease in expected cash flows from a group of financial assets.

The fact that the fair value of an investment based on stocks falls permanently below the cost price for an important period or for a long period of time is also an objective evidence of impairment. The Group considers a 20 percent decline to be significant and a 12-month period as long-term and permanent.

Available-for-sale financial assets

Impairment losses on available for sale financial assets are recognized by reclassfying the losses accumulated in the gain on revaluation of available for sale financial assets reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in profit or loss.

If the fair value of an impaired available for sale debt security subsequently increases and the increase can be related objectively to an event occuring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss. Impairment loss is recognized in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

If there is an increase in the fair value of a debt instrument classified as impaired or available for sale and if that increase is recognized as reliably correlated to an event occurred after the impairment loss is recognized, withdrawal of impairment loss is accounted for in profit or loss, otherwise in comprehensive income. Impairment losses recognized in profit or loss by associating with investments in equity instruments classified as available-for-sale cannot be witdrawn through profit or loss.

Equity Accounted Investees

An impairment loss in respect of an equity accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favorable change in the estimates used to determine the recovarable amount.

Borrowing Cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until

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such time as the assets are substantially ready for their intended use or sale.
When the Group borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

Financial Instruments

TFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces TAS 39 Financial Instruments: Recognition and Measurement.

i. Classification – Financial assets

TFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

TFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value Through Other Comprehensive Income ("FVOCI") and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing TAS 39 categories of held to maturity, loans and receivables and available for sale. Financial investments classified as "Available for Sale Financial Assets" in accordance with TAS 39 are classified as FVOCI in accordance with TFRS 9.

Under TFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Group does not have any embedded derivatives as of reporting date.

ii. Impairment – Financial assets and contract assets

TFRS 9 replaces the 'incurred loss' model in TAS 39 with a forward-looking 'expected credit loss' (ECL) model. This requires considerable judgement about how changes in economic factors affect ECLs, which is determined on a probability-weighted basis. The new impairment model applies to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under TFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement (simplified approach) is always applied to trade receivables and contract assets without a significant financing component.

iii. Classification – Financial liabilities

TFRS 9 largely retains the existing requirements in TAS 39 for the classification of financial liabilities.

However, under TAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under TFRS 9 these fair value changes are generally presented as follows:

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The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of change in the fair value is presented in profit or loss.

The Group has not identified any liability for the fair value recognized in profit or loss and has no objective purpose.

iv. Hedge accounting

When initially applying TFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of TAS 39 instead of the requirements in TFRS 9. During selection of the accounting policies, TFRS 9 gives option of continuing with TAS 39 hedge accounting principles and deferring hedge accounting rules in accordance with TFRS 9. The Group does not apply hedge accounting.

Capital

Common Stocks

Common stocks are classified as equity. Incremental costs that can be directly attributable to the issue of ordinary shares are recognised as a deduction from equity considering the tax effect.

Financial Lease Operations

Leasing- the group as lessor

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

Finance lease receivables are recognized at the amount of the Group's net investment in the leases. Finance lease income is recognized allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Start-up costs for the realization and optimisation of the operational lease agreement are added to the cost of the leased asset and amortized through the leased time on a straight line basis method.

Foreign Currency Transactions

Foreign currency transactions and balances

The financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates as its "functional currency". For the purpose of the consolidated financial statements, the operational results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation for consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in foreign currencies (other than TL) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items (including advances) denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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Exchange differences are accounted for the period in profit or loss in which they are incurred except for the following cases:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

Earnings per Share

Earnings per share, disclosed in the consolidated statement of profit or loss, are determined by dividing the net income attributable to equity holders of the parent by the weighted average number of shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the weighted average number of shares is computed by taking into consideration of the retrospective effects of the share distributions.

Events After the Reporting Period

Events after the reporting periods include all events that take place between the balance sheet date and the date of authorization for the release of the financial statements, although the events occurred after the announcements related to the net profit/loss or even after the public disclosure of other selective financial information.

In the case that events occur requiring an adjustment, the Group adjusts the amount recognized in its consolidated financial statements to reflect the adjustments after the balance sheet date.

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties related with the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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Operating Segments

Operations of the Company are technical system design, development, production and after-sales services for various products for defense industry. One kind of operating segment has occurred in consequence of similarities between methods that are used for products, quality of services and processes, client's type and class, and distribution or presentation of products. It is not required to disclose segment reporting for the consolidated subsidiaries, since revenue profit/loss and assets are below 10 percent of consolidated amounts.

Government Grants and Incentives

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Taxes Calculated on the Basis of the Company's Earnings

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Tax, provided that it is not related with a transaction directly recognized in equity, is classified in the statement of profit or loss. Otherwise, tax is recognized under equity.

Employee Benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per TAS 19 "Employee Benefits" ("TAS 19").

The retirement benefit obligation recognized in the consolidated financial statements represents the present value of the defined benefit obligation.

The actuarial gains and losses are recognized in other comprehensive income.

Dividend and bonus plans

The Group recognizes a liability and an expense for bonuses and dividend, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Group recognizes the cost of providing additional retirement bonuses to employees who have completed 20 years of service and earned the right to retirement benefits. In 26 November 2015, according Board of Directors' resolution numbered 869/6c, the Company has decided to terminate payment of retirement bonus employees worked for 20 years for the Company and is qualified pensioner, beginning from 30 July 2016. These compensations are deducted from the net present values of the unrealized liability amounts and are recognized in the accompanying consolidated financial statements.

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Statement of Cash Flows

Current period statement of cash flows is categorized and reported as operating, investing and financing.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Non-Current Assets Held for Sale

Non-current assets are classified as "assets held for sale" when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. The assets can be a part of the Entity, disposal group as a single fixed asset.

2.6. Critical Accounting Judgments and Estimates

Critical judgments in applying the Group's accounting policies

In the process of applying the accounting policies, which are described in note 2.5, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements:

Deferred tax

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized.

The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then provision is set for some portion of or all of the deferred tax assets (Note 27).

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Liabilities with respect to employee benefits

The Group makes various assumptions on discount, inflation rate, wage increase rate, the probability of quitting voluntarily for calculating provisions for employee benefits and retirement pays (Note 17).

Useful lives of tangible and intangible assets

The Group amortizes the non-current assets based on the useful lives of those assets stated in the accounting policies (Note 11-12).

Escalation

As of the reporting dates, the amounts of the projects subject to escalation are calculated with respect to the provisions of the contracts and estimated in accordance with TFRS 15 "Revenue from Contracts with Customers".

Provision for guarantee expenses

The Group calculates provision, according to the budgeted estimations for specific parts of the sales under the scope of warranty that needs specific guarantee calculations, and according to the realizations in previous years for the remaining part of the sales (Note 15).

Development Expenses

As of reporting dates, the Management assess the recoverability of the expenses regarding the Group's development activities. These expenses are started to be amortized with respect to their useful lives when their development phases are completed and it becomes probable that there is an associated economic benefit. When the development phase is completed and no economic benefit is foreseen, the related expenses are recognized in consolidated income statement (Note 12).

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3. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash	153	153
Bank		
-Time deposit	2.987.934	1.100.402
-Demand deposit	96.981	161.170
Other	2.320	28
Cash and cash equivalents on the cash flow statement	**3.087.388**	**1.261.753**
Interest income accruals	28.303	1.151
	3.115.691	**1.262.904**

As of 31 December 2018, the Group has time deposits denominated in foreign currencies with maturities between January-February 2019 (31 December 2017: January-February 2018), with the interest rates between 2 percent and 5 percent (31 December 2017: 1,85 percent to 5,01 percent) amounting to TL 253.662 (31 December 2017: TL 942.197) in several banks.

As of 31 December, 2018, the Group has time deposits denominated in TL terms with maturities between January-February 2019 (31 December 2017: January-February 2018) with the interest rates between 18,5 percent and 23,5 percent (31 December 2017: 14,25 and 15,75 percent amounting to TL 2.734.272 (31 December 2017: TL 158.205 in several banks.

4. INTERESTS IN OTHER ENTITIES

a) Subsidiaries

Details of the Group's material subsidiaries as of 31 December are as follow:

			Group's proportion of ownership and voting power held (%)		
Name of Subsidiary	Place of incorporation and operation	Currency	31 December 2018	31 December 2017	Principal Activity
ASELSANNET	Turkey	TL	100	100	Communication systems
ASELSAN Baku	Azerbaijan	AZN	100	100	Marketing and sales of group products
Mikro AR-GE	Turkey	TL	85	85	R&D on microelectronic projects
ASELSAN Malaysia	Malaysia	MYR	100	100	Remote controlled weapon systems
ASELSAN KONYA	Turkey	TL	51	--	Weapons and weapon systems

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Composition of the Group

Explained in Note 1.

Change in the Group's ownership interest in a subsidiary:

Change in the Group's subsidiaries ownership is explained in Note 2.1

b) Joint Ventures

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other ventures are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

SADEC LLC is consolidated since 31 March 2017 and YİTAL is consolidated since 31 December 2017 by using equity method.

Since BARQ QSTP LLC and TEKNOHAB has not started their operations yet, there is not consolidation effect realized in Group's financial statements.

5. RELATED PARTY DISCLOSURES

Transactions between the Company and its subsidiaries which are related parties of the Company have been eliminated on consolidation, therefore have not been disclosed in this note.

The trade receivables from related parties generally arise from sales activities with maturities of 1-2 years.

The trade payables to related parties generally arise from the purchase activities with maturities of 1-9 months.

Total amount of salaries and other short-term benefits paid for key management for the period ended 31 December 2018 is TL 14.863 (31 December 2017: TL 9.629).

Balance of the loan borrowed from Presidency of Defence Industries for the period ended 31 December 2018 is TL 87.511 (Note 30) (31 December 2017: TL 129.831).

The details of transactions between the Group and other related parties are disclosed in the following pages.

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	31 December 2018				
	Receivables				
	Short-term			Long-term	
Balances with related parties	**Trading**	**Prepaid Expenses**	**Other Receivables**	**Trading**	**Prepaid Expenses**
Main shareholder					
TSKGV	21	--	--	--	--
Other shareholder					
Axa Sigorta Anonim Şirketi (''Axa Sigorta'')	--	--	--	--	--
Main shareholder's subsidiaries and associates					
Hava Elektronik Harp Sistemleri Mühendislik Ticaret Anonim Şirketi ("HAVELSAN EHSİM")	--	943	--	--	--
Hava Elektronik Sanayi ve Ticaret Anonim Şirketi ("HAVELSAN")	21.196	29.676	--	957	7.365
HAVELSAN Teknoloji Radar Sanayi ve Ticaret Anonim Şirketi ("HTR")	--	19.592	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	26.112	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	22	35.564	--	--	4.806
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	53.509	10.808	--	374	--
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	78.034	92	--	61.748	--
Financial Instruments					
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	1.117	601	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	75.824	116.171	--	54.483	127.687
Joint ventures and its related parties					
ASELSAN Bilkent Mikro Nano	--	4.809	--	--	3.939
İhsan Doğramacı Bilkent Üniversitesi	--	7.533	--	--	--
ASELSAN Optik	2.726	34.985	--	--	--
IGG	37.245	--	--	8.552	--
IGG ASELSAN	1.934	1.534	--	--	--
ASELSAN Kazakistan	68.080	--	--	13.905	--
ASELSAN Ürdün	12.060	--	--	--	--
TÜBİTAK BİLGEM	--	5.965	--	--	139
TÜBİTAK-UME	--	623	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	15.664	506	--	79.122	--
TÜBİTAK SAGE Savunma Sanayii	28	16.064	--	5.245	11.997
TÜBİTAK UZAY TEKNOLOJİLERİ	--	--	--	--	--
Savunma Sanayi Başkanlığı ("SSB")	360.249	90	--	1.752.153	--
YİTAL	--	--	--	--	--
Ankaref Bilişim Teknolojileri Limited Şirketi ("ANKAREF")	--	--	24	--	--
ULAK	44.556	--	--	--	--
SADEC LLC	586	--	--	--	--
	772.851	**311.668**	**24**	**1.976.539**	**155.933**

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

31 December 2018				
Payables				
Short-term			Long-term	
Trading	Deferred Income	Other Payables	Trading	Deferred Income
--	--	--	--	--
--	--	60	--	--
5.769	--	--	--	--
55.460	--	--	4.040	--
4.415	--	--	--	--
14.524	--	--	--	--
37.086	--	--	--	--
25.257	70.957	--	208.410	20.270
51.732	114.454	--	16.127	242.424
6.027	--	--	--	--
50.722	118.359	--	23.632	20.690
2.595	--	--	--	--
3.499	--	--	--	--
14.056	--	--	--	--
--	--	--	--	--
--	--	--	--	--
89	1.785	--	--	--
2.404	--	--	--	--
10.259	--	--	--	--
13	--	--	--	--
11.015	9.029	--	--	--
56.256	--	--	--	660
722	--	--	--	--
241.789	196.167	--	1.365.760	1.382.961
--	--	--	--	--
--	--	--	--	--
--	--	--	--	2.155
222	--	--	--	--
593.911	**510.751**	**60**	**1.617.969**	**1.669.160**

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Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

	31 December 2017				
	Receivables				
	Short-term			Long-term	
Balances with related parties	**Trading**	**Prepaid Expenses**	**Other Receivables**	**Trading**	**Prepaid Expenses**
Main shareholder					
TSKGV	28	--	--	--	--
Other shareholder					
Axa Sigorta	--	--	--	--	--
Main shareholder's subsidiaries and associates					
HAVELSAN EHSİM	--	1.165	--	--	--
HAVELSAN	11.095	21.482	--	1.919	7.365
HTR	--	2.319	--	--	--
İŞBİR	2	12.878	--	--	1.683
NETAŞ	714	2.090	--	--	15.056
STM	55.650	7.577	--	193	--
TUSAŞ	65.044	92	--	101.521	--
Financial Instruments					
ASPİLSAN	--	1.235	--	--	--
ROKETSAN	32.335	787	--	72.303	124.686
Joint ventures and its related parties					
ASELSAN Bilkent Mikro Nano	--	215	--	--	4.405
İhsan Doğramacı Bilkent Üniversitesi	--	4.455	--	--	41
ASELSAN Optik	1.882	22.261	--	--	--
IGG	21.535	--	--	8.552	--
IGG ASELSAN	747	--	--	--	--
ASELSAN Kazakistan	52.547	--	--	14.015	--
ASELSAN Ürdün	24.545	--	--	9.610	--
TÜBİTAK BİLGEM	--	6.072	--	--	254
TÜBİTAK-UME	--	228	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	10.063	--	--	17.056	
TÜBİTAK SAGE Savunma Sanayii	--	9.699	--	6.566	11.997
TÜBİTAK UZAY TEKNOLOJİLERİ	--	--	--	--	--
SSB	184.440	--	--	853.944	
YİTAL	--	--	14	--	--
ANKAREF	--	--	20	--	--
SADEC LLC	214	--	--	--	--
	460.841	**92.555**	**34**	**1.085.679**	**165.487**

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(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

31 December 2017				
Payables				
Short-term			Long-term	
Trading	Deferred Income	Other Payables	Trading	Deferred Income
--	--	--	--	--
--	--	65	--	--
--	--	--	--	--
21.585	--	--	--	--
6.875	--	--	--	--
6.403	--	--	--	--
41.273	--	--	--	--
18.263	133.317	--	144.705	60.871
68.319	65.629	--	64.381	285.669
8.901	--	--	--	--
34.171	18.969	--	11.473	52.520
1.890	--	--	--	--
6.135	--	--	--	--
12.436	--	--	--	--
--	--	--	--	--
916	--	--	--	--
14.884	956	--	--	--
--	--	--	--	--
3.770	--	--	--	--
3	--	--	--	--
--	1.023	--	14.506	13.631
11.000	--	--	--	--
--	--	--	--	--
255.446	466.943	--	813.311	1.048.655
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
512.270	**686.837**	**65**	**1.048.376**	**1.461.346**

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Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

	1 January-31 December 2018	1 January-31 December 2017
Transactions with related parties	**Purchases**	**Purchases**
Main Shareholder		
TSKGV	766	672
Main shareholder's subsidiaries and associates		
NETAŞ	132.739	105.512
STM	9.428	10.334
İŞBİR	47.964	29.776
HTR	36.305	15.745
MERCEDES-BENZ TÜRK ANONİM ŞİRKETİ ("MERCEDES")	4	--
TUSAŞ	2.548	738
HAVELSAN	70.976	22.630
HAVELSAN EHSİM	5.568	41
Financial Instruments		
ROKETSAN	34.748	91.264
ASPİLSAN	24.412	15.655
Joint ventures and its related parties		
İHSAN DOĞRAMACI BİLKENT ÜNİVERSİTESİ	14.146	12.526
TÜBİTAK BİLGEM	28.585	9.055
TÜBİTAK-UME	200	184
TÜBİTAK SAGE SAVUNMA SANAYİİ	67.144	15.418
TÜBİTAK UZAY TEKNOLOJİLERİ	612	--
ANKAREF	--	405
ULAK	3.463	--
	479.608	**329.955**

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

	1 January-31 December 2018	1 January-31 December 2017
Transactions with related parties	**Sales**	**Sales**
Main Shareholder		
TSKGV	293	319
Main shareholder's subsidiaries and associates		
TUSAŞ	313.638	298.815
STM	528.564	358.910
HAVELSAN	8.742	1.324
HTR	1.679	611
HAVELSAN EHSİM	121	--
İŞBİR	--	2
NETAŞ	207	939
Financial Instruments		
ROKETSAN	132.613	59.188
ASPİLSAN	1.460	--
Joint ventures and its related parties		
IGG	5.505	2.758
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	113.347	51.947
TÜBİTAK SAGE SAVUNMA SANAYİİ	41	6.177
TÜBİTAK UZAY TEKNOLOJİLERİ	41	21
SSB	5.168.321	2.687.614
ULAK	81.302	--
	6.355.874	**3.468.625**

Transactions with related parties are generally related to the purchases and sales of goods and services related to projects under TFRS 15 "Revenue from Contracts with Customers".

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

6. TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

Details of the Group's trade receivables are as follows:

Short-term trade receivables	31 December 2018	(Restated) 31 December 2017
Trade receivables	2.291.660	1.113.644
Trade receivables from related parties (Note 5)	772.851	460.841
Notes receivable	7.602	6.744
Doubtful trade receivables	2.218	21.457
Allowance for doubtful trade receivables (-)	(2.218)	(21.457)
	3.072.113	**1.581.229**

Long-term trade receivables	31 December 2018	(Restated) 31 December 2017
Unbilled receivables from contracts with customers	756.215	418.963
Trade receivables	94.185	70.314
Unbilled receivables from contracts with customers -Related party (Note 5)	1.976.302	1.069.010
Trade receivables from related parties (Note 5)	237	16.669
	2.826.939	**1.574.956**

The movement for the Group's allowance for doubtful receivables is as follows:

	31 December 2018	(Restated) 31 December 2017
Opening balance	21.457	19.981
Provision for the period	--	1.476
Provisions no longer required	(19.239)	--
Closing balance	**2.218**	**21.457**

The sectorial distribution of trade receivables is as follows:

	31 December 2018	(Restated) 31 December 2017
Public sector	2.813.246	1.465.436
Private sector	1.935.259	928.008
Receivables from companies operating abroad	1.150.547	762.741
Total receivables	**5.899.052**	**3.156.185**

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Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

Receivables from public sector represent the receivables are due from the Ministry of Defense ("MOD") and other public entities. The Group's operations are based on contracts and no other collaterals are obtained from the customers.

b) Trade payables

Details of The Group's trade payables are as follows:

Short-term trade payables	31 December 2018	(Restated) 31 December 2017
Trade payables	1.624.670	1.123.688
Unearned revenue related to contracts with customers	325.838	152.376
Due to related parties (Note 5)	320.051	486.529
Unearned revenue related to contracts with customers -Related party (Note 5)	273.860	25.741
Other trade payables	4.164	1.897
	2.548.583	**1.790.231**

Long-term trade payables	31 December 2018	(Restated) 31 December 2017
Unearned revenue related to contracts with customers	150.294	213.639
Unearned revenue related to construction contracts in progress-Related party (Note 5)	1.617.969	1.048.376
Trade payables	20	--
	1.768.283	**1.262.015**

7. OTHER RECEIVABLES AND PAYABLES

a) Other receivables

Short-term other receivables	31 December 2018	31 December 2017
Receivables from tax office [1]	187.893	110.943
Deposits and guarantees given	1.391	1.378
Other receivables from related parties (Note 5)	24	34
Other [2]	14.809	406
	204.117	**112.761**

Long-term other receivables	31 December 2018	31 December 2017
Deposits and guarantees given	**764**	**661**

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Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

b) Other payables

Short-term other payables	31 December 2018	31 December 2017
Short-term other payables	2.347	1.352
Deposits and guarantees received	325	77
Short-term other payables to related parties (Note 5)	60	65
	2.732	**1.494**
Long-term other payables	**31 December 2018**	**31 December 2017**
Deposits and guarantees received	**106**	**105**

1 Mainly comprises Value Added Tax (VAT) returns and are expected to be offseted in the following periods.

2 Consists of project delay penalties which will be revoked to companies and blocked receivables due to Eximbank loan.

8. EQUITY ACCOUNTED INVESTMENTS

The Group's financial information for its shareholdings consolidated with equity method, that are not presented, according to the Group's ownership rates are as below:

31 December 2018	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN Kazakhstan	49	91.850	113.145	204.995	107.365	10.484	117.849
ASELSAN Jordan	49	22.138	19.578	41.716	12.296	--	12.296
ASELSAN Optik	50	58.498	52.676	111.174	63.511	27.042	90.553
IGG ASELSAN	49	19.488	1.483	20.971	4.016	2.169	6.185
ASELSAN Bilkent	50	21.039	109.978	131.017	18.427	93.829	112.256
SADEC LLC	50	9.899	3.270	13.169	1.354	--	1.354
YİTAL	51	2.987	1.072	4.059	58	--	58
		225.899	**301.202**	**527.101**	**207.027**	**133.524**	**340.551**

31 December 2018	Ownership Rate (%)	Revenue	Expenses	Net Profit/ (Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN Kazakhstan	49	61.722	(73.504)	(11.782)	42.702	(5.773)
ASELSAN Jordan	49	5.958	(11.454)	(5.496)	14.417	(2.693)
ASELSAN Optik	50	58.221	(50.917)	7.304	10.310	3.652
IGG ASELSAN	49	12.376	(11.401)	975	7.245	478
ASELSAN Bilkent	50	17.347	(15.512)	1.835	9.380	917
SADEC LLC	50	2.431	(13.184)	(10.753)	5.907	(5.376)
BARQ QSTP LLC.	48	--	--	--	834	--
TEKNOHAB	30	--	--	--	750	--
YİTAL	51	706	(1.012)	(306)	2.041	(156)
		158.761	**(176.984)**	**(18.223)**	**93.586**	**(8.951)**

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Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

31 December 2017	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN Kazakhstan	49	64.621	94.567	159.188	72.649	5.770	78.419
ASELSAN Jordan	49	43.753	15.004	58.757	32.764	--	32.764
ASELSAN Optik	50	28.345	39.119	67.464	34.091	18.657	52.748
IGG ASELSAN	49	12.911	1.724	14.635	4.453	345	4.798
ASELSAN Bilkent	50	33.606	68.520	102.126	1.586	83.615	85.201
SADEC LLC	50	16.419	514	16.933	482	105	587
YİTAL	51	4.369	12	4.381	74	--	74
		204.024	**219.460**	**423.484**	**146.099**	**108.492**	**254.591**

31 December 2017	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN Kazakhstan	49	77.333	(64.016)	13.317	39.576	6.525
ASELSAN Jordan	49	33.585	(32.490)	1.095	12.736	537
ASELSAN Optik	50	29.908	(28.309)	1.599	7.359	800
IGG ASELSAN	49	7.133	(6.774)	359	4.820	175
ASELSAN Bilkent	50	6.565	(7.186)	(621)	8.463	(310)
SADEC LLC	50	--	(5.730)	(5.730)	8.173	(2.865)
YİTAL	51	1	(59)	(58)	2.197	(30)
		154.525	**(144.564)**	**9.961**	**83.324**	**4.832**

During 2017, there was a capital increase amounted TL 9.122 by International Golden Group in IGG ASELSAN joint venture, in cash.

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

9. INVENTORIES

	31 December 2018	(Restated) 31 December 2017
Raw materials	1.948.791	974.457
Work in progress	1.172.216	849.796
Goods in transit[1]	196.567	209.176
Finished goods	174.341	115.375
Trade goods	19.561	36.170
Other inventories	73.262	62.318
Allowance for impairment on inventories (-)	(8.120)	(25.661)
	3.576.618	**2.221.631**

The Group provides an allowance for impairment on inventories when the inventories net realizable values are lower than their costs or when they are determined as slow-moving inventories.
The Group has identified raw material, work-in progress and finished goods inventories below net realizable value within the current year. Therefore, there is a provision for inventories amounting to TL 8.120 in the statement of financial position (31 December 2017: TL 25.661).

Impaired inventory movements for the period ended in 31 December are as follows:

	2018	2017
Opening balance	25.661	20.019
Provision for the period	11.908	5.650
Provision released	(29.449)	(8)
Closing balance	**8.120**	**25.661**

1 Goods in transit includes the goods for which significant risks and rewards of ownership has been transferred to the Group due to their shipping terms.

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10. PREPAID EXPENSES AND DEFERRED INCOME

Short-term prepaid expenses	31 December 2018	(Restated) 31 December 2017
Order advances given for inventory purchases	889.631	520.419
Short-term order advances given to related parties for inventory purchases (Note 5)	311.668	92.555
Prepaid expenses	118.031	44.709
	1.319.330	**657.683**

Long-term prepaid expenses	31 December 2018	31 December 2017
Long-term order advances given to related parties for inventory purchases (Note 5)	155.933	165.487
Order advances given for inventory purchases	279.727	245.756
Order advances given for fixed assets purchases	60.621	28.191
Prepaid expenses	8.118	3.297
	504.399	**442.731**

Short-term deferred income	31 December 2018	(Restated) 31 December 2017
Order advances received	92.303	158.484
Order advances received from related parties (Note 5)	510.751	686.837
Deffered income	29.591	54.785
	632.645	**900.106**

Short-term order advances received comprises advances received from 61 customers (31 December 2017: 33 customers) of which first 10 customers constitutes 98,8 percent of the total (31 December 2017: 97,9 percent).

Long-term deferred income	31 December 2018	31 December 2017
Order advances received	627.349	181.417
Order advances received from related parties (Note 5)	1.669.160	1.461.346
Deferred income	4	3
	2.296.513	**1.642.766**

Long-term order advances received comprises advances received from 39 customers (31 December 2017: 12 customers) of which the first 10 customers constitutes 98,3 percent of the total (31 December 2017: 99,9 percent).

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Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

11. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Machinery and equipment
Cost and revaluation				
Opening balance as of 1 January 2018	249.265	18.229	193.499	828.923
Additions[3]	52.780	421	--	170.755
Revaluation fund	--	--	--	--
Disposals	--	--	--	(499)
Transfers	--	16.904	11.462	3.457
Closing balance as of 31 December 2018	**302.045**	**35.554**	**204.961**	**1.002.686**
Accumulated depreciation				
Opening balance as of 1 January 2018	--	9.946	73.466	481.111
Charge for the period	--	1.798	7.238	68.029
Disposals	--	--	--	(116)
Closing balance as of 31 December 2018	**--**	**11.744**	**80.704**	**549.024**
Net book value as of 31 December 2018	**302.045**	**23.810**	**124.257**	**453.662**

1 Comprises the mould model devices manufactured by the Group with net book value of TL 38.417 (31 December 2016: TL 34.196).

2 Includes of investments in molds, models, devices and construction works.

3 TL 22.362 of additions are free of charge investment income (31 December 2016: TL 2.270).

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Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

Vehicles	Furniture and fixtures	Other fixed assets[1]	Leasehold improvements	Construction in progress[2]	Total
4.540	190.169	91.638	197.842	93.063	1.867.168
1.272	48.529	22	488	91.636	365.903
--	--	--	--	--	--
(320)	(320)	--	(194)	(587)	(1.870)
--	345	14.286	3.947	(50.401)	--
5.492	**238.723**	**105.946**	**202.083**	**133.711**	**2.231.201**
2.175	127.149	57.442	25.036	--	776.325
525	23.574	10.087	7.708	--	118.959
(132)	(43)	--	(89)	--	(380)
2.568	**150.680**	**67.529**	**32.655**	**--**	**894.904**
2.924	**88.043**	**38.417**	**169.428**	**133.711**	**1.336.297**

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Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

	Land	Land improvements	Buildings	Machinery and equipment
Cost and revaluation				
Opening balance as of 1 January 2017	246.318	15.259	175.925	710.762
Additions	--	199	--	107.103
Revaluation fund	2.947	--	--	--
Disposals	--	--	--	(47)
Transfers	--	2.771	17.574	11.105
Closing balance as of 31 December 2017	**249.265**	**18.229**	**193.499**	**828.923**
Accumulated depreciation				
Opening balance as of 1 January 2017	--	9.123	66.917	428.067
Charge for the period	--	823	6.549	53.088
Disposals	--	--	--	(44)
Closing balance as of 31 December 2017	**--**	**9.946**	**73.466**	**481.111**
Net book value as of 31 December 2017	**249.265**	**8.283**	**120.033**	**347.812**

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Vehicles	Furniture and fixtures	Other fixed assets	Leasehold improvements	Construction in progress	Total
3.839	155.280	85.809	197.205	61.277	1.651.674
1.178	34.903	15	637	69.949	213.984
--	--	--	--	--	2.947
(477)	(14)	--	--	(899)	(1.437)
--	--	5.814	--	(37.264)	--
4.540	**190.169**	**91.638**	**197.842**	**93.063**	**1.867.168**
2.303	110.997	48.744	18.001	--	684.152
349	16.153	8.698	7.035	--	92.695
(477)	(1)	--	--	--	(522)
2.175	**127.149**	**57.442**	**25.036**	**--**	**776.325**
2.365	**63.020**	**34.196**	**172.806**	**93.063**	**1.090.843**

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The details of the depreciation expenses with respect to the plant, property and equipment is as follows:

	31 December 2018	31 December 2017
Cost of sales	79.986	63.173
General administrative expenses	25.578	17.523
Inventories	13.032	11.728
Marketing expenses	363	271
	118.959	**92.695**

There is no tangible assets acquired through financial leasing as of 31 December 2018 and 2017.

Total value of tangible assets that completed their useful lives but still in use is TL 750.996 as of 31 December 2018 (31 December 2017: 1.173.581).

There is no collateral, pledges, and mortgages on tangible assets as of 31 December 2018 and 2017.

There is no capitalized interest expense as of 31 December 2018 and 2017.

Fair value measurement of the Group's land

The lands owned by the Group are revalued and presented at fair value as of 31 December 2017. The fair value of the lands owned by the Group is revalued by Metrik Gayrimenkul Değerleme Danışmanlık Anonim Şirketi ("Metrik Değerleme"), an independent appraisal company. Metrik Değerleme is authorized by the CMB and provides real estate appraisal services in accordance with the capital market legislation. The fair value of the lands is determined according to "Market Value Approach (Equivalent Comparison Method)". Gains resulting from revaluation are recognized under "Gain on Revaluation of Property" in other comprehensive income.

In accordance with TFRS 13 "Fair Value Measurement" standard, since measurement techniques do not include observable market inputs, fair values of the lands are considered as level 3 in respect of fair value hierarchy.

There are no restrictions on the distribution of revaluation funds. The valuation difference on the lands is TL 230.391 (31 December 2017: TL 230.391).

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Details of the Group's lands and information regarding fair value hierarchy are as follows:

		Fair value as of reporting date		
	31 December 2018	**Level 1 TL**	**Level 2 TL**	**Level 3 TL**
Macunköy	173.421	--	--	173.421
Akyurt	74.513	--	--	74.513
Gölbaşı	1.110	--	--	1.110
Oğulbey	52.780	--	--	52.780
Gölbek	166	--	--	166
Denizli	55	--	--	55
	302.045			**302.045**

		Fair value as of reporting date		
	31 December 2017	**Level 1 TL**	**Level 2 TL**	**Level 3 TL**
Macunköy	173.421	--	--	173.421
Akyurt	74.513	--	--	74.513
Gölbaşı	1.110	--	--	1.110
Gölbek	166	--	--	166
Denizli	55	--	--	55
	249.265			**249.265**

The fair value level action table as of 31 December 2018 are as follows:

	Fair Value Level as of Reporting Date		
	Level 1 TL	**Level 2 TL**	**Level 3 TL**
1 January 2018	**--**	**--**	**249.265**
Additions	--	--	52.780
31 December 2018	**--**	**--**	**302.045**

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12. INTANGIBLE ASSETS

	Rights	Development Costs	Other intangible assets[1]	Total
Cost				
Opening balance as of 1 January 2018 (Previously Reported)	51.388	1.000.959	137.825	1.190.172
Restatement Effect	--	22.219	--	22.219
Opening balance as of 1 January 2018 (Restated)	51.388	1.023.178	137.825	1.212.391
Additions	135	356.601	39.655	396.391
Disposals	--	(132.003)	--	(132.003)
Transfers	46	(46)	--	--
Closing balance as of 31 December 2018	**51.569**	**1.247.730**	**177.480**	**1.476.779**
Accumulated Amortization				
Opening balance as of 1 January 2018	27.733	193.918	99.524	321.175
Charge for the period	5.050	37.693	30.794	73.537
Closing balance as of 31 December 2018	**32.783**	**231.611**	**130.318**	**394.712**
Net book value as of 31 December 2018	**18.786**	**1.016.119**	**47.162**	**1.082.067**
Cost				
Opening balance as of 1 January 2017 (Previously Reported)	42.689	818.547	100.745	961.981
Restatement Effect	--	11.972	--	11.972
Opening balance as of 1 January 2017 (Restated)	42.689	830.519	100.745	973.953
Additions	5.512	307.159	37.080	349.751
Disposals	--	(111.313)	--	(111.313)
Transfers	3.187	(3.187)	--	--
Closing balance as of 31 December 2017	**51.388**	**1.023.178**	**137.825**	**1.212.391**
Accumulated Amortization				
Opening balance as of 1 January 2017	23.291	162.277	79.282	264.850
Charge for the period	4.442	31.641	20.242	56.325
Closing balance as of 31 December 2017	**27.733**	**193.918**	**99.524**	**321.175**
Net book value as of 31 December 2017	**23.655**	**829.260**	**38.301**	**891.216**

1 Other intangible assets include licences related to computer software.

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The details of amortization expenses regarding intangible assets is as follows:

	31 December 2018	31 December 2017
Research and development expenses	37.338	31.642
Cost of sales	23.908	16.783
Inventories	8.073	4.667
Marketing expenses	301	1.139
General administrative expenses	3.917	2.094
	73.537	**56.325**

13. GOVERNMENT GRANTS AND INCENTIVES

The deferred incentive income shown under short and long-term liabilities in the consolidated statement of financial position is as follows:

	31 December 2018	31 December 2017
Current government grants and incentives	**53.818**	**41.643**

As part of the Decision on Government Incentives on Investments, there are 6 investment incentives taken from General Directorate of Turkish Undersecreteriat of the Treasury. The incentives allow VAT exemption and customs tax exemption. VAT exemption is applied in both domestic and international purchases while customs tax exemption is applied for international purchases.

In Corporate Tax Calculation, no tax payable is calculated because of R&D deduction and deductions due to investment incentive certificates cannot be applied. For this reason, no deferred tax effect is calculated for the temporary differences arising from investment incentives.

Government grants show the unearned proportion of the grant after the costs related with the completed parts of the projects are deducted from the grants taken by the Group for the ongoing projects that was obtained as of the reporting date.

The incentive obtained consists of the incentives that are accrued in accordance with TÜBİTAK's R&D recognition letter prepared with respect to the Group's ongoing projects.

The Group obtains capital support from "Support and Price Stabilization Fund" of Central Bank of Turkey via Undersecretariat of Foreign Trade's consent. The Scientific and Technological Research Council of Turkey ("TÜBİTAK") and Technology Development Foundation of Turkey ("TTGV") act as intermediary in accordance with Communiqué No:98/10 published by the Money-Loans and Coordination Board.

In accordance with Law on Technology Development Zones numbered 4691, Group utilizes withholding income tax incentive, social security premium incentive and stamp tax exceptions. Such incentives are utilized through not paying withholding income tax incentive, social security premium incentive and stamp tax exceptions calculated based on research and development and software personnel payroll. Income generated in accordance with law on Technology Development Zones numbered 4691 is exempt from corporate income tax until 31 December 2023.

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The research and development expenditure deduction rate used as a tax benefit has been increased from 40 percent to 100 percent in accordance with the amended article 10 of the Tax Law numbered 5520, the amended article 89 of Law numbered 193 and 5746 with respect to the Support of Research and Development Activities. The aforementioned law was enacted as of April 2008 after its issue in the Official Gazette dated 12 March 2008, numbered 26814. 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. Research and development expenditure may be used as a tax deduction in the determination of the taxable income. If taxable income levels are not sufficient to absorb all available tax deductions, any unused research and development tax deduction is allowed to be carried forward to the next tax period. The remaining amount from previous year is increased according to revaluation ratio defined at Tax Procedure Law. According to the item No. 8 of the related law, all the costs related with research and development can be subjected to deduction until 31 December 2023.

14. BORROWING COSTS

As of 31 December 2018, there is no borrowing cost regarding the qualifiying assets.
(31 December 2017: None).

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

Other short-term provisions	31 December 2018	31 December 2017
Provision for warranties[1]	442.777	253.253
Provision for onerous contracts	87.772	106.318
Provision for delay penalties[2]	41.403	15.787
Provision for legal cases	10.905	5.917
Provision for cost expenses	2.072	1.527
Other	640	804
	585.569	**383.606**

The movement of the provision for warranties is as follows:

	1 January-31 December 2018	1 January-31 December 2017
Opening balance	253.253	183.555
Provision for the period	305.852	155.138
Realized during the period	(116.328)	(85.440)
Closing balance	**442.777**	**253.253**

1 The Group's provision for warranty is based on sales under warranty are estimated in accordance with historical data. Provision for warranty is calculated by using warranty rate included in the contract as long as the invoice issued throughout the life of the Contract

2 Provision for delay penalties and fines are calculated in accordance with interest rates mentioned in the agreement for defaulet and within the client's knowledge.

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The movement of the provision for onerous contracts is as follows:

	1 January-31 December 2018	1 January-31 December 2017
Opening balance	106.318	91.555
Reclass from short-term provisions to long-term provisions	(54.140)	(13.618)
Provision for the period	42.769	34.290
Realized during the period	--	(4.867)
Provision reversed during the period	(7.175)	(1.042)
Closing balance	**87.772**	**106.318**

The movement of the provision for delay penalties is as follows:

	1 January-31 December 2018	1 January-31 December 2017
Opening balance	15.787	19.705
Provision for the period	118.914	7.010
Realized during the period	(88.370)	(10.918)
Provision reversed during the period	(4.928)	(10)
Closing balance	**41.403**	**15.787**

The movement of the provision for legal cases is as follows:

	1 January-31 December 2018	1 January-31 December 2017
Opening balance	5.917	5.332
Provision for the period	6.128	2.349
Realized during the period	--	(100)
Provision reversed during the period	(1.140)	(1.664)
Closing balance	**10.905**	**5.917**

Other long-term provisions	**31 December 2018**	**(Restated) 31 December 2017**
Provision for delay penalties	328.385	42.925
	328.385	**42.925**

The movement of the provision for onerous contacts is as follows:

	1 January-31 December 2018	1 January-31 December 2017
Opening balance	42.925	36.022
Reclass from short-term provisions to long-term provisions	54.140	13.618
Provision during the period	238.861	427
Provision reversed during the period		(7.142)
Closing balance	**328.385**	**42.925**

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(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

b) Legal cases

There has not been any final judicial decision against the Group due to the violation of employee rights within 2018. There has not been any final judicial decision against the Group due to the responsibility related with work accidents within 2018.

As of the dates 31 December, according to the declarations written by the legal counselors, the lawsuits and legal executions in favor of and against the Group are as follows:

Description	2018 TL	2017 TL
a) Ongoing lawsuits filed by the Group	12.162	1.017
b) Execution proceedings carried out by the Group	29.115	8.691
c) Ongoing lawsuits filed against the Group	10.905	5.917
d) Lawsuits finalized against the Group within the period	150	99
e) Lawsuits finalized in favor of the Group within the period	413	2.304

a) Ongoing lawsuits filed by the Group are comprised of lawsuits for patents, trademarks and lawsuits filed by the Group due to the disagreements related to previous lawsuits. These lawsuits will not be recognised in the financial statements until they are finalized.

b) Execution of proceedings carried out by the Group are comprised of lawsuits that would result in favor of the Group that will be recognised as revenue under "Other Operating Income" line when they are collected.

c) The Company made provisions for all lawsuits filed against the Group and recognised as "Provisions" in the statement of financial positon and "Other Operating Expense" in the statement of profit or loss and other comprehensive income.

d) Lawsuits finalized against the Group are recognised in the statement of profit or loss to the extent that the amount differs from the amount previously provided. Amounts in excess of the amount previously provided are recognised under 'Other Operating Expense' when the penalty is paid.

e) Lawsuits finalized in favor of the Group are recognised in statement of profit or loss and other comprehensive income under "Other Operating Income" line when the final judgement is determined.

16. COMMITMENTS AND CONTINGENCIES

a) Operating lease

As of 31 December 2016, the Group has two lands that are rented for 49 years and 46 years. In 2018 the Group has paid rent amounting to TL 229 (31 December 2017: TL 197) and TL 459 (31 December 2017: TL 404) for property lands rented for 49 years and 46 years respectively. Rent payments escelated every year based on the "Producer Price Index (PPI)" rate. The rental period will end on 23 January 2061.

As of 31 December 2018, the Group has paid rent amounting to TL 3.425 (31 December 2017: TL 3.680) for vehicles rented during the year.

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b) Guarantees received

	31 December 2018	31 December 2017
Letters of guarantees received from the suppliers	1.749.080	1.307.008
Collaterals received from the customers	18.084	13.546
Letters of guarantees received from the customers	4.901	3.313
Collaterals received from the suppliers	4.932	--
Mortgages received from the customers	265	265
	1.777.262	**1.324.132**

c) Collaterals / Pledges / Mortgages ("CPM") given

The collaterals/pledges/mortgages ("CPM") given by the Group as of 31 December 2018 and 31 December 2017 is as follows:

In accordance with the terms of the Patrol and Anti-Submarine Warfare Ship Projects ("MİLGEM"), the Company is a guarantor if HAVELSAN cannot be able to fulfill the obligations in this project of an amount of USD 267.826.

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(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

31 December 2018	TL Equivalent	TL	USD
A. Total Amount of CPM Given on Behalf of the Legal Entity			
-Collateral	17.683.695	2.337.667	1.842.279
-Pledge	--	--	--
-Mortgage	--	--	--
B. Total Amount of CPM Given on Behalf of the Subsidiaries Included in Full Consolidation			
-Collateral	--	--	--
-Pledge	--	--	--
-Mortgage	--	--	--
C. Total Amount of CPM Given to Maintain Operations and Collect Payables from Third Parties			
-Collateral	--	--	--
-Pledge	--	--	--
-Mortgage	--	--	--
D. Total Amount of Other CPM Given			
i. Total Amount of CPM on Behalf of the Main Partner			
-Collateral	--	--	--
-Pledge	--	--	--
-Mortgage	--	--	--
ii. Total Amount of CPM Given on Behalf of Other Group Companies That Do Not Cover B and C[1]			
-Collateral	22.590	495	4.200
-Pledge	--	--	--
-Mortgage	--	--	--
iii. Total Amount of CPM on Behalf of Third Parties That Do Not Cover			
-Collateral	--	--	--
-Pledge	--	--	--
-Mortgage	--	--	--
Total	**17.706.285**	**2.338.162**	**1.846.479**

The Group is responsible as joint guarantor for the portion amounting to EURO 2,5 Million of investment credit amounting to EURO 5 Million which will be used by ASELSAN Optik , the Group's joint venture.

1 The ratio of the other CPM given by the Group to equity as of 31 December 2018 is 0,22 percent. TL 22.590 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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EURO	UAE Dirham	Indian Rupee	British Pound	Qatar Rial
935.983	50	10.000	1.654	25
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935.983	**50**	**10.000**	**1.654**	**25**

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(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

31 December 2017	TL Equivalent	TL	USD
A. Total Amount of CPM Given on Behalf of the Legal Entity			
-Collateral	13.304.922	1.916.017	1.838.751
-Pledge	--	--	--
-Mortgage	--	--	--
B. Total Amount of CPM Given on Behalf of the Subsidiaries Included in Full Consolidation			
-Collateral	--	--	--
-Pledge	--	--	--
-Mortgage	--	--	--
C. Total Amount of CPM Given to Maintain Operations and Collect Payables from Third Parties			
-Collateral	--	--	--
-Pledge	--	--	--
-Mortgage	--	--	--
D. Total Amount of Other CPM Given			
i. Total Amount of CPM on Behalf of the Main Partner			
-Collateral	--	--	--
-Pledge	--	--	--
-Mortgage	--	--	--
ii. Total Amount of CPM Given on Behalf of Other Group Companies That Do Not Cover B and C[1]			
-Collateral	16.337	495	4.200
-Pledge	--	--	--
-Mortgage	--	--	--
iii. Total Amount of CPM on Behalf of Third Parties That Do Not Cover			
-Collateral	--	--	--
-Pledge	--	--	--
-Mortgage	--	--	--
Total	**13.321.259**	**1.916.512**	**1.842.951**

The Group is responsible as joint guarantor for the portion amounted EURO 2,5 Million of investment credit amounted EURO 5 Million which will be used by ASELSAN Optik that is the Group's joint venture.

1The ratio of the other CPM given by the Group to equity as of 31 December 2017 is 0,32 percent. TL 16.337 is the collateral amount pertaing to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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EURO	UAE Dirham	Indian Rupee	British Pound
984.226	50	10.000	1.654
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984.226	**50**	**10.000**	**1.654**

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17. EMPLOYEE BENEFITS

a) Obligations for employee benefits

	31 December 2018	31 December 2017
Social security premiums payable	24.869	36.593
Taxes and funds payable	7.472	8.403
Due to personnel	2.532	1.137
	34.873	**46.133**

b) Short-term provisions for employee benefits

	31 December 2018	31 December 2017
Provision for vacation pay liability	**49.382**	**42.301**

As of 31 December the movement of the provision for vacation pay is as follows:

	2018	2017
Opening balance	42.301	43.362
Provision for the period	24.608	7.167
Provision paid during the period	(14.584)	(6.231)
Provision realized during the period	(2.943)	(1.997)
Closing balance	**49.382**	**42.301**

c) Long-term provisions for employee benefits

	31 December 2018	31 December 2017
Provision for severance pay	184.440	155.107
Provision for retirement pay	14.171	13.635
	198.611	**168.742**

As of 31 December the movement of severance and retirement pays are as follows:

	2017	2016
Opening balance	168.742	150.997
Service cost	11.254	12.560
Interest cost	4.795	13.645
Actuarial gains/(loss)	24.662	2.033
Payments	(10.842)	(10.493)
Closing balance	**198.611**	**168.742**

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Provision for severance pay:

In accordance with the Labor Law Legislations, the Group is obliged to make legal severance indemnity payments to entitled employees whose employment has been terminated. Furthermore, with regard to Social Security Law numbered 506 dated 6 March 1981, number 2422 dated 25 August 1999 and law numbered 4447, article 60 denotes the legal obligation to make severance payments to all employees who are entitled to indemnity by the date of leave of employment.

Certain provisions regarding services before retirement, has been annulled on 23 May 2002 during the revision of the related law. As of 31 December 2018 severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL 5.434 (31 December 2017: TL 4.732) [1]

As of 1 January 2018, the ceiling for the severance payments is TL 6.017[1]

The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the entity's obligation under defined benefit plans.

Provision for retirement grant:

Retirement bonus provision is recognized for the employees with service of more than 20 years within the Group and has earned/ will earn their retirement.

Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 December 2018 (%)	31 December 2017 (%)
Interest rate	15,60	11,65
Inflation rate	11,80	8,50
Discount ratio	3,40	3,22
Estimation of probability of retirement ratio	97	97

1 Amounts are shown in original Turkish Lira values.

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18. OTHER ASSETS AND LIABILITIES

a) Other current assets

	31 December 2018	31 December 2017
VAT carried forward [1]	177.210	145.786
Restricted cash [2]	74.269	57.550
Other VAT	53.873	4.332
Job advances	705	344
Other [3]	22.754	14.167
	328.811	**222.179**

b) Other non-current assets

	31 December 2018	31 December 2017
VAT carried forward [1]	463.005	253.298
Prepaid taxes and funds	29.202	17.741
Other [3]	7.935	5.750
	500.142	**276.789**

c) Other short-term liabilities

	31 December 2018	31 December 2017
Taxes and funds payable	218	11.566
Other[3]	8.019	1.980
	8.237	**13.546**

19. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

Shareholders	Share (%)	31 December 2018	Share (%)	31 December 2017
TSKGV	74,20	845.826	84,58	845.826
Publicly held	25,70	293.019	15,30	153.019
Axa Sigorta Anonim Şirketi	0,10	1.155	0,12	1.155
Nominal capital	100	1.140.000	100	1.000.000
Share capital adjustment		98.621		98.621
Inflation adjusted capital		**1.238.621**		**1.098.621**

1 Taxpayers (Contractor/the Group) who deliver goods and provides services to the Natural Security Institutions (such as MOD and UDI) are to be approved by purchasers (contacting authority) in terms of content and nature accordingly. Value Added Tax (VAT) is exempted as of 1 March 2009 in accordance with General Declaration on Value Added Tax with the Serial Number 112 in the Official Gazette as of 12 February 2009. These amounts usually are not collected, but they are offset with other tax liabilities.
2 The amount consists of the restricted cash with regard to 1007 and the European Union projects.
3 Mainly comprises of other assets and liabilities of consolidated subsidiaries.

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Capital increase of the Company (second public offering) from TL 1.000.000 thousand to TL 1.140.000 thousand has realized by limiting the preemptive rights of current shareholders completed successfully on 6 June 2018

The Group's nominal capital is TL 1.140.000 comprising 1.140.000.000 shares each of which is TL 1. A total of 605.454.545 of the shares constitutes "Group A" and 534.545.455 of the shares constitutes "Group B" shares. All of the shares are nominative. "Group A" shares are privileged nominative shares and 6 Members of the Board of Directors are assigned from the holders of nominative "Group A" type shareholders or from the ones nominated by "Group A" type shareholders. Moreover, the Board of Directors shall be authorized in matters regarding issuing preferred shares or issuing shares above the nominal values. Regarding capital increases by restricting preemptive rights, the shares to be issued shall be "Group B". In accordance with the CMB's legislation, other Members of the Board of Directors, not including elected Independent Members of the Board of Directors, are assigned from nominative "Group A" shareholders or elected from among candidate nominated by "Group A" shareholders.

Restricted reserves

In accordance with Capital Markets Board's Communique Serial II No:19.1 "Share of Profit", effective as of 1 February 2014, and with regard to the Turkish Commercial Code ("TCC"), legal reserves in publicly held companies will be generated by 5 percent of income until it reaches 20 percent of paid-in share capital. After the 5 percent of the dividend is paid to shareholders, 10 percent of the total distributed to shareholders and employees can be added in the other legal reserve. Under the TCC, the legal reserves can be used only to offset losses for the going concern of the company or to prevent unemployment as long as the amount does not exceed 50 percent of the paid-in capital.

As of 31 December 2018, The Group's restricted reserves set aside from profit comprises legal reserves. The total of the Group's legal reserves are TL 172.687 (31 December 2017: TL 124.062).

Retained Earnings

Accumulated profits apart from net profit for the year and extraordinary reserves which is accumulated profit by nature are shown under retained earnings. As of 31 December 2018 the extraordinary reserves balance presented in retained earnings is TL 1.435.063 (31 December 2017: TL 677.863). According to the statutory records, the Company's profit for the period is TL 1.829.121 (31 December 2017: TL 890.749) and its other funds available for profit distribution is TL 1.481.866 (31 December 2017: TL 706.805) and the details are as followings.

Profit distribution

Publicly traded companies perform dividend distribution in accordance with Capital Markets Board's Communique Serial II No: 19.1 "Share of Profit", effective as of 1 February 2014.

Shareholders, distribute dividend with general assembly decision, within the context of profit distribution policies set by general assembly and related regulations. As part of the communique, no specific minimum distribution ratio is indicated. Companies pay dividend as defined in their articles of association or dividend distribution policies.

On 2 April 2018, in accordance with the consolidated financial statements, the General Assembly of the Company has decided to allocate legal reserve amounting to TL 47.947 of the TL 1.387.770 which is based on the profit distribution, and to distribute TL 84.600 in cash to shareholders for dividend payment and the remaining TL 1.255.223 to be within the Group. Thus, the cash gross dividend amount for TL 1 nominal value per share is Kuruş 7,42 net (31 December 2017: Kuruş 7,55 net).

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Within 2018, dividend amounting to TL 84.600 in gross, 7,42 Kuruş per share of TL 1 (net profit amounting to TL 71.910, 6,31 Kuruş per share of TL 1) will be paid to shareholders. (31 December 2017: TL 75.500 in gross, 7,55 Kuruş per share of TL 1 (TL 64.174 in net , 6,42 Kuruş) per share of TL 1 was paid).

On 23 March 2018, General Assembly of ASELSANNET has decided to distribute TL 5.000 as dividend payments to shareholders and reserve TL 677 as retained earnings from net profit of the year 2017. Remaining TL 1.273 is decided to be allocated as extraordinary reserves (31 December 2017: 4.000).

All of the gross TL 84.600 of dividend payable to shareholders will be paid to the shareholders as of 13 December 2018. (31 December 2017: None)

20. REVENUE AND COST OF SALES

a) Revenue	1 January-31 December 2018	(Restated) 1 January-31 December 2017
Domestic sales	8.140.207	4.633.234
Export sales	888.955	784.165
Other revenues	7.033	1.068
Sales returns (-)	(24.179)	(4.417)
Sales discounts (-)	(3.315)	(1.797)
Other discounts (-)	(185)	--
	9.008.516	**5.412.253**

Revenue Recognized Regarding Performance Obligation	1 January-31 December 2018	(Restated) 1 January-31 December 2017
Over time	5.634.134	3.002.472
Point in time	3.374.382	2.409.781
	9.008.516	**5.412.253**

b) Cost of sales (-)	1 January-31 December 2018	(Restated) 1 January-31 December 2017
Cost of raw materials and supplies	5.202.636	2.923.526
Cost of merchandise goods sold	171.551	121.428
Cost of services sold	1.201.580	708.631
Cost of other sales	221.657	192.693
	6.797.424	**3.946.278**

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21. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES,RESEARCH AND DEVELOPMENT EXPENSES

	1 January - 31 December 2018	1 January - 31 December 2017
General administrative expenses (-)	221.719	177.622
Marketing expenses (-)	150.760	164.431
Research and development expenses (-)	114.408	97.300
	486.888	**439.353**

a) General administrative expenses (-)	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses	135.236	112.474
Depreciation and amortization expenses	29.495	19.617
Expertise and consultancy expenses	7.257	6.609
Electricity expenses	5.188	3.332
Litigation expenses	3.850	164
Travel expenses	3.036	2.815
Rent expenses	2.820	2.345
Personnel meal expenses	2.682	1.830
Personnel transportation expenses	2.564	2.379
Property and environmental cleaning tax	1.778	1.326
Insurance expenses	1.420	2.071
Water expenses	929	777
Course and seminar expenses	879	1.375
Other	24.585	20.508
	221.719	**177.622**

b) Marketing expenses (-)	1 January - 31 December 2018	1 January - 31 December 2017
Commission expenses	44.494	68.252
Exhibition expenses	27.406	22.678
Personnel expenses	20.582	15.626
Subcontractor service expenses	12.233	10.593
Stamp duty expenses	9.788	12.654
Travel expenses	7.378	5.708
Expertise and Consultancy expenses	7.246	4.240
Shipping and delivery expenses	5.700	5.746
Packaging expenses	3.876	2.477
Advertising expenses	3.743	3.514
Samples expenses	2.585	1.334
Representation expenses	2.191	2.723
Depreciation and amortization expenses	665	1.410
Other	2.873	7.476
	150.760	**164.431**

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c) Research and development expenses (-)	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses	49.778	42.185
Depreciation and amortization expenses	37.338	31.642
Equipment costs	14.718	12.473
Other	12.574	11.000
	114.408	**97.300**

22. OTHER OPERATING INCOME AND EXPENSES

a) Other operating income

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign currency exchange gains	5.590.625	1.898.836
Discount expense	19.495	12.947
Free of charge investment income[1]	22.362	2.270
Other income	21.685	21.852
	5.654.167	**1.935.905**

b) Other operating expenses (-)

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign currency exchange losses	5.075.934	1.645.224
Discount expense	61.378	19.585
Other expense and losses	15.964	13.611
	5.153.276	**1.678.420**

23. INCOME FROM INVESTING ACTIVITIES

	1 January - 31 December 2018	1 January - 31 December 2017
Dividend income	5.222	8.938
Gain/(loss) on sale of fixed assets	(433)	364
	4.789	**9.302**

1 Free of charge investment income comprises of fixed assets donated by public bodies and utilized within the scope of research projects conducted with universities. Subsequent to the completion of these projects, the subject matter fixed assets have been incorporated to the Group without any charge.

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24. FINANCIAL INCOME

	1 January-31 December 2018	(Restated) 1 January-31 December 2017
Interest income	366.285	33.045
TFRS 15 financial component interest income	271.472	146.048
Foreign currency exchange gains on bank loans	238.722	66.449
	876.479	**245.542**

25. FINANCIAL EXPENSES

	1 January-31 December 2018	(Restated) 1 January-31 December 2017
Foreign currency exchange losses from bank loans (-)	350.329	82.885
TFRS 15 Interest cost of borrowings from financial component (-)	474.279	263.151
Interest cost related with employee benefits (-)	4.795	13.645
Discount expenses at bank loans (-)	25.142	15.508
Interest cost of borrowings (-)	1.102	8.102
	855.647	**383.291**

26. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

	31 December 2018	31 December 2017
Gain from revaluation of available for sale financial assets	729.612	535.444
Revaluation of property	207.431	207.431
Cumulative Translation Adjustments	25.507	5.246
Loss on remeasurement of defined benefit plans	(18.073)	1.656
	944.477	**749.777**

Revaluation reserve available for sale financial assets	1 January-31 December 2018	1 January-31 December 2017
Opening balance	535.444	485.346
Gain on revaluation and reclassification of available for sale financial assets	204.387	52.735
Deferred tax liability arising from revaluation	(10.219)	(2.637)
Closing balance	**729.612**	**535.444**

Gain on revaluation or reclassification of available for sale financial assets arises due to revaluation of financial investments. When available for sale financial assets are sold, any related amount included in revaluation reserve is transferred to profit or loss.

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Revaluation of property	1 January-31 December 2018	1 January-31 December 2017
Opening balance (Previously reported)	207.431	216.072
Restatement effect	--	--
Increase arising from revaluation of property	--	3.034
Deferred tax on revaluation[1]	--	(11.372)
Current period value increase deferred tax effect	--	(303)
Closing balance	**207.431**	**207.431**

Revaluation of property increase arises from revaluation of the lands. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Foreign currency exchange differences:	1 January-31 December 2018	1 January-31 December 2017
Opening balance	5.246	684
Currency differences from net asset currency translation investent in foreign operations	20.261	4.562
Closing balance	**25.507**	**5.246**

Gain/Loss on remeasurement of defined benefit plans	1 January-31 December 2018	1 January-31 December 2017
Opening balance	1.656	3.283
Gain/Loss on remeasurement of defined benefit plans	(24.662)	(2.033)
Deferred tax on gain/loss on remeasurement of defined benefit plans	4.933	406
Closing balance	**(18.073)**	**1.656**

27. INCOME TAXES

Corporate tax liabilities:	31 December 2018	31 December 2017
Current corporate tax provision	11.022	2.036
Less: Prepaid taxes and funds	(8.186)	(1.319)
	2.836	**717**

1 75 percent of the income derived by entities from the sale of participation shares and real estates (immovable property) preferential rights, founders' shares and redeemed shares which are carried in assets at least for two years is exempt from corporate tax as of 31 December 2017. However, according to the amendments by Law numbered 7061, this rate is educed from 75 percent to 50 percent with regard to immovable properties and tax declarations starting from 2018 will be calculated using 50 percent for immovable properties.

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Tax income:	**1 January-31 December 2018**	**(Restated) 1 January-31 December 2017**
Current corporate tax expense	(11.022)	(2.036)
Deferred tax income	88.603	213.054
	77.581	**211.018**

	1 January-31 December 2018		
Tax effects related to components of other comprehensive income	**Amount before tax**	**Tax income/expense**	**Net of tax amount**
Defined benefit plan revaluation gains/losses	(24.662)	4.933	(19.729)
Cumulative Translation Adjustments	20.261	--	20.261
Gain on revaluation of available for sale financial assets gains/losses	204.387	(10.219)	194.168
Other comprehensive income in the period	**199.986**	**(5.286)**	**194.700**

	1 January-31 December 2017		
Tax effects related to components of other comprehensive income	**Amount before tax**	**Tax income/expense**	**Net of tax amount**
Defined benefit plan revaluation gains/losses	(2.033)	406	(1.627)
Changes in Non-Current Assets Value Increase Fund	3.034	(11.675)	(8.641)
Cumulative Translation Adjustments	4.562	--	4.562
Gain/Loss on revaluation of available for sale financial assets gains/losses	52.735	(2.637)	50.098
Other comprehensive income in the period	**58.298**	**(13.906)**	**44.392**

Tax recognized directly in equity	**1 January-31 December 2018**	**1 January-31 December 2017**
Deferred tax:		
- Revaluation of property	--	(11.675)
- Gain on revaluation of available for sale financial assets	(10.219)	(2.637)
- Actuarial gain/expense	4.933	406
Deferred tax recognized directly in equity	**(5.286)**	**(13.906)**

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Corporate tax

The Group is subject to Turkish corporate taxes. The corporate income tax is declared until the relevant accounting period-end's following fourth month, twenty-fifth day's evening and it is batch paid until the end of the related month. In accordance with the tax legislation, quarterly 22 percent (31 December 2017: 20 percent) on profits of advance tax is being calculated and paid. The amounts paid in this way are deducted by the tax on annual earning.

In accordance with the tax legislation in Turkey, financial losses could be carried forward for a maximum of five years that the year they appeared. Besides, tax returns and the related accounting records may be reviewed within five years by the tax administration.

Provision is made in the accompanying consolidated financial statements for the estimated change based on the Group's results for the year. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate entity bases.

Corporate tax rate that will be accrued based on rate able profit of the company is calculated on a basis by including disallowed deductions written of as expense when determining commercial profit with excluding tax-exempt profits and other discounts (also previous year losses and investments allowances used, if preferred).

The tax rate in 2018 is 22 percent (31 December 2017: 20 percent).

Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising from its financial statements as reported for TFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TFRS and tax purposes and the differences are given below.

In Turkey, corporate tax rate is 22 percent as of 31 December 2018 (2017: 20 percent). However, according to the Article 91 of the Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" which was published on the Official Gazette numbered 30261 on 5 December 2017 and according to the provisional clause 10 added to the Corporate Tax Law numbered 5520; corporate tax rate for the taxation periods of 2018, 2019 and 2020 is amended to be 22 percent, which would later be applied as 20 percent at the end of these periods.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

The dividend income (excluding the participation certificates of investment funds and profit shares derived from the share certificates of investment trusts) derived by entities from the participation in the capital of another resident entity is exempt from corporate tax. Furthermore, 75 percent of the income derived by entities from the sale of participation shares and real estates (immovable property) preferential rights, founders' shares and redeemed shares which are carried in assets at least for two years is exempt from corporate tax as of 31 December 2018. However, according to the amendments by Law numbered 7061, this rate is reduced from 75 percent to 50 percent with regard to immovable properties and tax declarations starting from 2018 will be calculated using 50 percent for immovable properties. In order to be able to benefit from the exemption, the relevant income should be kept under a fund account in the liabilities and should not be withdrawn from the enterprise for 5 years. The sales amount should be collected by the end of the second calendar year following the year of sale.

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The details of deferred tax assets and liabilities of the Group are as follows:

Deferred Tax Assets:	**31 December 2018**	**(Restated) 31 December 2017**
Discount on receivables	13.343	4.217
Adjustment to costs and provision for expected losses of construction contracts	1.382.112	779.534
Allowance for impairment on inventories	1.646	2.039
Provision for delay penalties	9.109	3.473
Provision for warranties	97.848	56.000
Provision for severance pay	36.938	31.021
Provision for retirement bonus pay	2.836	2.727
Provision for annual leave	10.864	9.306
Provision for legal cases	28	61
Provision for doubtful receivables	288	4.518
Accumulated research and development incentive	912.673	772.335

Deferred Tax Liabilities:	**31 December 2018**	**31 December 2017**
Discount on payables	(2.614)	(2.764)
Adjustment of progress payments for long- term construction projects	(1.623.722)	(926.323)
Depreciation of fixed assets / amortization of intangible assets	(45.818)	(34.140)
Fixed assets revaluation fund	(23.039)	(23.048)
Gain on revaluation of available for sale financial assets	(38.400)	(28.181)

Deferred tax assets	**2.467.685**	**1.665.231**
Deferred tax liabilities	**(1.733.593)**	**(1.014.456)**
Deferred tax assets – net	**734.092**	**650.775**

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Movement of deferred tax assets/(liabilities):	1 January-31 December 2018	(Restated) 1 January-31 December 2017
Opening balance as of 1 January	650.775	451.627
Charged to statement of profit or loss	88.603	213.054
Charged to equity	(5.286)	(13.906)
	734.092	**650.775**

Tax reconciliations:	Effective Tax Rate (%)	1 January-31 December 2018	Effective Tax Rate (%)	1 January-31 December 2017
Profit before tax from continuing operations		2.241.766		1.164.962
Income tax rate		%22		20%
Tax at the domestic income tax rate	22	493.188	20	232.992
Tax effects of:				
- revenue that is exempt from taxation	(28)	(635.254)	(1)	(11.000)
- expenses that are not deductible in determining taxable profit	28	637.293	1	8.880
- R&D incentives and other income exempt from taxation	(24)	(542.019)	(35)	(409.408)
- Change effect of determining statutory tax rate as 20 percent to 22 percent for 3 years	(1)	(32.185)	(3)	(31.521)
- Subsidiaries and associates revenue that is exempt from taxation	--	1.312	--	(1.622)
- effect of other adjustments	--	84	--	661
Tax income recognized in profit or loss	**(3)**	**(77.581)**	**(18)**	**(211.018)**

28. EARNINGS PER SHARE

Earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period. The Group does not have diluted shares.

For the years ended 31 December 2018 and 2017, earnings per share calculations are as follows:

	1 January-31 December 2018	1 January-31 December 2017
Number of shares outstanding (in thousands)	1.079.781	1.000.000
Net profit – TL	2.318.197	1.375.901
Earnings per 100 shares	**214,69**	**137,60**
Diluted earnings per 100 shares	**214,69**	**137,60**

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29. FINANCIAL INVESTMENTS

Financial Investments

Non-Current Financial Investments

	31 December 2018	31 December 2017
a) Available for sale financial investments	773.154	568.767
b) Financial investments valued at cost that do not have a quoted market value	5.511	147
	778.665	**568.914**

a) Fair Value Difference Reflect in Other Comprehensive income

	31 December 2018	31 December 2017
Fair value difference reflect in other comprehensive income that are not traded in an active market	778.665	568.914
	778.665	**568.914**

ROKETSAN which is Group's equity investment is revalued and stated at fair value. As of 31 December 2017, the revaluation was performed by Oyak Yatırım Menkul Değerler Anonim Şirketi which is an independent valuation company. The fair value was determined according to "Discounted Cash Flow", "Similar Company Comparison" and "Realized Company Mergers and Acquisitions" methodologies. Discount ratio used in "Discounted Cash Flow"method is 21 percent (31 December 2016: 15 percent).

Company Name	Ratio (%)	31 December 2018	Ratio (%)	31 December 2017
ROKETSAN	14,897	773.154	14,897	568.767

Roketsan shares, shown under available for sale financial investments, are reported on the third level in the fair value hierarchy (Note 33).

b) Financial investments valued at cost that do not have a quoted market value

The Group's equity investment and participation rate and the amount shown in financial investments are as follows:

Company Name	Rate (%)	31 December 2018	Rate (%)	31 December 2017
ULAK	51	5.100	--	--
ASPİLSAN	1	411	1	147
		5.511		**147**

The above available-for-sale equity investment amounting to TL 5.511 (31 December 2017: TL 147) does not have a quoted market value and the fair value cannot be reliably measured due to a wide range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. For this reason they are stated at cost less provision for diminution in value, if any.

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30. FINANCIAL LIABILITIES

Financial Liabilities

		31 December 2018	31 December 2017
Short-term financial liabilities	Unsecured loan	675.715	401.822
Other short-term financial liabilities	Unsecured loan	22.811	2.490
Current portion of long-term financial liabilities	Secured loan	67.277	67.624
Total short-term financial liabilities		**765.803**	**471.936**
Other long-term financial liabilities	Secured loan	20.234	62.207
Total long-term financial liabilities		**20.234**	**62.207**
Total financial liabilities		**786.037**	**534.143**

As of 31 December 2018, TL 675.715 in the short term financial liabilities consist of USD Discount Currency Loans in which instalment payments maturity dates are between January-July 2019 and interest rate between 3,16-3,54. In the long term financial liabilities, current portion of all short term liabilities consist of instalment payments of the principal equal to USD 12.790 that belongs to credits that are taken from Presidency of Defense Industries with the interest rate of %2,1 percent and 3,5 percent respectively and maturity date is August 2019. Also, there are TL 22.811 financial liability in order to pay Social Security payments.

As of 31 December 2018, all long term financial liabilities consist of loans amounting to USD 3.846 with interest rates of 2,1 percent and 3,5 percent from Presidency of Defense Industries and maturity date is October 2020. A letter of guarantee amounting to USD 34.421 was given for the loan.

As of 31 December 2017, TL 401.822 in the short term financial liabilities consist of USD Discount Currency Loans in which instalment payments maturity dates are between January-July 2018 and interest rate between 2,17-2,48. In the long term financial liabilities, current portion of all long term liabilities consist of instalment payments of the principal equal to USD 34.421 that belongs to credits that are taken from Presidency of Defense Industries with the interest rate of 2.1 percent and 3.5 percent respectively with the total amount of principal equal to 17.982 US dollar. Instalment payments maturity dates are March-October 2018.

As of 31 December 2017, other short term financial liabilities amounting to TL 2.490 are comprised of interest-free sources obtained from the Technology Development Foundation of Turkey for project financing purposes. The rest of the short and long term other financial liabilities consist of loans amounting to USD 16.492 in long term with interest rates of 2.1 percent and 3.5 percent from Presidency of Defense Industries. A letter of guarantee amounting to USD 34.421 was given for the loan.

Bank Loans

		31 December 2018	
Currency	**Weighted average interest rate (%)**	**Short-term**	**Long-term**
TL	--	22.811	--
USD	3,17	742.992	20.234
		765.803	**20.234**

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		31 December 2017	
Currency	**Weighted average interest rate (%)**	**Short-term**	**Long-term**
TL	12,67	345.672	--
USD	2,49	117.264	62.207
		471.936	**62.207**

The breakdown of the loan repayments with respect to their maturities is as follows:

	31 December 2018	**31 December 2017**
Within 1 year	765.803	471.936
Between 1-2 years	20.234	47.700
Between 2-3 years	--	14.507
	786.037	**534.143**

31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS

a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings as explained Note 30, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group's board of directors review capital structure regularly in the meetings. The risks that are associated with every equity item together with the Group's cost of capital are evaluated by the board of directors. Based on the recommendations of the board, the Group aims to balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt on the redemption of existing debt.

The Group's general strategy has not changed since 2010. The ratio of liabilities to share capital as of 31 December 2018 and 2017 is as follows:

	31 December 2018	**(Restated) 31 December 2017**
Total liabilities	786.037	534.143
Less: Cash and cash equivalents	(3.115.691)	(1.262.904)
Net asset/debt (asset)	(2.329.653)	(728.761)
Total equity	10.177.021	4.768.123
Total capital	7.847.368	4.039.362
Net debt (asset) / total equity ratio (%)	(30%)	(18%)

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b) Financial Risk Factors:

The Group has exposure to the credit risk, liquidity risk, market risk and foreign currency risk from its activities. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the Enterprise Risk Management and Internal Control Department, headed by Finance Directorate, in the direction of the Financial Management Executive Vice Presidency, in line with the policies approved by the Board of Directors. Group's finance department identifies and evaluates financial risks and use tools to reduce risks by working in cooperation with the group's operating units.

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is mainly working with public sector and obtaining advance payments where appropriate, both from public sector and private sector entities. Financing needs arising from new contracts are satisfied by advances received when the projects start and milestone payments during the projects. Since the receivables are generally from public sector and based on contract conditions, they are considered as highly collectible. The Group management does not foresee significant credit risk. Additionally, receivables are monitored regularly to minimize the collection risk.

Carrying values of the financial assets reflect the maximum exposure to credit risk. The credit risks as of reporting date is as follows:

31 December 2018	Receivables				Bank Deposits	Other
	Trade Receivables		Other Receivables			
	Related party	Third party	Related party	Third party		
Maximum net credit risk as of the reporting date (A+B+C+D)[1]	2.749.390	3.149.662	24	204.857	3.187.487	2.320
- The part of maximum risk under guarantee with collateral etc.[2]	--	4.901	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	2.749.390	2.317.500	24	204.857	3.187.487	2.320
B. Net book value of financial assets that are past due but not impaired		832.162	--	--	--	--
C. Net book value of impaired assets		--	--	--	--	--
- Overdue (gross carrying amount)	--	2.218	--	--	--	--
- Impairment (-)	--	(2.218)	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
- Undue (gross carrying amount)	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
D. Factors that include off balance sheet credit risks	--	--	--	--	--	--

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Carrying values of the financial assets reflect the maximum exposure to credit risk. The credit risks as of reporting date is as follows:

31 December 2017	Receivables				Bank Deposits	Other
	Trade Receivables		Other Receivables			
	Related party	Third party	Related party	Third party		
Maximum net credit risk as of the reporting date (A+B+C+D)[1]	1.546.520	1.609.665	34	113.388	1.320.273	28
- The part of maximum risk under guarantee with collateral etc.[2]	--	3.313	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	1.546.520	1.443.325	34	113.388	1.320.273	28
B. Net book value of financial assets that are past due but not impaired	--	166.340	--	--	--	--
C. Net book value of impaired assets	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	21.457	--	--	--	--
- Impairment (-)	--	(21.457)	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
- Undue (gross carrying amount)	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
D. Factors that include off balance sheet credit risks	--	--	--	--	--	--

The aging of the overdue receivables is as follows:

	31 December 2018	31 December 2017
Overdue by 1-30 days	189.827	122.427
Overdue by 1-3 months	178.415	489
Overdue by 3-12 months	245.265	3.227
Overdue by 12 months	218.655	40.197
Total receivables	**832.162**	**166.340**

No collateral has been received for the overdue receivables.

Management has assessed its aged receivables and does not expect any collection problem arising fromits aged receivables.

Liquidity risk

Board of directors has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest payment date. The table includes both interest and principal cash flows. When receivables and payables are not constant, amounts are determined in accordance with interest rates generated from return rates as of the reporting date.

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 31 December 2018 is as follows:

Contractual Maturity Analysis	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Financial liabilities	786.037	788.537	380.949	386.823	20.765	--

Expected Maturity	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Trade payables	4.316.866	4.328.746	645.481	1.914.982	1.768.283	--
Other payables	2.838	2.838	2.732	--	106	--

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 31 December 2017 is as follows:

Contractual Maturity Analysis	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Financial liabilities	534.143	538.750	39.906	434.845	63.999	--

Expected Maturity	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Trade payables	3.052.246	3.064.528	1.233.919	568.594	1.262.015	--
Other payables	1.599	1.599	1.494	--	105	--

Market risk management

The Group's activities, as detailed below, expose primarily to the financial risks from changes in foreign currency exchange rates and interest rates.

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Market risk exposures are evaluated by sensitivity analysis, and stress scenario analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk in the current year compared to prior year.

Foreign currency risk management

Foreign currency denominated transactions cause foreign currency risk. The core principle of the foreign currency risk management reduces to minimum foreign exchange position deficit or surplus and minimize the effect of exchange rate fluctuation. Group's net foreign currency position is due to the operational structure of the operating industry.

Methods which are used to manage the exchange rate risk are on-balance sheet (structural) methods. The use of fixed rate of TL denominated credit instead of foreign currency loans in order to keep the foreign exchange position at desired levels and to ensure currency compatibility, determining the contract currency according to the currency which is predominant in the cost of the contracts and such as the signing of the contract in terms of the main contract currency with the subcontractors within the scope of the contracts.

FOREIGN EXCHANGE POSITION

31 December 2018	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other[1]
1. Trade receivables	2.323.205	271.510	1.428.380	147.264	887.703	7.122
2a. Monetary financial assets (including cash, bank)	167.822	28.774	151.379	2.276	13.720	2.723
2b. Non- monetary financial assets	468.137	57.449	302.234	36.284	218.720	51.360
3. Other	7.281	9	50	1.180	7.115	116
4. Current assets (1+2+3)	**2.966.445**	**357.742**	**1.882.043**	**187.004**	**1.127.258**	**61.321**
5. Trade receivables	2.056.596	308.410	1.622.516	72.011	434.080	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	259.803	15.969	84.014	86.722	522.762	7.571
7. Other	23.116	1.938	10.193	2.031	12.242	681
8. Long-term assets (5+6+7)	**2.339.515**	**326.317**	**1.716.723**	**160.764**	**969.084**	**8.252**
9. Total assets (4+8)	**5.305.960**	**684.059**	**3.598.766**	**347.768**	**2.096.342**	**69.573**
10. Trade payables	1.116.287	136.214	716.609	54.992	331.486	68.192
11. Financial liabilities	742.992	141.229	742.992	--	--	--
12a. Other monetary financial liabilities	645	116	608	6	37	--
12b. Other non-monetary financial liabilities	129.158	90.890	478.162	9.575	57.721	--
13. Current liabilities (10+11+12)	**1.989.082**	**368.449**	**1.938.371**	**64.573**	**389.244**	**68.192**
14. Trade payables	1.712.258	209.557	1.102.459	101.161	609.799	--
15. Financial liabilities	20.234	3.846	20.234	--	--	--
16 a. Other monetary financial liabilities	52	6	34	3	18	--
16 b. Other non-monetary financial liabilities	1.577.348	132.773	698.504	284.949	1.717.669	--

1 Comprises of the currencies CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR.

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FOREIGN EXCHANGE POSITION

31 December 2018	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other
17. Non-current liabilities (14+15+16)	3.309.892	346.182	1.821.231	386.113	2.327.486	--
18. Total liabilities (13+17)	5.298.974	714.631	3.759.602	450.686	2.716.730	68.192
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	--	--	--	--	--	--
19a. Hedged total financial assets	--	--	--	--	--	--
19b. Hedged total financial liabilities	--	--	--	--	--	--
20. Net foreign currency asset/liability (9-18+19)	6.986	(30.572)	(160.836)	(102.918)	(620.388)	1.381
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	955.155	117.726	619.339	65.389	394.163	(58.347)
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	888.955	163.712	797.410	16.390	91.545	--
26. Imports	3.111.856	376.008	1.978.139	148.001	892.148	241.569

Accompanying foreign exchange position which was prepared in accordance with TAS is different from the foreign exchange position of the financial statement which is prepared according to General Communiqué on Accounting System Application (GCASA). The difference is mainly due to the adjustments and classifications which are related with TFRS 15.

"For TL functional currency" calculations regarding "Other non-monetary assets" and "Other non-monetary liabilities" presented under foreign currency position, advances received are considered with regard to historic values therefore "TL equivalent of currency as at balance sheet date" differentiate.

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FOREIGN EXCHANGE POSITION

31 December 2017	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other[1]
1. Trade receivables	1.388.153	201.417	759.726	131.427	593.461	34.967
2a. Monetary financial assets (including cash, bank)	1.101.440	225.110	849.093	55.451	250.390	1.957
2b. Non- monetary financial assets	284.302	45.981	173.436	25.457	114.951	39.594
3. Other	6.883	10	36	1.499	6.770	77
4. Current assets (1+2+3)	**2.780.778**	**472.518**	**1.782.291**	**213.834**	**965.571**	**76.595**
5. Trade receivables	1.101.629	223.923	844.616	56.918	257.013	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	307.504	13.737	51.815	95.992	433.451	6.556
7. Other	8.091	926	3.491	891	4.024	576
8. Long-term assets (5+6+7)	**1.417.224**	**238.586**	**899.922**	**153.801**	**694.488**	**7.132**
9. Total assets (4+8)	**4.198.002**	**711.104**	**2.682.213**	**367.635**	**1.660.059**	**83.727**
10. Trade payables	987.196	180.225	679.790	63.582	287.105	20.301
11. Financial liabilities	117.264	31.089	117.264	--	--	--
12a. Other monetary financial liabilities	434	102	386	10	48	--
12b. Other non-monetary financial liabilities	699.632	187.043	705.506	31.428	141.911	--
13. Current liabilities (10+11+12)	**1.804.526**	**398.459**	**1.502.946**	**95.020**	**429.064**	**20.301**
14. Trade payables	950.502	119.582	451.050	110.608	499.452	--
15. Financial liabilities	62.207	16.492	62.207	--	--	--
16a. Other monetary financial liabilities	53	11	40	3	13	--
16b. Other non-monetary financial liabilities	1.058.003	275.266	1.038.275	233.439	1.054.092	--
17. Non-current liabilities (14+15+16)	**2.070.765**	**411.351**	**1.551.572**	**344.050**	**1.553.557**	**--**

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FOREIGN EXCHANGE POSITION

31 December 2017	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other
18. Total liabilities (13+17)	**3.875.291**	**809.810**	**3.054.518**	**439.070**	**1.982.621**	**20.301**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	--	--	--	--	--	--
19a. Hedged total financial assets	--	--	--	--	--	--
19b. Hedged total financial liabilities	--	--	--	--	--	--
20. Net foreign currency asset/liability (9-18+19)	**322.711**	**(98.706)**	**(372.305)**	**(71.435)**	**(322.562)**	**63.426**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**1.473.565**	**302.949**	**1.142.698**	**69.593**	**314.245**	**16.623**
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	**784.165**	**174.571**	**632.194**	**15.098**	**61.509**	**90.462**
26. Imports	**1.739.154**	**294.446**	**1.110.620**	**107.071**	**483.481**	**145.053**

Accompanying foreign exchange position which was prepared in accordance with TAS is different from the foreign exchange position of the financial statement which is prepared according to General Communiqué on Accounting System Application (GCASA). The difference is mainly due to the adjustments and classifications which are related with TFRS 15.

Foreign currency sensitivity

The Group is exposed to foreign currency risk with respect to USD and EURO. As of 31 December 2018, USD 1: TL 5,2609 (31 December 2017: TL 3,7719), EURO 1: TL 6,0280 (31 December 2017: TL 4,5155).

The following table details the Group's sensitivity to a 10 percent increase and decrease in foreign exchange rates. 10 percent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and present 10 percent change in foreign currency rates. This analysis does not include Group companies' balance sheet items which have functional currency other than TL. The effects of 10 percent changes in foreign currency rate on financial statements is as follows;

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FOREIGN CURRENCY SENSITIVITY TABLE

31 December 2018

	Profit/Loss		Equity[1]	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	61.934	(61.934)	61.934	(61.934)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	**61.934**	**(61.934)**	**61.934**	**(61.934)**
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	39.416	(39.416)	39.416	(39.416)
5- Hedged amount against EURO risk (-)	--	--		
6- Net effect of EURO (4+5)	**39.416**	**(39.416)**	**39.416**	**(39.416)**
Change of other currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	(5.835)	5.835	(5.835)	5.835
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	**(5.835)**	**5.835**	**(5.835)**	**5.835**

FOREIGN CURRENCY SENSITIVITY TABLE

31 December 2017

	Profit/Loss		Equity[1]	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	114.27	(114.270)	114.270	(114.270)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	**114.270**	**(114.270)**	**114.270**	**(114.270)**
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	31.424	(31.424)	31.424	(31.424)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	**31.424**	**(31.424)**	**31.424**	**(31.424)**
Change of other currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	1.662	(1.662)	1.662	(1.662)
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	**1.662**	**(1.662)**	**1.662**	**(1.662)**

1 Comprises of profit/loss effect.

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Interest rate risk management

As of 31 December 2018 and 31 December 2017, since all of the loans obtained by the Group are fixed-rate loans, the Group is not exposed to significant interest rate risk.

As of 31 December 2018, the Group does not have interest bearing financial assets, therefore there is no exposure to interest risk (31 December 2017: None).

Price risk

The Group usually enters into fixed price contracts, therefore, is not exposed to any major price risk.

Hierarchy of fair value

As of 31 December 2018 and 31 December 2017, the Group's financial assets at their fair values are as in the following page:

32. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING

	Financial assets at fair value P/L	Financial assets at amortized cost	Financial assets at fair value through OCI	Financial liabilities at amortized cost	Carrying value	Note
31 December 2018						
Financial assets						
Cash and cash equivalents	--	3.115.691	--	--	3.115.691	3
Blocked deposits	--	74.269	--	--	74.269	18
Financial investments	5.511	--	773.154	--	778.665	29
Equity accounted investments	93.586	--	--	--	93.586	8
Trade receivables	--	5.899.052	--	--	5.899.052	6
Financial liabilities						
Borrowings	--	--	--	786.037	786.037	30
Trade payables	--	--	--	4.316.866	4.316.866	6
Other payables	--	--	--	2.838	2.838	7
31 December 2017						
Financial assets						
Cash and cash equivalents	--	1.262.904	--	--	1.262.904	3
Blocked deposits	--	57.550	--	--	57.550	18
Financial investments	147	--	568.767	--	568.914	29
Equity accounted investments	83.324	--	--	--	83.324	8
Trade receivables	--	3.156.185	--	--	3.156.185	6
Financial liabilities						
Borrowings	--	--	--	534.143	534.143	30
Trade payables	--	--	--	3.052.246	3.052.246	6
Other payables	--	--	--	1.599	1.599	7

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira (''TL'') and in thousands of "Foreign Currency" unless otherwise stated.)

The Group's management assesses that the carrying value reflects the fair value of financial instruments. Related financial assets are presented at cost after deducting impairment allowance if any.

The fair values of financial assets and financial liabilities are determined as follows:

- **Level 1:** The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- **Level 2:** The fair value of other financial assets and financial liabilities are determined in accordance with data which can be observed by directly or indirectly and which excludes the registered prices described in Level 1 ; and
- **Level 3:** The fair value of the financial assets and financial liabilities are determined where there is no observable market data.

Fair value hierarchy of financial assets that are measured at fair value:

ROKETSAN has presented under Group's available for sale financial asset and measured at fair value as of 31 December 2018. The fair value of ROKETSAN as of 31 December 2018 is TL 773.154 and was determined according to "Discounted Cash Flow", "Similar Company Comparison" and "Realized Company Mergers and Acquisitions" methodologies and its fair value hierarchy is Level 3.

Reconciliation of the Group's assets and liabilities that are measured at Level 3 fair value are presented as follow:

Available for sale financial assets	31 December 2018	31 December 2017
	Marketable Equity Shares	Marketable Equity Shares
Opening balance	516.032	433.354
Total gain/loss		
- transferred to other comprehensive income	204.387	52.735
Closing balance	**773.154**	**568.767**

31 December 2018	Fair value level as of reporting date		
	Level 1 TL	Level 2 TL	Level 3 TL
Financial Investments	--	--	773.154
	--	--	**773.154**

31 December 2017	Fair value level as of reporting date		
	Level 1 TL	Level 2 TL	Level 3 TL
Financial Investments	--	--	568.767
	--	--	**568.767**

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2018

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

The movement of the fair value level as of 31 December 2017 is as follows:

	Fair value level as of reporting date		
	Level 1 TL	Level 2 TL	Level 3 TL
1 January 2018	**--**	**--**	**568.767**
Additions	--	--	204.387
31 December 2018	**--**	**--**	**773.154**

33. EXPLANATIONS RELATED TO THE STATEMENT OF CASH FLOW

Reconciliation of the movements related to cash flows from financing activities and liabilities

			Non-cash movements			
	31 December 2016	Cash Movements	Additions	Exchange rate change	Other non-cash movements	31 December 2017
Financial Liabilities (Note 30)	534.143	145.810	(7.455)	113.539	--	786.037
Total liabilities arising from financing activities	**534.143**	**145.810**	**(7.455)**	**113.539**	**--**	**786.037**

The table above represents the changes in the cash amounts related to "Proceeds from Borrowings" and "Repayments from Borrowings" which are presented under cash flows from financing activities.

34. EVENTS AFTER THE REPORTING PERIOD

The protocol for the transfer of shares to ASELSAN Inc. referring to 51% ownership in BİTES Defense Aviation and Space Technologies Software Electronic Trade Inc. has been signed. After the completion of required payment and legal approval procedures, additional disclosure will be provided in standard templates. BİTES Inc. operates mainly in the fields of augmented reality, artificial intelligence, simulation software, research, development, design and engineering.

Amount of project contract signed by Group after the reporting date is approximately USD 509 Million.

Independent Auditor's Report

(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi

A. Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

Basis for Opinion

We conducted our audit in accordance with standards on auditing issued by the Capital Markets Board of Turkey and the Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics published by the Public Oversight Accounting and Auditing Standards Authority. We have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Group as of 31 December 2017 were audited by another audit firm whose independent auditor's report thereon dated 20 January 2018, expressed a unqualified opinion.

Independent Auditor's Report

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the Matter is Handled
Revenue – Accounting of Revenue Recognised Over Time An important part of Group's revenue is generated from construction contracts which are recognised over time. Revenue recognised over time is mainly due to contracts made with the Presidency of Defense Industry. The Group recognises revenue over-time if any of the following conditions is met: a) Customer simultaneously receives and consumes the benefits as the entity performs b) the customer controls the asset as the entity creates or enhances it, c) Group's performance does not create an asset for which the entity has an alternative use there is a right for payment to performance date. Due to the fact that over-time revenue is one of the Group's core business volume and size indicators, implementation of related accounting standards is complex and includes management estimates and judgements, this issue has been considered to be a key audit matter. Accounting policies and amounts of the revenue detailed in Note 2.2 and Note 20 respectively	Our audit procedures included, in addition to others, the following; Controlling the terms of the contract in accordance with the criteria of over time accounting Cross-check of the amounts subject to revenue calculation with contracts, Controlling monthly changes of variables that directly affect revenue such as profitability on project basis, Analytical review of the accuracy of expected loss provision, Performing control tests and test of details for contract cost, Performing test of details for financing components Questioning the annual changes of over-time revenue and related costs.

Independent Auditor's Report

Key Audit Matters	How the Matter is Handled
Capitalization of Development Cost The Group capitalizes development costs of the projects which incorporate and approved by the management. Capitalized development costs amount to a net book value of TRL 1.016.119 as 31 December 2018 in the accompanying consolidated financial statements. Capitalized development costs on the consolidated financial statements as of 31 December 2018 is significant for our audit due to variety of nature of costs, management judgments involved in the capitalization process and projects contract costs. Explanations about intangible assets including the capitalized development costs have been disclosed in Note 12.	Our audit procedures included, amongst others, the following ; Examinations of nature of capitalized development costs related to each project, Examinations of the suitability of management assessments for projects at development phase Performing test of details for development costs, Assessment of Group's management approval process, Additionally, inquiries have been perfomed with project engineers and executives involved in research and development activities in related division of the Group.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TAS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

In independent audit, the responsibilities of us as independent auditors are as follows:

- Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority, we exercise professional judgment and maintain professional skepticism throughout the audit.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.).

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report

B) Reports on Independent Auditor's Responsibilities Arising from Other Regulatory Requirements

1) Pursuant to Article 398 of the Turkish Commercial Code ("TCC") no. 6102, the auditor's report on early detection of risk system and the authorized committee is submitted to the Company's Board of Directors on 26 February 2019.

2) Pursuant to subparagraph 4, Article 402 of "TCC", no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2018 is not in compliance with the code and provisions of the Parent Company's articles of association in relation to financial reporting.

3) Pursuant to subparagraph 4, Article 402 of "TCC", the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

Mehmet Nadi Abbasoğlu is the auditor responsible for conducting and finalizing this independent audit.

Yeditepe Bağımsız Denetim Anonim Şirketi
(Associate Member of Praxity AISBL)

Mehmet Nadi Abbasoğlu
Partner
İstanbul, 26 February 2019

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

1. PRINCIPLES OF PREPARATION

The year-end 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 - 31 December 2018. The title of the main shareholder in the report is ASELSAN Elektronik Sanayi ve Ticaret A.Ş.

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, 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 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 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 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.

1 The Directorate of Business Development and Marketing shall be restructured as a vice presidency within the organizational structure and Osman Devrim FİDANCI, the Director of Business Development and Marketing, shall be appointed as the Vice President as of 1 February 2019.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

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

			Ranking	
Corporation	**Research / Study**	**Related Period**	**Current**	**Prior**
• International Ranking				
Defense News Magazine	Defense News Top 100	2018	**55**	57
SIPRI	SIPRI Top 100	2018	**61**	68
European Commission	World R&D Expense Top 2500 Company	2018	**1.111**	1.204
Mentor Graphics	PCB Technology Leadership Awards (TLA) – Printed Wiring Board Technology 2017: "Computers, Blade &Servers, Memory Systems" category 2016: "Military & Aerospace" category	2017	**2**	2
• National Ranking				
Istanbul Chamber of Industry	ICI 500 Top Industry Companies	2018	**20**	20
	ICI 500 - Private Companies	2018	**19**	19
Fortune Magazine	The Top 500 Companies	2018	**38**	41
Capital Magazine	The Top 500 Private Companies	2018	**47**	50
BIST (Borsa Istanbul)	Sustainability Index	2018	No Ranking	
	Corporate Management Index	2018	No Ranking	
	BIST Top 30 Index	2018	No Ranking	
	BIST Top 30 Market Value Sequence	2018	**4**	6
TEA (Turkey Exporters' Assembly)	Top 1000 Exporters	2018	**68**	108
Turkish Time Journal	Study of Research and Development Top 100	2018	**1**	1
Deloitte	Technology Fast 50 / Big Star Category	2017	**1**	1
Brand Finance	Most Valuable Firms (100 Brands)	2018	**28**	34
Bloomberg Businessweek	Top 50 Firms (Between Universities)	2018	**3**	4
Universum	Ideal Employers (Engineering and Information Technologies- 100 Companies)	2018	**1**	1
Turkish Patent Institute	TÜRKPATENT Leauge (Top Ten Company Making National Patents)	2017	**5**	-
Ministry of Science, Industry and Technology	Top of the Private Sector R&D Centers / R&D Centers Performance Index / Defence Industry Sector	2017	**1**	1
CDP (Carbon Disclosure Project)	Firms Which Have Well Management of Climate Changes and Highest Greenhouse Gas Emission Performance (Turkey)	2017	No Ranking	
TESİD	Innovativeness and Creativeness Awards/ Developing Innovative Product Process Awards Between Big Firms	2018	No Ranking	
Fortune Turkey and Data Expert	50 Most Effective Human Resource Manager	2018	No Ranking	

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

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

Company	Type	Country/City	Trade Register No	Address	Telephone/Fax	Website
ASELSAN Elektronik Sanayi ve Ticaret A.Ş	Headquarters	Turkey/Ankara	311177	Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 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 Üsküp/Makedonya	--	--
BAE Contact Office	Contact Office	BAE/ Abu Dhabi	--	Industrial City of Abu Dhabi 1, Plot 22J1 PO Box: 133627 Abu Dhabi/ UAE	Tel: +971 2 550 8808 Fax: +971 2 550 8812	--
Saudi Arabia Contact Office	Project Office	Saudi Arabia/ Riyadh	--	A. Building 17B, 1st Floor, The Business Gate, Riyadh, 11422, Saudi Arabia	Tel: +966 11 211 1111 Fax: +966 11 268 1111	--
ASELSAN Qatar Office	Project Office	Qatar/Doha	--	The Gate Tower II 7th Floor - Office 725 West Bay, Maysaloun Street P.O. Box 14023 Doha / Qatar	Tel: +974 402 06000 Fax: +974 402 06006	
ASELSAN TRNC Contact Office	Contact Office	TRNC/Güzelyurt	--	Orta Doğu Teknik Üniversitesi Kuzey Kıbrıs Kampüsü ODTÜ KALTEV AR-GE Binası No: E-19 99738 Kalkanlı/Güzelyurt	--	www.aselsan.com.tr

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

3. THE COMPANY'S SHAREHOLDER STRUCTURE

Registered capital ceiling of the Company is TL 2.000.000.000 (two billion). The nominal capital of the Company is TL 1.140.000.000 (one billion, one hundred and forty million) and is divided into 1.140.000.000 (one billion, one hundred and forty million) shares, each having a nominal value of TL 1 . 605.454.545 (six hundred and five million, four hundred and fifty four thousand, five hundred and forty five) of the shares are Group A shares and 534.545.455 (five hundred and thirty four million, five hundred and forty five thousand, four hundred and fifty five) 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. Changes in shareholders' structure and the Company's capital during the period is shown in the table below.

Partners	Share (%)	31 December 2018 (Thousand TL)	Share (%)	31 December 2017 (Thousand TL)
Turkish Armed Forces Foundation (TSKGV)	74,20	845.826	84,58	845.826
Quoted on BIST (Free float)	25,70	293.019	15,30	153.019
Axa Sigorta Anonim Şirketi	0,10	1.155	0,12	1.155
Paid-in capital	100	1.140.000	100	1.000.000
Share capital adjustment	--	98.621	--	98.621
Inflation adjusted capital	--	1.238.621	--	1.098.621

Capital increase of the Company (second public offering) from TL 1.000.000 thousand to TL 1.140.000 thousand was realized by limiting the preemptive rights of current shareholders and the changes in the shareholding rates and capital structure due to the increase amounting TL 140.000 thousand shown in the table above.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

4. 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 during the period 1 January – 31 December 2018 are as follows:

MEMBER OF THE BOARD OF DIRECTORS				
List No	**Name and Surname**	**Position**	**Positions In Other Company's**	**Date of First Assignment**
1.	Haluk GÖRGÜN	Chairman / Executive Member / CEO	IGG ASELSAN Integrated Systems LLC BOD Member/ SASAD BOD Member / Saudi Arabian Defense and Electronics Company LLC Vice Chairman	15 March 2017
2.	Mustafa Murat ŞEKER	Vice Chairman / Executive Member	Presidency of Defense Industries Vice Chairman	15 May 2013
3.	Mehmet ARIK	Independent Member	Özyeğin University Machine Engineering Lecturer	2 April 2018
4.	Ercümend ARVAS	Independent Member	İstanbul Medipol University Electrical Engineering Lecturer	31 March 2016
5.	Bayram GENÇCAN[1]	Member	--	15 March 2017
6.	İbrahim ÖZKOL	Independent Member	İstanbul Technical University Vice-Chancellor	15 March 2017
7.	Ercan TOPACA	Member	Chief Inspector of Mülkiye	15 March 2017
8.	Celal Sami TÜFEKCİ	Member	Presidency of Defense Industries Vice Chairman, TEKNOHAB Teknoloji Geliştirme Bölgesi Yönetici A.Ş. BOD Member	2 April 2018
9.	Murat ÜÇÜNCÜ	Member	--	15 May 2013
10.	Okan TURAN	Vice General Manager (Financial Managemet)	--	4 January 2016
11.	Yavuz BAYIZ[2]	Vice General Manager (HBT Sector President)	--	1 September 2014

1 Appointed as the Vice President responsible of Communication and Information Technologies as of 5 February 2019, alongside his duty as a member of the Board of Directors.
2 Resigned his duty as the Vice President responsible of Communication and Information Technologies as of 5 February 2019 due to retirement.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

MEMBER OF THE BOARD OF DIRECTORS				
List No	**Name and Surname**	**Position**	**Positions In Other Company's**	**Date of First Assignment**
12.	Oğuz ŞENER	Vice General Manager (REHİS Sector President)	--	1 September 2014
13.	Mustafa KAVAL	Vice General Manager (SST Sector President)	--	1 September 2014
14.	Sezai ELAGÖZ	Vice General Manager (MGEO Sector President)	--	18 July 2018
15.	Hakan KARATAŞ	Vice General Manager (Corporate Management)	--	2 July 2018
16.	Mehmet ÇELİK	Vice General Manager (Technology & Strategy Management)	--	14 May 2017
17.	İbrahim BEKAR	Vice General Manager (UGES Sector President)	--	12 February 2018
18.	Osman Devrim FİDANCI[3]	Vice General Manager (Business Development and Marketing)	--	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.

CHANGES OF MEMBERS OF THE BOARD OF DIRECTORS DURING THE PERIOD 1 JANUARY – 31 DECEMBER 2018:

During the Ordinary General Assembly Meeting held on 2 April 2018, Haluk GÖRGÜN, Mustafa Murat ŞEKER, Bayram GENÇCAN, Celal Sami TÜFEKÇİ, Ercan TOPACA and Murat ÜÇÜNCÜ were elected as Member of Board of Directors until the next Generally Assembly Meeting and İbrahim ÖZKOL, Mehmet ARIK and Ercümend ARVAS were elected as Independent Member of Board of Directors until the next General Assembly Meeting.

Haluk GÖRGÜN is assigned as the CEO starting from April 27 April 2018 onwards. Haluk GÖRGÜN will maintain his position as the Chairman of the Board of Directors.

3 Osman Devrim FİDANCI, the Director of Business Development and Marketing, shall be appointed as the Vice President as of 1 February 2019.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

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 31 December 2018 is TL 14.863 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 below;

Aselsan Electronics Industry And Trade Inc. List Of Total Amount Of Financial Benefits Provided To The Bod Members And Higher Level Executives

No	Name and Surname	Duty	Total Amount Paid Thousand TL (Wage and Health Insurance)
1.	Haluk GÖRGÜN	BOD Chairman/Executive Member	57
2.	Mustafa Murat ŞEKER	BOD Vice Chairman/Executive Member	49
3.	Ziya AKBAŞ	BOD Member	11
4.	Ercümend ARVAS	BOD Member	53
5.	Bayram GENÇCAN	BOD Member	46
6.	İbrahim ÖZKOL	BOD Member	55
7.	Emin Sami ÖRGÜÇ	BOD Member	11
8.	Ercan TOPACA	BOD Member	53
9.	Murat ÜÇÜNCÜ	BOD Member	48
10.	Mehmet ARIK	BOD Member	33
11.	Celal Sami TÜFEKCİ	BOD Member	34
12.	CEO/President and Vice Presidents	Higher Level Executives	9.232
		TOTAL	**9.683**

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 31 December 2018 is TL 1.807 Thousand.

5. MAIN FACTORS THAT AFFECT THE PERFORMANCE, INVESTMENT AND DIVIDEND POLICY OF THE COMPANY

The Company carries on its business interests in defense industry as well as in civil industry. According to the latest data, globally, five countries which have the largest defense industry expenditures during 2017 are the USA, China, Saudi Arabia, Russia and India. The declining tendency of the resources which the USA has allocated to defense in recent years has been continuing and total defense expenditures decreased by 0,5% in 2017. Within 2017, in East Asia, the increasing tendency of the resources which has been allocated to defense for 23 years has been continuing and increased by 4,1%. In Western Europe, it has been continuing for 3 years and increased by 1,7%. For the rest of the world, no tendency has been observed. In Central America, Carribean's, Africa, and Eastern Europe, defense expenditures has been decreased and in Central Europe, Middle East, and South America, it has been increased in 2017. As of 2017 year-end, Turkey's yearly defense expenditures reached its highest level with USD 18,2 Billion if the year 2013's defense expenditure is considered as exemption, and 2,1% of the GDP is still comprised of defense expenditures.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

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 31 December 2018 long term plans which have been accordingly signed as contracts spread over years amounts to USD 9,1 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 website under Investor Relations/ Corporate Governance/ Policies. According to the policy, at least 10% of the net profit is planning to be distributed.

- At the Ordinary General Assembly Meeting held in 2 April 2018; from the remaining distributable profit obtained after subtracting taxes and statutory obligation from Company's operating profit in 2017. In accordance with Article 519/(1) of the Turkish Commercial Code, TL 44.487.397 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 84.600 Thousand (Kuruş 8,46 per share of TL 1 and 8,46% on the basis of the capital) (net profit TL 71.910 Thousand – Kuruş 7,191 per share of TL 1 and 7,191% on the basis of the capital) as in the form of cash,

- In accordance with Article 519/(2) of the Turkish Commercial Code, TL 3.460 Thousand to be allocated as General Legal Reserves,

- Remaining profit is to be allocated as Extraordinary Legal Reserves and distribution of the dividends to the shareholders are decreeded in three equal installments on the dates of 19 June 2018, 13 September 2018 and 13 December 2018, were decided.

As the Company increased its shared capital from TL 1.000.000 Thousand to TL 1.140.000 Thousand and increase of TL 140.000 Thousand of the shares to be offered to the public by abridging the preemptive rights of the current shareholders to be completed on 6 June 2018, cash dividend distribution ratios of TL 84.600 Thousand, net TL 71.910 Thousand, which were decided to be distributed at the Ordinary General Assembly meeting held on 2 April 2018 were recalculated. Accordingly, approximately gross 7,42 kuruş per share of TL 1, 7,42% of issued capital, net 6,31 kuruş, 6,31% of issued capital is distributed to the shareholders as cash dividend.

6. 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 - 31 December 2018 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 - 31 December 2018 period, "Discounted Foreign Currency Loan" was used as USD 165 Million with 240 days of maturity. As of 31 December 2018, there is a loan balance equivalent to USD 130 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 is USD 16,5 Million as of 31 December 2018.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

The capital increase (secondary public offering) that is made by abridging preemptive rights of the current shareholders was succesfully completed on 06 June 2018. TL 2.989.000 Thousand of gross cash was obtained from these secondary public offering transactions.

Measures Planned To Be Taken To Improve the Financial Structure of the Company

As for the annual budgets and implementations for the period 2018-2020, 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.

7. RISK MANAGEMENT POLICIES OF THE COMPANY

The Company's Board of Directors performs in a transparent, accountable, impartial and responsible manner under Capital Markets Board regulations. 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 is active since 2012.

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:

i. 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, 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.

ii. 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. Besides, development of local subsidiary industry which is especially competent, reliable and value-added in the direction of national and local product development vision is important. In order to reduce the risk

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

arising from the failure of suppliers and subcontractors to achieve the required technical competence, expertise, quality and performance, the performance of suppliers is continuously measured and analyzed, and also to improve this performance, the Company supports, developments and implementations trainings and programs.

iii. Changes in the Global Economy and 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 been put into 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

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

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.

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 31 December 2018, the sum of SSDF loans is USD 16,5 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 31 December 2018, the loan balance of USD 130 million, is used from Türk Eximbank. The interest rate of the loans is fixed for 240 days. Since the Company does not use floating rate loans, interest risk is considered to be low.

iii. Liquidity Risk and Management Policy
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 31 December 2018, 31% 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.

8. EVENTS AFTER THE REPORTING PERIOD

Due to the retirement of Yavuz BAYIZ, the Vice President responsible of Communication and Information Technologies, our Board of Directors Member, Bayram GENÇCAN shall be appointed as the Vice President responsible of Communication and Information Technologies as of 05 February 2019, alongside his duty as a member of the Board of Directors,

In order to support our "export-based growth" strategy, which is one of the most important aspects of our company's organic growth potential, and to be able to compete more effectively with global players.

Report of the Board of Directorsfor the Period Between 1 January - 31 December 2018

The protocol for the transfer of shares to ASELSAN Inc. referring to 51% ownership in BİTES Defense Aviation and Space Technologies Software Electronic Trade Inc. has been signed. After the completion of required payment and legal approval procedures, additional disclosure will be provided in standard templates. BİTES Inc. operates mainly in the fields of augmented reality, artificial intelligence, simulation software, research, development, design and engineering.

The amount of contracts signed after the balance-sheet date by the Group is approximately USD 509 Million.

9. EVALUATIONS DUE TO THE IMPROVEMENT OF THE COMPANY

The forecasts under the normal conditions regarding the Group's consolidated financial results for the 2018 year are presented below;

Financial Targets 2018	Financial Targets 2018 (Ratio/Amount)	Realization 2018 (Ratio/Amount)
Consolidated Revenue Growth (Tl)	≥ 40%	66%
EBITDA (Consolidated and Adjusted Excluding Foreign Exchange Rate Differences)	19% – 21%	21%
Capital Expenditures (Tangible and Intangible)	~ 650 million TL	715 million TL

Financial Targets 2019	Financial Targets 2019 (Ratio/Amount)	
Consolidated Revenue Growth (TL)	40% - 50%	
EBITDA (Consolidated and Adjusted without Foreign Exchange Rate Differences)	19% - 21%	
Capital Expenditures (Tangible and Intangible)	Tangible 650 million TL	Intangible 350 million TL

These expectations are based on the yearly average of USD/TL parity to be 5,63 and EURO/TL parity to be 6,45.

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 2017, the Company raised its ranking to 55th in the list of 2018 with a USD 1,43 Billion defense sales.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

During the General Assembly Meeting held on 2 April 2018, the following has been resolved;

1. Increase of our Company's issued share capital in the amount of TL 1.000.000.000 (one billion Turkish Liras) by TL 210.000.000 (two hundred ten million Turkish Liras) to TL 1.210.000.000 (one billion two hundred ten million Turkish Liras) within the registered capital ceiling of TL 2.000.000.000 (two billion Turkish Liras) as per the Capital Markets Law and related communiqués; (ii) issuance of 210.000.000 shares with a nominal value of TL 210.000.000 as group B registered shares and public offering of such shares over the offer price to be determined at a later stage, within the price range to be specified as per the related capital markets and stock exchange legislations, which can exceed the nominal value of the shares; (iii) sale of the shares to be offered to public by blank endorsement;

2. Restricting the pre-emption rights of our current shareholders with respect to the shares to be issued through the capital increase in favor of investors within the scope of public offering;

3. Authorisation of our Board of Directors for the determination of principles of the sale including, whether the offered shares will be issued as premium or discounted shares and conditions of such shares under such circumstances; authorisation of our Board of Directors for determination of the number of shares to be offered to public and the capital increase ratio, within the limit stated in the first paragraph;

4. Preparation of a statement on capital increase by the Board of Directors as per Article 457 of the Turkish Commercial Code;

5. Preparation of the Prospectus as per the Capital Markets Law and related communiqués and submission of such Prospectus to the approval of the Capital Markets Board;

6. Application to Borsa Istanbul A.Ş. for the quotation of the shares to be issued through capital increase and execution of all necessary transactions before the Central Securities Depository by the Board of Directors;

7. Execution of all necessary transactions for the cancellation of the unsold shares in 6 (six) days following the expiry of the sale period of the offered shares as per the Capital Markets Law and related communiqués as per the article 25 of the Communiqué on Shares (VII-128.1) and authorisation of our Board of Directors in that respect;

8. Adoption of a resolution regarding the completion of the capital increase transactions as per the Article 18/7 of Capital Markets Law and Article 12(2) of the Communiqué on Principles on Registered Capital System (II-18.1), and authorisation of the Board of Directors for performing all necessary transactions for the capital increase including but not limited to the application with the Ankara Registry of Commerce for registration of the capital increase within 10 days following such resolution.

At the Board of Directors meeting dated May 18th, 2018, it was decided that the number of shares to be offered to the public would be determined as 140.000.000 units and the amount of issued capital to be increased as TL 140.000 thousand.

Within the framework of public offering transactions of the issued capital increased by TL 140.000 thousand;

- On 22 May 2018, trading sequence of the Company's shares was closed in BIST,
- On 24 May 2018, the prospectus was approved by CMB,
- Between 31 May 2018 - 1 June 2018, demand collection was completed with the price range of TL 21,35 – TL 26,00,
- The share sale was realized on the final public offering price determined as TL 21,35 on 4 June 2018 and public offering revenue amounting to TL 2.989.000 Thousand was obtained as of 6 June 2018.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

In order to achieve the sustainable growth:

- The quality and technological perspectives of the cooperation formed with the universities have been increased.
- ASELSAN employees are provided with the opportunity to study in the work environment with the initiation of ASELSAN Academy Postgraduate Training Program. The program serves the purpose of having the necessary technologies and developing existing technologies.
- 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 reguires high technology.
- Inorganic expansion will be also evaluated as well as organic expansion

10. CHANGES IN THE LEGISLATION WHICH WOULD HAVE SIGNIFICANT IMPACT ON THE ACTIVITIES OF THE GROUP

The group has applied TFRS 15 Revenue from Contracts with Customers and TFRS 9 Financial Instruments that are effective from 1 January 2018 to prior periods retrospectively with the date of initial application of 1 January 2015, in accordance with the transition requirements of the respective standards and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

11. COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

In accordance with the Corporate Governance Communiqué numbered II-17.1 and the Corporate Governance Communiqué No: II-17.1, the CMB's Corporate Governance Compliance Report and Corporate Governance Information Form decided. In accordance with this decision of the CMB, the templates filled in the KAP at our Company have been added to the Corporate Governance Principles Compliance Report given in Annex-1.

12. 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.

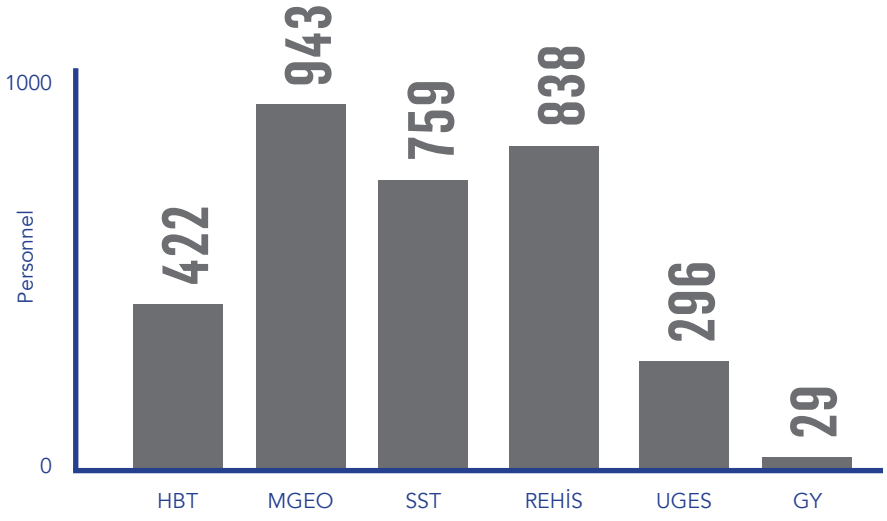
Projects are striving at maximum level in order to benefit from the technological opportunities existing in the country aiming to increase the national contribution share. For this purpose, cooperation is made with universities and various R&D organizations and importance is given to the use of local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

As for the projects carried out within the Group, 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) are received and supported by the institutions.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

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, 3.287 staff are employed at the Group's Research and Development centers.

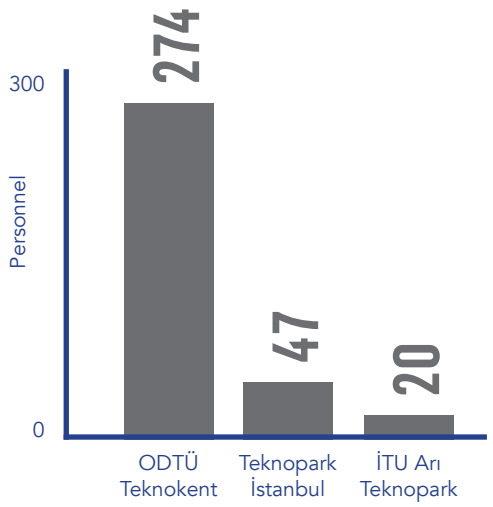
THE NUMBER OF PERSONNEL EMPLOYED AT R&D CENTERS
(3.287)



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 341 staff within this region.

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THE NUMBER OF PERSONNEL EMPLOYED AT TECHNOPARK (341)



13. PROGRESS IN INVESTMENTS AND DEGREE OF INCENTIVE UTILIZATION IF ANY

i. 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.

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.

ii. 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.

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Between the period 1 January – 31 December 2018 because of having Research and Development centers, TL 133.893 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 ITÜ Arı Technopark TL 20.925 Thousand incentives have been used.

Within the scope of the Research and Development Law No 5746 and Teknokent Law No 4691, TL 412.007 Thousand Corporate Tax advantage has been gained as of 1 January - 31 December 2018 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.

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 2018 and the Company benefited from the incentives (TL 17.860 Thousand).

1505 - Within the scope of 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, 1 Projects are ongoing.

Market research, fair, and library support provided by the Support and Price Stabilization Fundy were obtained (TL 1.158 Thousand).

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 10 Research and Development projects are still ongoing.

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 27.137 Thousand).

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VAT exemption is applied in domestic and foreign purchases and customs tax exemption is used in foreign purchases (TL 261.317 Thousand).

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

The Source of Incentives	Type of Advantage	31 December 2018 Amount (Thousand TL)
Research and Development Promotion Law numbered 5746 and Teknopark Law numbered 4691	Corporate Income Tax	412.007
VAT Law numbered 3065	VAT Return	261.317
Research and Development Promotion Law numbered 5746	Income tax withholding, Insurance Premium, Stamp Tax	133.893
Ministry of Economy Investment Incentive	VAT and Customs Duty Exemptions	27.137
Teknopark Law numbered 4691	Income tax withholding, Insurance Premium, Stamp Tax	20.925
Support Programme (TÜBİTAK 1003, 1501, 1511, 1509)	Monetary Support	17.860
The Support and Price Stabilization Fund	Monetary Support	1.158
TOTAL		**874.297**

14. PRODUCTION AND CAPACITY

The Company can conduct complicated projects through its own integrated system architecture by means of knowledge, highly developed R&D infrastructure, well-equipped production lines and facilities.

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 (Thousand TL)	31 December 2018	31 December 2017	Δ %
Domestic sales	8.119.561	4.628.088	75%
Export sales	888.955	784.165	13%
TOTAL	**9.008.516**	**5.412.253**	**%66**

Substantial part of production has been through ERP as orders. All related processes are being managed efficiently in ERP as system and product requirements, quantities and prices are different.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

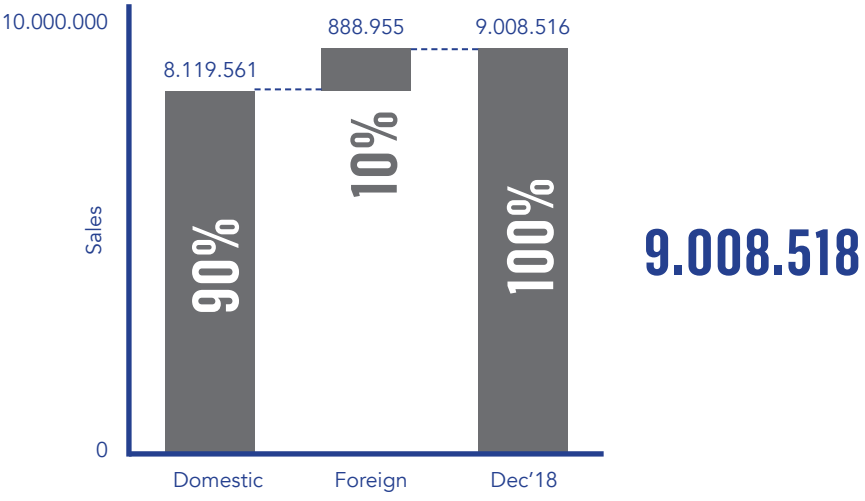
15. REVENUE

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 - 31 December 2018; TL 8.119.561 Thousand of this realized as domestic sales and TL 888.955 Thousand of it realized as foreign sales.

SALES
(Thousand TL)



16. THE BASIC RATIOS

As of 31 December 2018, 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 25%, Operating profit margin (EBIT) is 19%, Adjusted EBITDA margin is 21% and Net Profit margin is 31%. At the end of the 3rd Quarter, Return on Equity (ROE) is 34% and Average Net Working Capital/ Net Sales is 39%.

The group has applied TFRS 15 Revenue from Contracts with Customers and TFRS 9 Financial Instruments that are effective from 1 January 2018 to prior periods retrospectively with the date of initial application of 1 January 2015, in accordance with the transition requirements of the respective standards and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

Basic Ratios / Consolidated Financial Statement	31 December 2018	31 December 2017
Current Ratio (Acid-test)	2,48	1,64
Liquidity Ratio	1,36	0,80
Short Term Current Liabilities / Total Financial Liabilities	97%	88%
Total Financial Liabilities / Total Assets	4%	5%

Basic Ratios / Consolidated Balance Sheet	31 December 2018	31 December 2017
Gross Profit Margin	25%	27%
Operating Profit Margin (EBIT)	19%	19%
Adjusted EBITDA Margin (*)	21%	21%
Net Profit Margin	26%	25%
Return On Equity (ROE)	31%	34%
Average Net Working Capital / Net Sales	34%	28%
Return on Assets (ROA)	15%	13%

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

The Company has no collective bargaining agreements.

(*) General administrative expenses, marketing expenses and research and development expenses are substracted 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.

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17. 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) and ASELSAN Konya. They are collectively referred as the "Group" in the accompanying notes.

The Company has two branch offices; Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi EP Co. (''ASELSAN South Africa'') and ASELSAN Makedonya Corridor-10 Highway Toll Collection System Project (''ASELSAN Macedonia'') located in South Africa and Macedonia, respectively. All of the branches are included in the consolidated financial statements.

Share transfer agreement has signed as of 1 October 2018 in order to transfer 51% shares of ULAK Haberleşme A.Ş. which is fully owned by SSTEK Savunma Teknolojileri A.Ş. New capital structure is as follows; 51% ASELSAN Elektronik Sanayi ve Ticaret A.Ş., %49 SSTEK Savunma Teknolojileri A.Ş. Since, Extraordinary General Assembly has not held the meeting for share transfer, the entity has not included to consolidation process.

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") and ASELSAN Middle East PSC LTD ("ASELSAN Jordan"), Saudi Arabian Defense Electronics Corporation LLC ("SADEC LLC"), and YİTAL Mikroelektronik Sanayi ve Ticaret A.Ş. ("YİTAL A.Ş.") are consolidated by the equity method. Since BARQ QSTP LLC., ve Teknohab Teknoloji Geliştirme Bölgesi Yönetici A.Ş. has not started to operate yet, there is no consolidation effect on the Group's finanial statements.

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.

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 reports is also shared with the independent audit firm.

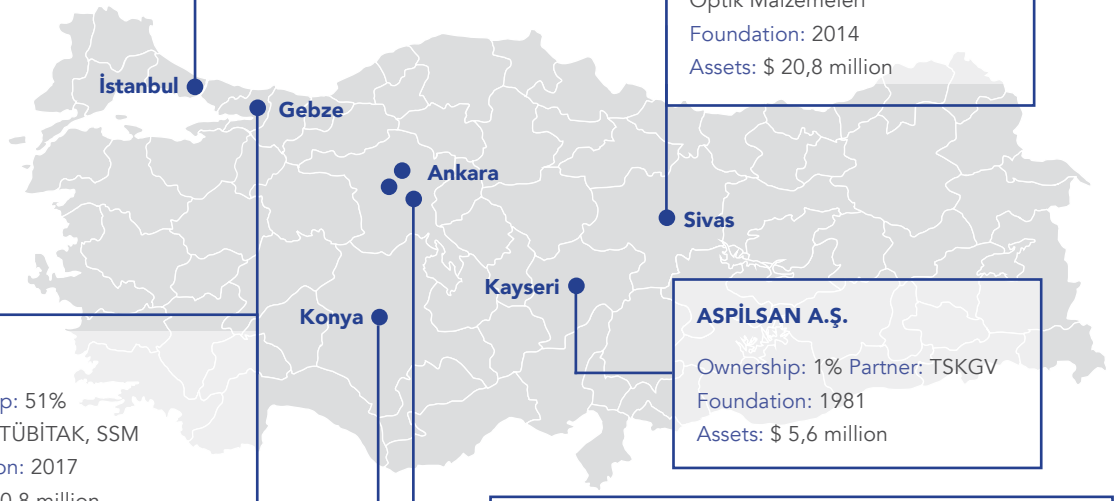
Report of the Board of Directors For the Period Between 1 January - 31 December 2018

Domestic and Foreign subsidiaries information by maps shown below;

Domestic Associates and Subsidiaries

MİKROELEKTRONİK
Ownership: 85% Partner: İTÜ ETA Vakfı Participation: 2010
(Founded in 2006)
Assets: $ 4,9 million

ASELSAN PRECISION OPTICS
Ownership: 50% Partner: Sivas Optik Malzemeleri
Foundation: 2014
Assets: $ 20,8 million



YİTAL
Ownership: 51%
Partners: TÜBİTAK, SSM
Foundation: 2017
Assets: $ 0,8 million

ASPİLSAN A.Ş.
Ownership: 1% Partner: TSKGV
Foundation: 1981
Assets: $ 5,6 million

ASELSAN KONYA Silah Sistemleri A.Ş.
Ownership: 51% Partner: Konya Defence Industry
Foundation: 2018
Assets: $ 17,1 million

ASELSANNET
Ownership: 100%
Foundation: 2004
Assets: $ 197 million

ASELSAN BİLKENT MİKRO
Ownership: 50% Partner: Bilkent University
Foundation: 2014
Assets: $ 24,9 million

ROKETSAN
Ownership: 15% Partner: TSKGV Foundation: 1988
Assets: $ 1,1 billion

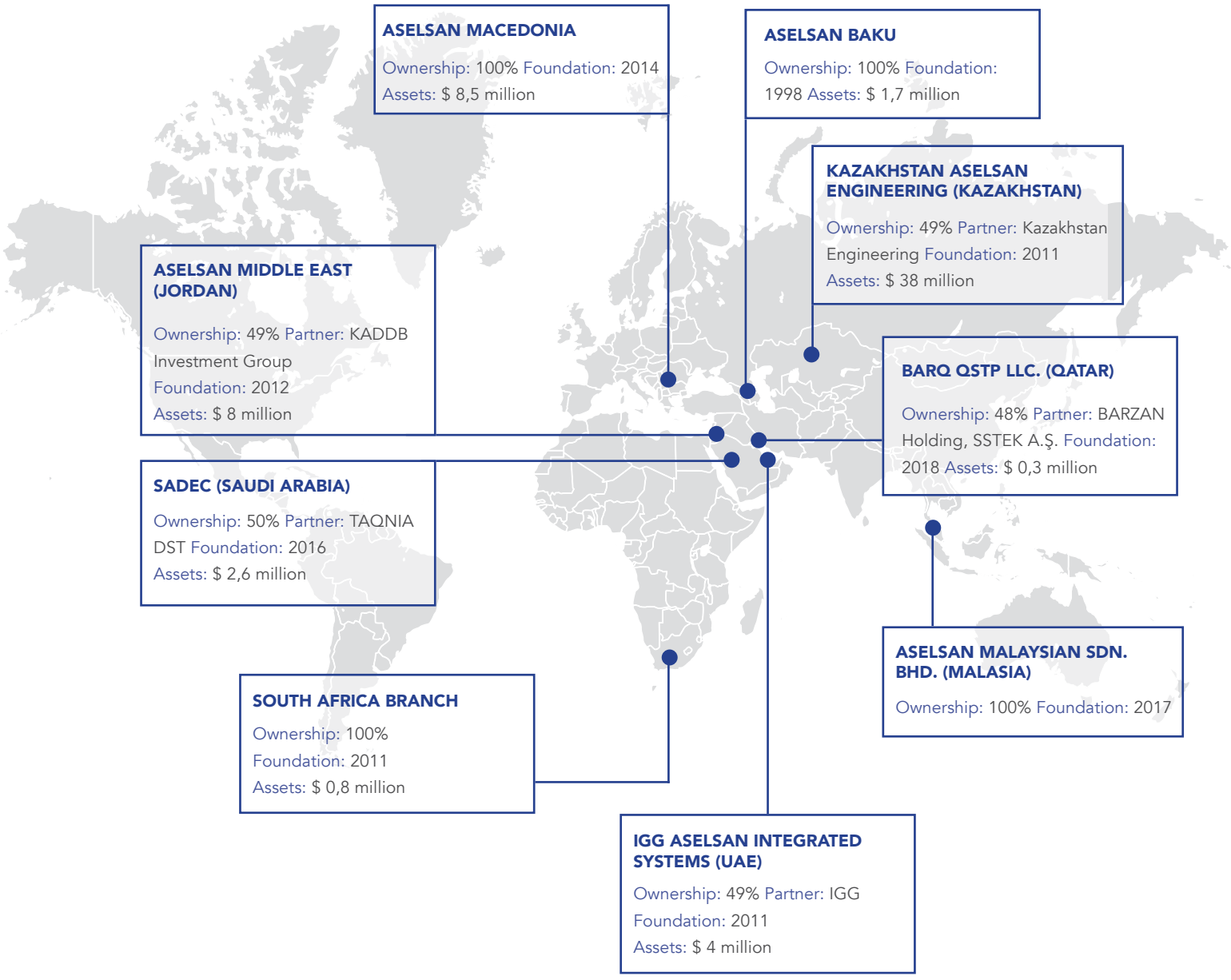
TEKNOHAB A.Ş.
Ownership: 30% Partners: HAB, TUSAS, GAZİ Uni.
Foundation: 2018
Assets: $0,5 million

ULAK A.Ş.
Ownership: 51%
Partner: SSTEK A.Ş.
Foundation: 2017
Assets: $ 16,6 million

Assets are given as of 31.12.2018

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

Foreign Associates and Subsidiaries



Assets are given as of 31.12.2018

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

The affiliated partnerships, subsidiaries subject to joint management 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 (%)	31 December 2018 (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	773.154
ASELSAN Kazakhstan	Manufacture, sale and technical service of electronic and electro-optical devices and systems	49	42.702
ASELSAN Jordan	Marketing sales and joint production of group products	49	14.417
SADEC LLC	Manufacture and sale of radar, electronic warfare and electrooptic products	50	5.907
ASELSAN Bilkent	Manufacture of micro and nano-sized devices containing semiconductors and similar technological materials	50	9.380
ASELSAN Optik	Precision optic technology	50	10.310
IGG ASELSAN	Production, integration, sales and technical service of high technology products	49	7.245
YİTAL A.Ş.	Production of micro and nano-sized devices containing semi-conductor and similar technological materials	51	2.041
ASPİLSAN 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	411
BARQ QSTP LLC	Command and control systems, thermal and night vision camera, crypto, remote-controlled weapon systems	48	834
ULAK	Communication systems	51	5.100
TEKNOHAB	To create investment opportunities in technology intensive areas, provide job opportunities to researchers and skilled people, help technology transfers and facilitate foreign capital to enter our country that will enable high technology	30	750

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

18. INFORMATION REGARDING THE LAWSUITS OF THE COMPANY

The lawsuits and execution proceedings filed by or against the Group as of 31 December 2018 are summarized below:

Description	31 December 2018 (Thousand TL)
Ongoing lawsuits filed by the Group	12.162
Execution proceedings carried on by the Group	29.115
Lawsuits proceedings carried against the Group	10.905
Lawsuits finalized in favor of the Group within the period	413
Lawsuits finalized against the Group within the period	150

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 2018.

19. INFORMATION REGARDING THE TRANSACTIONS MADE WITHIN THE REPORTING PERIOD

i. Changes in the Articles of Association

In the scope of the increase in the registered capital upper limit of the Company which was approved in the General Assembly held on 2 April 2018, the amendment in the Article 6 "The Registered Capital of the Company" in the Articles of Association have been registered on 12 April 2018 and have been published in Turkey Trade Registry Gazette numbered 9560 dated 17 April 2018.

At the Board of Directors Meeting held on 26 June 2018, it was decided to increase the issued capital from TL 1.000.000 Thousand to TL 1.140.000 Thousand by completing the secondary public offering and to amend the Article 6 of the Company's Articles of Association regarding capital with the approval of CMB and to register the amendment and to be announced.

The amendment made in Article 6 of the Company's Articles of Association has been approved on 11 July 2018 and the registration announced in Turkey Trade Registry Gazette on 16 July 2018.

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

The Group recruited a total number of 699 people (263 with fixed term contract) as the personnel including fixed-term contracted personnel, disabled and terror-stricken personnel during the period 1 January - 31 December 2018 and the number of people quit for the same period is 304 (22 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 31 December 2018 is 5.694.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

iii. Information Regarding the Donations and Social Responsibility

Within the period of 1 January 2018 - 31 December 2018, the Group donated TL 100 Thousand to Kartal Vakfı Genel Müdürlüğü in total.

ANNEX-1

CHAPTER I - STATEMENT FOR COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

ASELSAN, in scope of the Corporate Governance Principles which has been implemented by Capital Markets Board (CMB) since 2003, has been making efforts to work in compliance with the principles under the titles shareholders, public disclosure and transparency, stakeholders and Board of Directors.

ASELSAN, adopting the corporate governance understanding as a principle, was rated with a grade of 8,77 out of 10 as the result of the Corporate Rating Studies carried out by SAHA Corporate Governance and Credit Rating Services Inc (SAHA) first in 2012 and therefore was included in the Borsa İstanbul Corporate Governance Index. According to the report of SAHA, which was published on 12.12.2018, ASELSAN's corporate governance rating grade, which was 9,20 in 2017, was confirmed as 9,20 out of 10 points.

Corporate governance rating grade shows to what extent the companies comply with the corporate governance principles set out by the CMB and the Company's compliance level with the principles is defined with a methodology measuring under the main titles Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors. Within this context, the methodology that is based on the "Corporate Governance Principles" published by CMB in January 2014, was used in the rating made by SAHA.

ASELSAN also stands in the first group at World Corporate Governance Index (WCGI) that was published on 21.07.2017 by SAHA. As a result of the activities of ASELSAN within the concept of corporate governance throughout 2017, ASELSAN's corporate governance rating was confirmed to 9,20 over 10 on 12.12.2017 by SAHA A.Ş.

The ratings of 2017 and 2018 and the subtitles have not changed and they are given below:

2017 and 2018 Rating Distribution	
Shareholders:	**83,63 / 100**
Public Disclosure and Transparency:	**98,70 / 100**
Stakeholders:	**98,09 / 100**
Board of Directors:	**90,70 / 100**
Average	**9,20 / 10,00**

ASELSAN Corporate Governance Ranking Reports published by SAHA can be accessed at the company website: www.aselsan.com.tr

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

The compliance with all the mandatory principles of Corporate Governance Principles was achieved. There are no conflicts of interest arising because of the arbitrary principles where compliance has not been achieved. The titles regarding the arbitrary principles, where compliance has not been achieved yet, are given below and are explained in detail through the Compliance Report.

- No recognition of minority rights to those who own less than twentieth of the capital indicated in the Articles of Association,
- Group A shares having the privileges on Board nominations and the transfer of those shares being subject to permission,
- The fact that although the mechanisms enabling the participation of stakeholders in the management of the company are built, they are not included in the Articles of Association.
- Non-existence of a judgement in the Articles of Association; declaring that shareholders may individually demand special audit of certain incidents from the General Assembly even if it is not on the meeting agenda, under the condition that the right to ask to obtain information and to examine has been used before and if the exercise of shareholders rights is necessary,
- The article "Group A shares shall not be sold or transferred without the consent of the Board of Directors because of the Company's operations in security and defence industry; in the event that these shares are transferred or sold to third parties partially or completely without the consent of the Board of Directors, the Board of Directors is entitled to abstain from recording this sale in the records" in the Articles of Association of the Company,
- Non-existence of a female member in the Board of Directors, the fact that a target, where the ratio of the female members should not be less than 25%, was not set and that there is not a written company policy on that issue,
- Not disclosing the renumeration of executive managers or the benefits provided to them per each individual.

With the resoluiton of CMB, numbered 2/49 and dated 10.01.2019, it has been decided that companies shall make their Corporate Governance Compliance Reporting, which is made in accordance with the Corporate Governance Communiqué numbered II-17.1, by filling the Corporate Governance Compliance Report and Corporate Management Information Form templates via the Public Disclosure Platform (PDP). In accordance with this decision, our Company filled the relevant templates in PDP and also added the templates to the end of the report as Appendix-1.

Corporate Governance Committee will carry on the necessary efforts in order to achieve full compliance with Corporate Governance Principles.

Ercümend ARVAS
Independent Member of Board of Directors
Corporate Governance Committee Chairman

Celal Sami TÜFEKCİ
Member of Board of Directors
Member of Corporate Governance Committee

Murat ÜÇÜNCÜ
Member of Board of Directors
Member of Corporate Governance Committee

Pınar ÇELEBİ
Investor Relations and
Enterprise Risk Manager
Member of Corporate Governance Committee

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

CHAPTER II - SHAREHOLDERS

2.1. Investor Relations Department

The information regarding Investor Relations and Enterprise Risk Management Department responsible for the relations with shareholders is given below.

Okan TURAN: Chief Financial Officer/Vice President
Nuh YILMAZ: Finance Director
Pınar ÇELEBİ: Investor Relations and Enterprise Risk Manager
Bâni Betül GÖKÇE: Investor Relations and Enterprise Risk Management Department/Leader
Başak YÜCEKAYALI: Investor Relations and Enterprise Risk Management Department/Senior Specialist
Gülru SELÇUK FİLİZ: Investor Relations and Enterprise Risk Management Department/Specialist
Müge TAZE ARISOY: Investor Relations and Enterprise Risk Management Department/Assistant Specialist II
Alper GÜNEY: Investor Relations and Enterprise Risk Management Department/Assistant Specialist I

Contact Information

Phone: (312) 592 12 42- 45- 33- 22- 56- 54
e-mail: aselsan.ir@aselsan.com.tr

Investor Relations Department has submitted the report regarding the tasks carried during 2017, to Board of Directors on 30.01.2018.

Pınar ÇELEBİ, Investor Relations Manager, has Capital Markets Transactions Level-3 and Corporate Governance Rating Expertise Licenses.

Main operations carried out by Investor Relations Department during 2018 are as follows:

- Carrying the tasks regarding the Secondary Public Offering,
- Maintenance of the exercise of partnership rights of shareholders, updated and safe records regarding shareholders,
- Coordination of public disclosure of material events,
- Answering the written inquiries of shareholders regarding the company, excluding the information considered as confidential, trade secret and which was not disclosed to public,
- Ensuring the execution of General Assembly meeting in compliance with the regulation in force, Articles of Association and other company regulations, records being kept regarding the ballots and the results being reported to shareholders,
- Monitoring of every issue regarding the public disclosure including the regulations and company policies on information,
- Execution of tasks assigned by Corporate Governance Committee,
- Operation of transactions regarding dividend distribution, capital increase and tasks regarding Corporate Governance Principles,
- Coordination of updating the list of people who have access to insider information; informing those people in purpose of protecting the insider information and making sure they follow the confidentiality rules until financial and operational results are disclosed to public,
- Coordination of preparation and publishing of Sustainability Report,
- Performing the tasks regarding the compensation of the beneficiaries with the capital market instruments, the property of which has been lapsed to the Investor Compensation Center (ICC) and have become valid again.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

In 2018, a total of 128 meetings were held with corporate investors, where 47 of them were held during the deal roadshow for the secondary public offering, 70 of them were one-on-one interviews held in investor conferences, 7 of them were teleconference calls and 4 were held in ASELSAN facilities. In addition to the meetings with corporate investors held by means of investor conferences and teleconferences, approximately 750 individual shareholders' questions regarding secondary public offering, fluctuations in the stock, exercising shareholder rights, material event disclosures made, financial tables, etc. were answered either written or verbally in 2018.

The information and explanations, which may affect the exercise of shareholders rights, are provided in the company website.

2.2. Exercising of Information Acquisition Rights of the Shareholders

Investor Relations Department has taken care of every written and verbal inquiry of all shareholders in 2018 with the most accurate and fastest way. It has paid attention to respond to all the information demands of shareholders with complete and comprehensible responses.

Investor Relations Department has been using Turkish and English website www.aselsan.com.tr actively in order to inform ASELSAN's investors on a timely and accurate basis and has been updating the information given on the web constantly. The electronic platform is being effectively used regarding the issues that may affect exercising of the shareholders rights. The material event disclosures made through Public Disclosure Platform incorporated under Borsa İstanbul are being disclosed in Turkish and also in English along with it starting from 26.10.2015, the material event disclosure and other notifications are being published on our corporate website in Turkish and in English on the same day. In general, any changes occurred in the Company structure are immediately announced on our website and the investor presentations are constantly updated. Capital increases and dividend distribution information are also submitted to our investors' knowledge on the website. In addition, notifications regarding the attendance of shareholders to the General Assembly and electronic general assembly principles within the context of the new Turkish Code of Commerce (TCC) are being made.

Full compliance of both Turkish and English chapters on "Investor Relations" on the website with the regulations was achieved.

Within the context of regulations of CMB, in 2018;

- General Assembly documents within legal deadlines,
- General Assembly minutes and participants list,
- 2017 Annual Report,
- The reports for the 1st quarter, 1st six months' and 3rd quarter period for 2017,
- The investor presentations which are updated every 3 months ,
- Disclosure of material events made in 2018,
- Our Company's Consolidated Financial Statements and Basic Performance Indicators for the last 5 years along with the Financial Report,
- Fact Sheet,
- Investor Calendar updates,
- The updated 5 Year Strategic Plan summary

were published on the website in Turkish and English.

Due to the reason that a regulation is present within the TCC numbered 6102 according to which the shareholders will be able to request from the General Assembly the assignment of a special auditor for the inspection and disclosure of the financial status, and due to the reason that the law and the relevant legislation are considered for the issues not present in the Articles of Association of the Company, there is no respective provision with regard to this issue in the Articles of Association. There was no request of any shareholders with respect to the assignment of a special auditor in 2018.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

2.3. General Assembly Meetings

The agenda and invitation related to the 43rd Ordinary General Assembly Meeting dated 02.04.2018 with regard to 2017 operations realized at the Company headquarters were duly announced comprising all the necessary information in a daily newspaper published in Turkey and on the website on 12.03.2018 and in the Turkish Trade Registry Gazette dated 09.03.2018. Furthermore, the invitation was sent to the main shareholders and the shareholders who attended the previous meeting by post two weeks before the General Assembly. The General Assembly was held with the attendance of 348 shareholders, 16 physically, 332 electronically representing 878.295.689,443 shares (TL 878.295.689,443 nominal) of 1.000.000.000 total shares representing the TL 1.000.000.000 paid-in capital. Media members did not participate in the General Assembly Meeting, which was held simultaneously both physically and electronically.

In scope of the Communiqué on Corporate Governance numbered II.17-1 of CMB, three weeks before the Ordinary General Assembly on date 08.03.2018, the Ordinary General Assembly Document including the meeting agenda, place, time, copy of the power of attorney, total number of shares as of 08.03.2018 and the voting rights, the number of shares representing the privileged shares and their voting rights, the reasons for the changes in the members of Board of Directors, which is present in the agenda, the list of independent members of the Board of Directors, the proposal of the Board of Directors with respect to the year 2017 dividend distribution, the CV's of the independent members of the Board of Directors and their statements of independence and explanations regarding the agenda items were disclosed on Public Disclosure Platform and were published on our Company website. The annual report was made available for the review of the shareholders at the headquarters 15 days before the General Assembly and handed to the shareholders participating in the General Assembly and to the ones who made requests.

For the facilitation of physical attendance to General Assembly Meeting in 2018, transportation from central spots to our Akyurt facility was provided for our shareholders, and our shareholders who attended the General Assembly had a site visit.

In the Ordinary General Assembly Meeting in 2018, the shareholders were informed regarding the presence of managing members, all the Board of Directors members and auditors at the meeting. No proposals were set forth by the shareholders during the meeting regarding the agenda. The shareholders exercised their rights to ask questions regarding the topics in the agenda and the answers to the questions took place in the General Assembly Meeting minutes. There are no questions, which has not been answered in the Ordinary General Assembly Meeting and answered by the Investor Relations Department later on. Within the period, there have not been any transactions of which their resolutions were submitted to General Assembly because the confirmative vote of the majority of the independent board members are required where as they have voted negatively. The minutes of the General Assembly Meeting held in 2018 can be accessed from the website of our Company.

No Extraordinary General Assembly Meeting was held during the year 2018

The shareholders were informed about donations and aids were made in 2017, with a seperate agenda item at the 43rd Ordinary General Assembly Meeting.

2.4. Right to Vote and Minority Rights

In article 25 of the Articles of Association titled "Right to Vote", there is a provision stating that "the Shareholders and their representatives who are present at the Ordinary and Extraordinary General Assemblies shall have one right to vote for each share" and there is no privilege or no upper limit pertaining to the numbers of votes. The right to vote arises as soon as the share is acquired and there is no regulation setting forth that the vote shall be used when a certain time passes after the acquisition date of the share.

The regulations regarding the voting of the shareholders through their representatives are followed by; in the event of a legal representation, it is certified and the open proxy rule is applied.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

Particular attention is paid in exercising the minority rights in our Company and the provisions of Turkish Code of Commerce and the relevant legislation regarding minority rights are applied as is. All shareholders are treated equally in our Company, including the minority and foreign shareholders.

There are no prevailing partners in our Company. In the Articles of Association, there is no provision with respect to the representation of the minority shares in the management and their accumulated casting of votes. Due to the voluntary implementation of this issue regarding the capital market legislation, provision with respect to the current General Assembly quorum is applied.

2.5. Dividend Rights

There are no privileges with respect to the participation in the profit gained by the Company. The dividend policy was revised in 2015 and was submitted to General Assembly meeting. The dividend policy published on our website is given below.

"The dividend amounts which shall be calculated considering the sustainable growth rate, market capitalization, net working capital requirements, dividend yield and cash flows, equity ratio, with the relevant legislation and the provisions of the articles of association over the distributable profit amount calculated taking the period profit as the basis which is shown on the financial statements of our Company prepared pursuant to the existing legal regulations (after the compulsory legal reserves are reserved and the taxes, funds and financial liabilities and losses of the previous year, if any, are deducted and the donations are added), the profit distribution proposal which shall be prepared by the Board of Directors in order for the shares which shall be issued by means of adding the cash or the dividend on the capital on the date(s) determined pursuant to the regulations of the Capital Markets Board to be distributed targeting at least 10% of net profit in cash in the defined amounts or as bonus shares or partly in cash, partly as bonus shares in defined amounts, shall be submitted to the approval of the General Assembly. Following the approval of the General Assembly, the determined dividends are distributed to the shareholders within the legal periods on the date determined by the General Assembly.

There is no privilege to participate to the profit of our Company. The dividends are distributed equally regardless of all the existing shares and their issue and acquiring dates.

In case of a revision made on the Dividend Policy, the resolution of Board of Directors regarding this revision and the reason for revision shall be publicly announced with respect to the legislation of Capital Markets Board."

As per the decision taken in the General Assembly on date 02.04.2018 pursuant to the provisions of the Articles of Association and to the Capital Market Law and other legal regulations in 2017 and within the legal periods, out of the profit gained from 2017 operations, the gross amount of 84.600.000 TL (8,46 Kuruş TL per 1 TL of share, gross 8,46% over the capital) (net 71.900.000 TL – 7,191 Kuruş TL per 1 TL of share, net 7,191% over the capital). The aforesaid dividend distribution rates decided at the Ordinary General Assembly meeting were updated and disclosed at PDP on 07.06.2018 as follows; 7,42 Kuruş TL per 1 TL share, gross 7,42% over the capital, 6,31 Kuruş TL per 1 TL share gross 6,31%, as a result of the increasing number of investors by means of secondary public offering. 28.199.952,- TL of the dividend was distributed on 19.06.2018, 28.199.952,- TL of it was distributed on 13.09.2018 and 28.200.096,- TL of it was distributed on 13.12.2018 to our shareholders as cash dividend with 3 installments.

2.6. Transfer of Shares

The transfer of the nominated Group A shares representing majority part of the capital and which are not traded in Borsa İstanbul has been restricted with the provision of article 6 of the Articles of Association stating "Group A shares shall not be sold or transferred without the consent of the Board of Directors; in the event that these shares are transferred or sold to third parties partially or completely without the consent of the Board of Directors, the Board of Directors is entitled to abstain from recording this sale in the records without stating a reason".

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

CHAPTER III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Company Website and its Content

In order to inform our shareholders in a timely and accurate manner within the context of public disclosure and transparency; the website of the Company at the address www.aselsan.com.tr in Turkish and English is actively used and the information published on the web are updated regularly.

The section "Investor Relations" is included on our website also comprising the issues listed in article 2.1.1 of the corporate governance principles of Communiqué on Corporate Governance numbered II-17.1 issued by CMB on 03.01.2014.

Under "Investor Relations" section;

1. Corporate Governance
    - 1.1 Shareholder Structure and Privileged Shares
    - 1.2 Board of Directors
    - 1.3 Key Resolutions of Board of Directors
    - 1.4 Board Committees
    - 1.5 Articles of Association
    - 1.6 Company Profile and Trade Register Information
    - 1.7 Policies
    - 1.8 Ethical Principles
    - 1.9 Corporate Governance Rating
    - 1.10 General Assembly Meeting
    - 1.11 Compliance with Corporate Governance Principles
2. Sustainability
3. Stock Info
    - 3.1 Stock Info
    - 3.2 Capital Increases
    - 3.3 Analyst Coverage
    - 3.4 Registration Statement and Public Offering Circular
    - 3.5 Dividend Info
4. Investor Calendar
5. Annual Reports
6. Financial Data
    - 6.1 Financial Reports
    - 6.2 Financial Highlights
    - 6.3 Investor Presentations
    - 6.4 Board of Directors Reports
    - 6.5 Fact Sheet
7. BIST Disclosures
8. Frequently Asked Questions
9. Contact

chapters exist. Necessary records and information are included under these titles. The information given on the Turkish website under "Investor Relations" section is included entirely on the English website.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

3.2. Annual Report

The Board of Directors prepare the annual report in detail regarding the operations of the Company and enable the public to reach complete and accurate information that can be comprehensive. The 2017 annual report of our Company was prepared as per the Turkish Code of Commerce numbered 6102, the Regulation Regarding the Determination of the Minimum Content of the Annual Reports of Companies issued by the Ministry of Customs and Trade, the Communiqué Regarding the Principles Related to Financial Reporting in the Capital Market and the Communiqué Regarding the Determination and Implementation of the Corporate Governance Principles, both issued by the CMB.

CHAPTER IV - STAKEHOLDERS

4.1 Informing the Stakeholders

The information requests of stakeholders are keenly handled and attention is paid in responding these accurately and in an understandable manner. Our employees are informed with an employee hand book and informative presentations over the intranet; continuous access to data and support is provided through help desk application over the intranet. Nonetheless, general and personal data that can be necessary outside the company are provided to access over the internet.

As for our suppliers, in order to provide efficient information transfer, ASELSAN Supplier Portal started to be used and by this way, monitoring and reporting of the data process/content between ASELSAN and its suppliers has been provided within Enterprise Resource Planning (ERP) system. On the other hand, information is also shared by ASELSAN website, joint organizations/workshops and face to face meetings.

High quality standards and high technological solutions are offered for services or delivered products with regard to customer needs and expectations so as to meet customer satisfaction. Requirements of these quality standards are met and inspections, tests are applied through every process from projects' start till the delivery phases. Our all processes are administered by directives, quality plans, standards, audits and test instructions. Our processes have been certified by internationally accepted standards such as AS9100, ISO 9001, AQAP and CMMI so that our products and services are secured to protect quality standards. These certificates are renewed every year with the audits performed. Changes and improvements of international standards are being followed and our processes are developed accordingly. Customer satisfaction, which is the primary objective, is evaluated and reported for the access of related executives. In addition, results and trends are evaluated by the upper management in an annual basis and required recovery activites are planned.

It is possible to increase the quality of product and service correspondingly increasing customer satisfaction by supplying the materials used in products from the right and trusted sources. For this purpose, suppliers are subject to product and/or field of activity based selection and evaluation processes. These activities that target continuous improvement and high quality standards for suppliers are regarded as playing an important role in eventual product quality. In this direction, trainings, technology/equipment transfers, on the job trainings are for creating a high quality supplier portfolio. All information is shared within the context of confidentiality with our suppliers, who have the status of our business partners, and it is not permitted to share this information with unauthorized persons and third party firms. Through related directives, handling any kind of relations between ASELSAN and the suppliers within the scope of law and ethical values, minimizing the occurrence of unsuitable conditions for protecting parties and securing the justice and transparency.

ASELSAN Magazine, published in Turkish and English every 3 months and A Bülten published in Turkish every month, provide information regarding the activities, technical issues and up-to-date social events. Hard copies of ASELSAN Magazine is delivered to the end users of products, shareholders who participated to the General Assembly Meeting, company employees and other related parties. A Bülten is uploaded to the social media, Turkcell Dergilik application and the corporate website right after it is published.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

The Compensation Policy can be accessed from our Company's website under Corporate Governance title.

The members of the Board of Directors and the executives do not perform any activities that may cause shareholders to incur losses or may diminish the Company assets. The subject that no debt shall be given, no loans shall be granted or no pledges such as guarantees in favor thereof may be extended to any members of the Board of Directors or to any employees through the use of ASELSAN assets, is declared within the "ASELSAN Ethical Principles, Values and Conduct Rules Document", which is available on our Company's website.

The e-mail mechanism for the stakeholders to report their complaints regarding the transactions of the company, which are against the legislation or deemed unethical, is stated in the ASELSAN Ethical Principles Policy, which was revised last on 07.01.2016. The policy has been published on the Turkish and English web site following the approval of the policy. Within the context of the policy, the Ethics Committee is informing the Corporate Governance Committee.

4.2. Participation of Stakeholders in the Management

In the Articles of Association, there are no provisions regulating the participation of the stakeholders in the management. However, their participation to management shall be supported provided that it does not corrupt the Company activities.

The corporate governance structure of the Company gives the opportunity to all stakeholders including the employees and representatives to convey their worries with regard to transactions, which are inappropriate in terms of legality and ethics.

Our Board of Directors resolved on 30.09.2015 that; employee representatives shall attend the Board of Directors meetings at least once a year for submitting their opinions, suggestions and requests, in order to further comply with the article "Supporting the Participation of the Stakeholders in the Corporation's Management" of Corporate Governance Principles of Capital Board, numbered II-17.1. Within this context, by the coordination of the Corporate Governance Committee, the employee representatives have attended to the Board of Directors meeting on 25.12.2018 and have submitted their opinions, suggestions and requests.

In ASELSAN, an Employee Representative is formed in order to increase the motivation and the sense of identity through providing the ASELSAN employees with the opportunities to,

- Submit their expectations and problems to upper management,
- Share the decisions related with themselves timely and accurately,
- To participate in the decision making processes
- Increase communication with upper management.

The resolution of our Board of Directors dated 30.09.2015 is included in the Employee Representative Directive, which became effective on 17.11.2015. As per the directive published, within the new structure;

- Election of representatives shall be made by the involvement of all employees to the election process once in every two years via Intranet Portal,
- 1 personnel representative shall be representing every 100 employees,
- A fractional bottom-up structure shall be formed that includes sub-committees and a supreme board,
- Problems shall be first solved by the relevant units in-house, and only the ones that could not be solved shall be transferred to the Supreme Board,
- Filter mechanisms shall be developed for agenda setting,
- Representatives shall attend to the Board of Directors meeting at least once a year.

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Coordination of representative meetings is held by the Corporate Management Vice Presidency, where the meeting chairman is the CEO. Nevertheless, Human Resources Directorate is represented at least at the level of a Manager.

The elections for the Employee Representative was made in April 2016, and the tasks of the sub-committees and supreme boards are being performed. The elections will be held in 2019.

4.3. Human Resources Policy

The human resources policy of our Company is to adopt an understanding which adds successful and dynamic talents to ASELSAN family required pursuant to the vision of ASELSAN, which contributes to the sustainable success of ASELSAN with employee oriented approaches, adds value and which takes side of its employee at all times.

Within this scope and pursuant to the vision, mission and the principles of the Company, regulations have been set out pertaining to the working conditions of the personnel, their qualifications, recruitment, promoting, remuneration, rewarding, dismissal, disciplinary treatments, rights, tasks and liabilities and other personal rights.

59% of our employees stand for the engineering group, 29% for the technician group, 7% for the administrative group, 3% for the office personnel and 2% of the worker group.

There were no complaints related to discrimination from the employees in 2018. Performance and rewarding policies are announced to all of our employees through Company directives.

4.4. Ethical Rules and Social Responsibility

4.4.1. Ethical Rules

The ethical rules of our Company have been written and were published on our website. Furthermore, in order to integrate and develop the ethical rules with the implementations, an Ethical Committee was established to meet the evaluation, direction, consulting and recommendation requirements and create shared knowledge.

"ASELSAN Ethical Principles, Values and Conduct Rules" document is announced to all ASELSAN personnel with all its exhibits and the personnel makes a written commitment that s/he acknowledges the information and ethical values. When an amendment or an update is made on this document, the changes are made known to all the personnel and training programs about these changes are organized if deemed neccessary

ASELSAN Ethical Principles Committee comprises of six members, the chairmanship of the Committee is executed by the Vice President for Corporate Management and the secretariat is handled by Human Resources Directorate. Other members consist of the representatives of Legal Affairs Department, Central Procurement Department or Financial Management Vice Presidency, Internal Audit Chairmanship, who are assigned by the suggestion of the CEO and the approval of the Board of Directors, plus two personnel who are assigned by the Board of Directors, whereas one shall have at least 15 years and the other shall have at least 5 years of ASELSAN experience, chosen among the Top 5 ranked nominees with the votes of ASELSAN personnel . If there are no changes in the organization, the Ethical Committee members serve at least for two years.

Ethical Committee meets as soon as possible when there is an application. However, Committee, Board of Directors, Corporate Governance Committee, CEO or the Chairman of the Ethical Committee can call a meeting. Beyond evaluating applications, Ethical Committee represents reason and conscience of ASELSAN and works to increase the awareness about ethical values in ASELSAN family.

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When there is an application, ethical committee conducts the required assestment and submit a report to the CEO. At the end of this investigation, necessary steps are taken in accordance with relative law and ASELSAN regulations and directives. The applications for last six months and assessment result is reported to Board of Directors each year within the months January and July.

In the year 2018, Disciplinary Procedures and Practices at ASELSAN were updated in order to create a harmonious and productive work environment and to be able to pursue our business targets as they should normally be. With the updated procedures, the operations and actions that require disciplinary action are defined; describing in detail how those disciplinary actions will be applied. These updates were announced to the employees through ASELSAN intranet system.

4.4.2. Social Responsibility

An independent British institution, Carbon Disclosure Project (CDP), which reports how the companies manage the risks of climate changes, has announced the 2018 results on January 2019. ASELSAN is placed in the A- list according to 2018 results, among the firms that most successfully manage climate change risks through production process and has the highest gas emission performance on the outcome of the research conducted by evaluating big firms including firms listed on Borsa İstanbul.

In ASELSAN, where decreasing carbon emission is one of the strategic goals, carbon emission has been monitored since 2009. Also, ASELSAN is the first and only company that is ranked with the highest initial score among Defence Industry firms in Turkey by participating in CDP survey.

ASELSAN has decreased carbon emission significantly through its efforts, and continues its operations by increasing momentum in the fields of increasing energy efficiency in production, giving priority to production technologies that decrease carbon emission, switching to use of energy that does not cause carbon emission.

Having certifications for ISO 14001 Environmental and OHSAS 18001 Work Health and Safety Integrated Management System; we will proceed to take part in pioneer applications through actualization of national and international initiatives.

In November 2014, Borsa Istanbul (BIST) has launched Sustainability Index that display the performance of January-March 2014 time period for BIST-30 firms in the fields of financial, environmental, social issues and corporate governance. With respect to that, as of this date, ASELSAN started publishing sustainability reports. As a result of the evaluation of our Company on the ASELSAN Sustainability Report, published in Turkish and English for the first time before the Index assessments, ASELSAN was among the 15 firms that were approved to be included in BIST Sustainability Index. In November 2017, ASELSAN kept its place in the index as a consequence of the re-evaluation of ASELSAN Sustainability Report that was published in June 2017.

Sustainability reports that are published on our website (www.aselsan.com.tr) include the details of sustainable applications in the fields of strategic governance, corporate governance, ethical principles, internal audit, bribery and corruption, risk management, communication with stakeholders, supply chain, information systems, facility management, employee development, human rights, occupational health and safety, environmental management.

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In the year 2018, our company supported the following events through sponsorship:

- Turkish Armed Forces Rehabilitation and Healthcare Center's Disability Sports Club's sport activities and Gazi Sports Team's climbing event held on 09.03.2018,
- Publication of Anıtkabir Command's 2018 Books,
- Unmanned Underwater Vehicles Prototype Competition, which was organized for the first time by the Presidency of Defence Industries, Autonomous Land Vehicle Development Competition held for the second time this year by the Presidency of Defence Industries and ROBOIK 2018 Competitions,
- TEKNOFEST 2018, İstanbul Aerospace and Technology Festival.

CHAPTER V - BOARD OF DIRECTORS

5.1. Structure and Formation of Board of Directors

In our Company, 3 members of 9 members of Board of Directors are independent members. The duties of Nomination Committee are executed by Corporate Governance Committee. The reports regarding the evaluation of the list of Independent Members of Board of Directors prepared by Corporate Governance Committee on 26.12.2017, 09.01.2018, 06.03.2018 were presented to Board of Directors respectively on 26.12.2017, 09.01.2018 and 08.03.2018. Within the scope of CMB's Communiqué on Corporate Governance numbered II.17-1, CMB has not stated any adverse opinion on the nominee lists and the evaluation reports. The CV's and independence statements of the 12 nominees were announced to public on our website respectively on 08.03.2018 and 16.03.2018. As a result of the voting at the General Assembly Meeting on 02.04.2018, 3 nominees were elected as Independent Members of Board of Directors. There were no cases to eliminate the independency of the Independent Members of the Board of Directors in 2018.

The CVs of the Members of the Board of Directors are included in the 2017 annual report and the information with respect to their duty terms is provided in the table below.

Name Surname	Duty	Election Date
Haluk GÖRGÜN	Chairman / Managing Member / CEO	March 2017
Mustafa Murat ŞEKER	Vice Chairman / Managing Member	May 2013
Mehmet ARIK	Independent Member	April 2018
Ercümend ARVAS	Independent Member	March 2016
Bayram GENÇCAN (*)	Member	March 2017
İbrahim ÖZKOL	Independent Member	March 2017
Ercan TOPACA	Member	March 2017
Celal Sami TÜFEKCİ	Member	April 2018
Murat ÜÇÜNCÜ	Member	May 2013

(*) Appointed as the Vice President responsible of Communication and Information Technologies as of 05.02.2019.

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In article 13 of the Articles of Association titled "Duties and Authorization of the Board of Directors", the duties and authorization of the Board of Directors have been defined. Besides, the Board of Directors Working Directive also describes the Duties and Authorization of the Board of Directors. With the article 14 of the Articles of Association titled "Assignment of the Authorization to the CEO", the assignment of the authorization of the Board of Directors to the CEO has been set out. The duties and authorization of the executives are described in the "Duties and Responsibilities Directive" formed within the Company.

The duties of the Members of the Board of Directors and of the CEO carried out outside the Company, information regarding the term of office and the statements of the board of members with respect to their independencies:

- There is an executive member in the Board of Directors.
- The statements of independence of the Independent Members of the Board of Directors have been provided at the annex of the Compliance Report.
- The Members of the Board of Directors fulfill their duties without any interest or benefit and pursuant; to the liabilities and authorizations undertaken by the Board of Directors and to the regulations of the Turkish Code of Commerce and CMB.
- Members of the Board of Directors, in accordance with the Working Directive of Board of Directors, are liable not to enter into any commercial treatments directly or indirectly with the Company that coincides with the Company objectives, on their behalf or on behalf of others without the consent of the General Assembly.

5.2. Principles of Activity of Board of Directors

Board of Directors carries out its duties and responsibilities determined with reference to TCC, Capital Market Law and Articles of Association. In this context, the basis of duties and operations are indicated in details in ASELSAN Board of Directors Working Directives.

The agenda of the Board of Directors meetings is formed with the proposals of the Members of the Board of Directors and the committees and the CEO, it is afterwards evaluated by the Board of Directors Chairman and finalized. The subjects emerged as urgent and which are considered worthwhile to discuss may be added to the agenda during the Board of Directors meeting.

As per article 10 of the Articles of Association, the Board of Directors assemble when required and at least once a month. The number of Board of Directors Meetings in 2018 was 65, where 50 of the decisions in the meetings are interim decisions. 90% of the Members of the Board of Directors attended 88% of the meetings.

The place, date, time and agenda of the next meeting is decided at the Board of Directors Meetings. Documents pertaining to the meeting agenda are sent to the members of Board of Directors at least 3 work days before the meeting by the Presidency.

The Members of the Board of Directors attend the meetings and fulfill their duties as per their authorization and responsibilities. The members who do not attend the meetings submit their excuses.

Board Office is established under Board of Directors in order to coordinate necessary issues in the name of the Board, particularly the relationships with the Presidency and TAFF, to execute planning and support the Board of Directors' operations.

All members have one right to vote, including the chairman. If the numbers of votes are equal, the vote of the chairman does not change the result. Abstaining is not possible, either rejection or acceptance is voted. The vote of the abstaining member is considered as a rejecting vote. The member casting a reject vote states the ground for this in the meeting minutes and undersigns it. According to the article 11 of the Articles of Association titled "Quorum of Meeting and Decision Making"; "The provisions of the TCC, Capital Market Law, regulations of the Capital Markets Board in connection with corporate governance and other relevant legislation are taken into account with respect to the meetings and decision making quorums of the Board of Directors as well as with respect to any Board of Directors members assuming duties and positions outside the Company. Any action and resolutions taken by the Board of Directors without complying with the Corporate Governance Principles, which are made mandatory as to be complied by the Capital

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

Markets Board, are invalid and considered as in contrary to the Articles of Association". In the operation year 2018, there were no related party transactions or any other significant issue, which had to be submitted to the approval of the general assembly, since they were not approved by the Independent Members of the Board of Directors.
The signed decisions are made available to the follow up of the Members of the Board of Directors and Executive Committee Members in the electronic platform.

In accordance with the article 4.2.8 of Capital Markets Board Corporate Governance Communiqué; Executive Liability Insurance Policy was signed for Board of Directors members on 17.07.2018 with the total liability amount of USD 75.000.000,- which corresponds to more than 25% of the paid-in-capital of our Company, with a validity period of 1 year.

5.3. Number of Committees Formed in the Board of Directors with Their Structures and Independency

As per the title "Committees Formed in the Board of Directors" in the Communiqué Regarding Determination and Implementation of Corporate Governance Principles by the Capital Markets Board, our Company's Board of Directors, in the meeting dated 10.04.2012, formed an Audit Committee, Corporate Governance Committee and Early Detection and Management of Risk Committee and announced this to the public. There are no Nomination and Remuneration Committees within the Board of Directors and the duties of these are carried out by the Corporate Governance Committee.

The directives of Audit Committee, Corporate Governance Committee and Early Detection and Management of Risk Committee are made available at the website of our Company. The Independent Members of the Board of Directors have duties in more than one committee. This is because it is mandatory that all members of the Audit Committee and the chairman of the other committees should be Independent Members of the Board of Directors.

Boards of Directors have made the annual evaluation of the committees composed under its structure and the evaluation report is available in 2017 Annual Report.

AUDIT COMMITTEE

Committee Members (January – March 2018)
Ziya AKBAŞ: Chairman / Independent Member of Board of Directors
Ercümend ARVAS: Member / Independent Member of Board of Directors

Committee Members (April – December 2018)
İbrahim ÖZKOL: Chairman / Independent Member of Board of Directors
Ercümend ARVAS: Member / Independent Member of Board of Directors
Mehmet ARIK: Member / Independent Member of Board of Directors

The main duties of the Audit Committee that were set out in the "ASELSAN Audit Committee Work Directives" regulating the working principles of Audit Committee are as follows;

- To enable the disclosure of the financial data of ASELSAN, to pursue the operation and efficiency of the accounting system, independent audit, internal audit and internal control system of the company,
- To assemble at least every 3 months, to share the meeting minutes with the Board of Directors

Meetings were held by Audit Committee on dates 20.02.2018, 02.05.2018, 14.08.2018 and 30.10.2018 regarding the financial statements with the participation of the relevant independent audit company in 2018.

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In order to increase the efficiency of internal audit, attention was paid to strengthen the cooperation with Internal Audit Presidency and to the supervision of internal audit activities, direct and continuous communication was established between Audit Committee and Internal Audit Presidency. A dimension of this communication; Audit Committee-Internal Audit Presidency coordination meetings, were held eleven times on dates 22.01.2018, 12.02.2018, 09.04.2018, 23.05.2018, 19.06.2018, 17.07.2018, 07.08.2018, 25.09.2018, 25.10.2018, 21.11.2018, 19.12.2018.
The Committee was active in two main topics in 2018.

i. Independent Audit Activities and Works Regarding the Audited Financial Statements:
"Communiqué on Financial Reporting in Capital Markets" Serial: II, 14.1 regulated the preparation of financial reports and their basis, principles of presentation to the relevant parties. December 2017, March 2018, June 2018 and September 2018 financials and Board of Directors reports were prepared in accordance with the communiqué numbered II, 14.1, and submitted to Board of Directors by Audit Committee and presented to the public via Public Disclosure Platform.

The procurement process for independent audit services for the year 2018 as per the CMB'S communiqué numbered II-14:1, was handled by the Procurement Department and the purchasing decision that the service shall be provided by "YEDİTEPE Bağımsız Denetim A.Ş." was taken by Board of Directors. The resolution was submitted for approval on the General Assembly Meeting dated 02.04.2018 and was accepted.

ii. Internal Audit Presidency:
Within the scope of the internal audit activities of the Company, the relations between the Internal Audit Presidency and the Board of Directors have been carried out through Audit Committee. A direct and continuous contact between Audit Committee and Internal Audit Presidency is present.

CORPORATE GOVERNANCE COMMITTEE

Committee Members (January – March 2018)
Ercümend ARVAS: Chairman / Independent Member of the Board of Directors
Haluk GÖRGÜN: Member / Member of the Board of Directors
Emin Sami ÖRGÜÇ: Member / Member of the Board of Directors
Pınar ÇELEBİ: Member / Investor Relations and Enterprise Risk Manager

Committee Members (April- December 2018)
Ercümend ARVAS: Chairman / Independent Member of the Board of Directors
Celal Sami TÜFEKCİ: Member / Member of the Board of Directors
Murat ÜÇÜNCÜ: Member / Member of the Board of Directors
Pınar ÇELEBİ: Member / Investor Relations and Enterprise Risk Manager

The main duties of the Corporate Governance Committee were set out in the "ASELSAN Corporate Governance Committee Work Directives" as follows

- To carry out studies for the implementation of Corporate Governance Principles in the Company,
- To observe whether the Corporate Governance Principles have been implemented or not and if not implemented to determine the grounds for this and the conflicts of interest arising due to not complying with these principles and to make proposals for improving the status,
- To monitor the activities of the Investor Relations Department.
- Corporate Governance Committee assembles every 3 months and in every situation when necessary. The meeting minutes are submitted to the Board of Directors.

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The Corporate Governance Committee assembled eight times within the activity year 2018 on dates, 09.01.2018, 13.02.2018, 06.03.2018, 23.05.2018, 20.06.2018, 06.07.2018, 13.07.2018 and 14.08.2018. The meeting minutes of the Committee may be reached on our website. The committee was active in three respective tasks in 2018:

i. Operations of Investor Relations Department:
Investor Relations Department have attended all the meetings in 2018 and performed secretariat procedures of the committee with regard to "ASELSAN Corporate Governance Committee Working Directive". Information was provided to the committee about the activities of the Investor Relations Department in the Committee meetings.

In 2018, the subjects discussed and tasks carried by the Corporate Governance Committee within the context of the meetings are given below:

- Corporate Governance Committee Evaluation Report,
- Preparation of ASELSAN Corporate Governance Principles Compliance Report 2017 and the submission of the report to Board of Directors,
- Independent Board Members selection process,
- Corporate Governance Rating,
- Preparation of Corporate Governance Committee 2017 Evaluation Report and the submission of the report to Board of Directors,
- Discussing the tasks carried out by the General Directorate within the context of ASELSAN's export development strategies,
- Discussing Industry 4.0 issue,
- ASELSAN investor base analysis results,
- Self-financed R&D Process Management Functor,
- University Rankings,
- Discussing ASELSAN Personnel Post-Graduate Education Permission Directive,
- Discussing the tasks carried out by the General Directorate regarding the Project and Subsidiaries Management,
- Discussing the studies about Quantum Computers,
- Evaluation of the additional needs of ASELSAN in Teknopark İstanbul,
- Deciding on receiving corporate governance rating service,
- Investor Relations Department and its operations,
- Tasks carried for the revision of the score cards of Sector Presedencies and Vice Presedencies,
- BIST Sustainability Index, sustainability tasks performed in ASELSAN and the draft ASELSAN 2017 Sustainability Report,
- Fluctuations observed in ASELSAN stock.

ii. Corporate Governance Rating:
The evaluation of corporate governance rating performed by SAHA Corporate Governance and Credit Rating Services were concluded during the last quarter of 2018. According to the review, the score of 12.12.2017, 9,20 was confirmed as 9,20 out of 10 on 12.12.2018.

Our Company's share has been listed in the corporate governance index since the date 14.12.2012, which it first entered the index. Rating reports can be accessed on the company website.

iii. Election of Independent Board Members
As given by Corporate Governance Principles, the responsibility of evaluating and reporting the nominations and their independency status is given to the Nomination Committee, in companies where this committee is not formed because of the structure of the Board of Directors, the responsibility is given to Corporate Governance Committee. Within this context, the evaluation of nominations was

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

carried on by the Committee and the resulting nominee lists were presented at the Board of Directors meetings on dates 26.12.2017, 09.01.2018 and 08.03.2018.

CMB has not stated any opposing opinons regarding the nominees' lists and evaluation reports which was submitted by the Board of Directors. The final list was submitted to shareholders' voting on General Assembly Meeting on 02.04.2018 and as a result, Ercümend ARVAS, Mehmet ARIK and İbrahim ÖZKOL were elected as independent members to serve for 1 year.

EARLY DETECTION AND MANAGEMENT OF RISK COMMITTEE
ASELSAN Board of Directors established the "Early Detection and Management of Risk Committee" with the resolution dated 10.04.2012 and numbered 720/1. The Committee executes as per the directive numbered ASY-01-066.

Committee Members (January – March 2018)
Ziya AKBAŞ: Chairman / Independent Member of the Board of Directors
Bayram GENÇCAN: Member / Member of the Board of Directors

The committee members were changed in in accordance with the Board of Directors resolution, dated 02.04.2018 and numbered 983/1. The Board of Directors members assigned to the committee are given below:

Committee Members (April – December 2018)
Mehmet ARIK: Chairman / Independent Member of the Board of Directors
Bayram GENÇCAN: Member / Member of the Board of Directors

In 2018 the Committee continued to identify the risks which prevent ASELSAN from reaching its goals; manage the risks in accordance with the company's risk-taking profile; report the risk activities; build risk aware decision mechanisms and internal control. Risks identified through risk management processes are prioritized depending on their probability and impact. It is ensured that important risks are monitored and reported. In this context, in 2018 the Committee held six meetings on 28.01.2018, 26.03.2018, 18.05.2018, 19.07.2018, 02.10.2018 and 15.11.2018.

Committee's activities are summarized below:

- "2017 Evaluation Report" was prepared and submitted to Board of Directors in January 2018.

- "Corporate Risk Evaluation Report" was prepared and submitted to Board of Directors in January 2018, March 2018, May 2018, July 2018, October 2018 and November 2018. In the reports;

  - Important risks of ASELSAN were evaluated and monitored. The risk classification, explanation, rating, strategy, owner/ responsible, current control operations and relevant indicators and mitigating actions were included in the report.
  - Warning levels of benchmarks for risk indicators were determined and the risk indicators which divert from the benchmark and can signal the poor performance of a goal during the reporting period were also reported.

- Risk management chapters in the annual report and the other reports set by the legal authorities were prepared.

- Special reports were prepared for specific risks related to recent incidents

The secretariat formalities of the Committee were performed by Investor Relations and Enterprise Risk Management Department of Finance Directorate.

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5.4. Risk Management and Internal Control Mechanism

In ASELSAN, the effectiveness of internal audit activities, corporate governance, risk management and internal control processes are improved and the Company contributes to the achievement of the Company's targets. The most important role of the internal audit activities, which is an important component of the internal control system, is the provision of assurance and consultancy services to the Audit Committee and the Board of Directors on the internal control system. The 3-year audit plan and work programs are prepared on a risk-based basis and the results of the audit are reported to the Audit Committee and regular meetings are held with the Committee. By the Internal Audit Department; compliance with legal regulations and company regulations, the application of ethical principles and the adequacy of controls to eliminate risks are evaluated.

5.5. Strategic Objectives of the Company

The Board of Directors is the top level body to make strategic decisions and to execute and represent. As per the Articles of Association of the Company, the Board of Directors is responsible to determine the strategic plans and control their implementations.

Strategic management process is a part of Corporate Governance and is managed by the CEO in the name of Board of Directors, following the approval of the Strategic Plan, prepared with the coordination of Strategic Management Directorate. Reaching ASELSAN's long term goals and sustaining success can be achieved through environment friendly strategies.

ASELSAN's vision is to be a reliable, competitively preferred, environment-friendly and human conscious technology firm which preserves its sustainable growth in the global market via the values created for stakeholders, as well as serving its establishment purposes. Within this concept, annually updated 5 year Strategic Plan and Business Plans and 3 years budget are prepared. With this methodology, short and middle term targets are specified by considering long term goals. The operations to be carried out for these targets are executed by Sectors Presidencies/Vice Presidencies and performance evaluations are made based on Balanced Scorecard method, which is widely used in the world.

5.6. Financial Rights

Renumeration procedures for Board of Directors Members and Managers with Executive Responsibility, which are set in written form in accordance with the Corporate Governance Principles, are published on our Company's website.

The renumeration and all other benefits provided to board members are explained on an individual basis in the 2017 annual report.

Monthly remunerations provided to our Members of the Board of Directors are determined by the General Assembly and no other benefits are granted apart from the monthly remuneration. Pursuant to the resolution taken at the 43rd Ordinary General Assembly held on 02.04.2018, the Members of the Board of Directors are paid TL 3.000,- per month. As for the determination of the financial rights of the board members, no reward system is applied to reflect the Company performance and which is based on the performance of the Members of the Board of Directors.

Statement of Independence

TO THE BOARD OF DIRECTORS OF ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. ANKARA

Date: 19.12.2017

With respect to the corporate governance principle numbered 4.3.6 of the Capital Markets Board's Communiqué on Corporate Governance numbered II-17.1, in order for me to be selected as an Independent Board Member of ASELSAN Elektronik Sanayi ve Ticaret (Company), I hereby agree, represent and undertake that I;

a) do not have a relationship in terms of employment at an administrative level to take upon significant duty and responsibilities within the last five years, do not own more than 5% of the capital or voting rights or privileged shares either jointly or solely or do not have established a significant commercial relation between the corporation, companies on which the corporation hold control of management or significant effect and shareholders who hold control of management of the corporation or have significant effect in the corporation and legal entities on which these shareholders hold control of management and myself, my spouse and my relatives by blood or marriage up to second degree,
b) have not been a shareholder (5% and more), an employee at an administrative level to take upon significant duty and responsibilities or member of board of directors within the last five years in companies that the corporation purchases or sells goods or service at a significant level within the framework of the contracts executed, especially on audit (including tax audit, statutory audit, internal audit), rating and consulting of the corporation, at the time period when the corporation purchases or sells services or goods,
c) have professional education, knowledge and experience in order to duly fulfill the duties assigned for being an independent board member,
d) will not be serving as a full time employee at public authorities and institutions after being elected, except being an academic member at university provided that is in compliance with the relevant legislation,
e) am residing in Turkey in accordance with the Income Tax Law (I.T.L) dated 31.12.1960 and numbered 193,
f) am capable to contribute positively to the operations of the corporation, to maintain my objectivity in conflicts of interests between the corporation and the shareholders, have strong ethical standards, professional reputation and experience to freely take decisions by considering the rights of the stakeholders,
g) am able to allocate time for the corporation's business in order to follow up the activities of the corporation and duly fulfill the allocated duties,
h) have not conducted membership of board of directors more than a term of six years in the last ten years,
i) am not the independent member of the board of directors in more than three of the corporations as such; the corporation or the controlling shareholders of the corporation who hold the control of management corporations and in more than five corporations in total which are admitted to the trading on the exchange,
j) have not been registered and announced as a board member representing a legal entity.

I hereby submit this to the knowledge of the Board of Directors, shareholders and all relevant parties.

Sincerely yours,
Ercümend ARVAS



Report of the Board of Directors for the Period Between 1 January - 31 December 2018

TO THE BOARD OF DIRECTORS OF ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. ANKARA

Date: 19.12.2017

With respect to the corporate governance principle numbered 4.3.6 of the Capital Markets Board's Communiqué on Corporate Governance numbered II-17.1, in order for me to be selected as an Independent Board Member of ASELSAN Elektronik Sanayi ve Ticaret (Company), I hereby agree, represent and undertake that I;

a) do not have a relationship in terms of employment at an administrative level to take upon significant duty and responsibilities within the last five years, do not own more than 5% of the capital or voting rights or privileged shares either jointly or solely or do not have established a significant commercial relation between the corporation, companies on which the corporation hold control of management or significant effect and shareholders who hold control of management of the corporation or have significant effect in the corporation and legal entities on which these shareholders hold control of management and myself, my spouse and my relatives by blood or marriage up to second degree,
b) have not been a shareholder (5% and more), an employee at an administrative level to take upon significant duty and responsibilities or member of board of directors within the last five years in companies that the corporation purchases or sells goods or service at a significant level within the framework of the contracts executed, especially on audit (including tax audit, statutory audit, internal audit), rating and consulting of the corporation, at the time period when the corporation purchases or sells services or goods,
c) have professional education, knowledge and experience in order to duly fulfill the duties assigned for being an independent board member,
d) will not be serving as a full time employee at public authorities and institutions after being elected, except being an academic member at university provided that is in compliance with the relevant legislation,
e) am residing in Turkey in accordance with the Income Tax Law (I.T.L) dated 31.12.1960 and numbered 193,
f) am capable to contribute positively to the operations of the corporation, to maintain my objectivity in conflicts of interests between the corporation and the shareholders, have strong ethical standards, professional reputation and experience to freely take decisions by considering the rights of the stakeholders,
g) am able to allocate time for the corporation's business in order to follow up the activities of the corporation and duly fulfill the allocated duties,
h) have not conducted membership of board of directors more than a term of six years in the last ten years,
i) am not the independent member of the board of directors in more than three of the corporations as such; the corporation or the controlling shareholders of the corporation who hold the control of management corporations and in more than five corporations in total which are admitted to the trading on the exchange,
j) have not been registered and announced as a board member representing a legal entity.

I hereby submit this to the knowledge of the Board of Directors, shareholders and all relevant parties.

Sincerely yours,
İbrahim ÖZKOL



Report of the Board of Directors for the Period Between 1 January - 31 December 2018

TO THE BOARD OF DIRECTORS OF ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. ANKARA

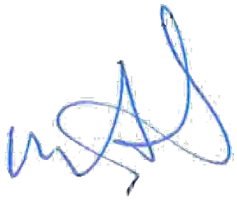
Date: 19.12.2017

With respect to the corporate governance principle numbered 4.3.6 of the Capital Markets Board's Communiqué on Corporate Governance numbered II-17.1, in order for me to be selected as an Independent Board Member of ASELSAN Elektronik Sanayi ve Ticaret (Company), I hereby agree, represent and undertake that I;

a) do not have a relationship in terms of employment at an administrative level to take upon significant duty and responsibilities within the last five years, do not own more than 5% of the capital or voting rights or privileged shares either jointly or solely or do not have established a significant commercial relation between the corporation, companies on which the corporation hold control of management or significant effect and shareholders who hold control of management of the corporation or have significant effect in the corporation and legal entities on which these shareholders hold control of management and myself, my spouse and my relatives by blood or marriage up to second degree,
b) have not been a shareholder (5% and more), an employee at an administrative level to take upon significant duty and responsibilities or member of board of directors within the last five years in companies that the corporation purchases or sells goods or service at a significant level within the framework of the contracts executed, especially on audit (including tax audit, statutory audit, internal audit), rating and consulting of the corporation, at the time period when the corporation purchases or sells services or goods,
c) have professional education, knowledge and experience in order to duly fulfill the duties assigned for being an independent board member,
d) will not be serving as a full time employee at public authorities and institutions after being elected, except being an academic member at university provided that is in compliance with the relevant legislation,
e) am residing in Turkey in accordance with the Income Tax Law (I.T.L) dated 31.12.1960 and numbered 193,
f) am capable to contribute positively to the operations of the corporation, to maintain my objectivity in conflicts of interests between the corporation and the shareholders, have strong ethical standards, professional reputation and experience to freely take decisions by considering the rights of the stakeholders,
g) am able to allocate time for the corporation's business in order to follow up the activities of the corporation and duly fulfill the allocated duties,
h) have not conducted membership of board of directors more than a term of six years in the last ten years,
i) am not the independent member of the board of directors in more than three of the corporations as such; the corporation or the controlling shareholders of the corporation who hold the control of management corporations and in more than five corporations in total which are admitted to the trading on the exchange,
j) have not been registered and announced as a board member representing a legal entity.

I hereby submit this to the knowledge of the Board of Directors, shareholders and all relevant parties.

Sincerely yours,
Mehmet ARIK



Report of the Board of Directors for the Period Between 1 January - 31 December 2018

APPENDIX-1

	COMPLIANCE					
CORPORATE GOVERNANCE COMPLIANCE REPORT	**YES**	**PARTIAL**	**NO**	**EXEMPTED**	**NOT APPLICABLE**	**EXPLANATION**
1.1. FACILITATING THE EXERCISE OF SHAREHOLDER RIGHTS						
1.1.2 - Up-to-date information and disclosures which may affect the exercise of shareholder rights are available to investors at the corporate website.	X					
1.2. RIGHT TO OBTAIN AND REVIEW INFORMATION						
1.2.1- Management did not enter into any transaction that would complicate the conduct of special audit.	X					
1.3. GENERAL ASSEMBLY						
1.3.2 -The company ensures the clarity of the General Assembly agenda, and that an item on the agenda does not cover multiple topics.	X					
1.3.7- Insiders with privileged information have informed the board of directors about transactions conducted on their behalf within the scope of the company's activities in order for these transactions to be presented at the General Shareholders' Meeting.					X	
1.3.8 - Members of the board of directors who are concerned with specific agenda items, auditors, and other related persons, as well as the officers who are responsible for the preparation of the financial statements were present at the General Shareholders' Meeting.	X					
1.3.10 - The agenda of the General Shareholders' Meeting included a separate item detailing the amounts and beneficiaries of all donations and contributions.	X					
1.3.11 - The General Shareholders' Meeting was held open to the public, including the stakeholders, without having the right to speak.		X				The General Assembly meeting is not open to the media.
1.4. VOTING RIGHTS						
1.4.1-There is no restriction preventing shareholders from exercising their shareholder rights.	X					
1.4.2-The company does not have shares that carry privileged voting rights.	X					
1.4.3-The company withholds from exercising its voting rights at the General Shareholders' Meeting of any company with which it has cross-ownership, in case such cross-ownership provides management control.						
1.5. MINORITY RIGHTS						
1.5.1- The company pays maximum diligence to the exercise of minority rights.	X					
1.5.2-The Articles of Association extend the use of minority rights to those who own less than one twenthieth of the outstanding shares, and expand the scope of the minority rights.			X			Utmost attention is paid for the execution of minority rights in our Company and the provisions of Turkish Code of Commerce and the relevant legislation regarding minority rights are applied as is.
1.6. DIVIDEND RIGHT						
1.6.1 -The dividend policy approved by the General Shareholders' Meeting is posted on the company website.	X					

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

CORPORATE GOVERNANCE COMPLIANCE REPORT	YES	PARTIAL	NO	EXEMPTED	NOT APPLICABLE	EXPLANATION
1.6.2-The dividend distribution policy comprises the minimum information to ensure that the shareholders can have an opinion on the procedure and principles of dividend distributions in the future.	X					
1.6.3 - The reasons for retaining earnings, and their allocations, are stated in the relevant agenda item.	X					
1.6.4 - The board reviewed whether the dividend policy balances the benefits of the shareholders and those of the company.	X					
1.7. TRANSFER OF SHARES						
1.7.1 - There are no restrictions preventing shares from being transferred.			X			The transfer of the nominated Group A shares representing majority part of the capital and which are not traded in Borsa İstanbul has been restricted with the provision of article 6 of the Articles of Association stating "Group A shares shall not be sold or transferred without the consent of the Board of Directors; in the event that these shares are transferred or sold to third parties partially or completely without the consent of the Board of Directors, the Board of Directors is entitled to abstain from recording this sale in the records without stating a reason".
2.1. CORPORATE WEBSITE						
2.1.1.-The company website includes all elements listed in Corporate Governance Principle 2.1.1.	X					
2.1.2-The shareholding structure (names, privileges, number and ratio of shares, and beneficial owners of more than 5% of the issued share capital) is updated on the website at least every 6 months.	X					
2.1.4 -The company website is prepared in other selected foreign languages, in a way to present exactly the same information with the Turkish content.	X					
2.2. ANNUAL REPORT						
2.2.1-The board of directors ensures that the annual report represents a true and complete view of the company's activities.	X					
2.2.2 - The annual report includes all elements listed in Corporate Governance Principle 2.2.2.	X					
3.1. CORPORATION'S POLICY ON STAKEHOLDERS						
3.1.1- The rights of the stakeholders are protected pursuant to the relevant regulations, contracts and within the framework of bona fides principles.	X					
3.1.3-Policies or procedures addressing stakeholders' rights are published on the company's website.	X					
3.1.4 - A whistleblowing programme is in place for reporting legal and ethical issues.	X					

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

CORPORATE GOVERNANCE COMPLIANCE REPORT	YES	PARTIAL	NO	EXEMPTED	NOT APPLICABLE	EXPLANATION
3.1.5-The company addresses conflicts of interest among stakeholders in a balanced manner.	X					
3.2. SUPPORTING THE PARTICIPATION OF THE STAKEHOLDERS IN THE CORPORATION'S MANAGEMENT						
3.2.1-The Articles of Association, or the internal regulations (terms of reference/manuals), regulate the participation of employees in management.		X				Although the mechanisms that enable the participation of stakeholders in the management of the company are built, they are not included in the Articles of Association.
3.2.2 - Surveys/other research techniques, consultation, interviews, observation method etc. were conducted to obtain opinions from stakeholders on decisions that significantly affect them.	X					
3.3. HUMAN RESOURCES POLICY						
3.3.1- The company has adopted an employment policy ensuring equal opportunities, and a succession plan for all key managerial positions.	X					
3.3.2-Recruitment criteria are documented.	X					
3.3.3 - The company has a policy on human resources development, and organises trainings for employees.	X					
3.3.4-Meetings have been organised to inform employees on the financial status of the company, remuneration, career planning, education and health.	X					
3.3.5 - Employees, or their representatives, were notified of decisions impacting them. The opinion of the related trade unions was also taken.		X				Although there is an employee representative practice in our company, there is no union organization.
3.3.6 - Job descriptions and performance criteria have been prepared for all employees, announced to them and taken into account to determine employee remuneration.	X					
3.3.7 - Measures (procedures, trainings, raising awareness, goals, monitoring, complaint mechanisms) have been taken to prevent discrimination, and to protect employees against any physical, mental, and emotional mistreatment.	X					
3.3.8 - The company ensures freedom of association and supports the right for collective bargaining.					X	There is no such request within the company.
3.3.9 - A safe working environment for employees is maintained.	X					
3.4. RELATIONS WITH CUSTOMERS AND SUPPLIERS						
3.4.1-The company measured its customer satisfaction, and operated to ensure full customer satisfaction.	X					
3.4.2-Customers are notified of any delays in handling their requests.	X					
3.4.3 - The company complied with the quality standards with respect to its products and services.	X					
3.4.4 - The company has in place adequate controls to protect the confidentiality of sensitive information and business secrets of its customers and suppliers.	X					

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

CORPORATE GOVERNANCE COMPLIANCE REPORT	YES	PARTIAL	NO	EXEMPTED	NOT APPLICABLE	EXPLANATION
3.5. ETHICAL RULES AND SOCIAL RESPONSIBILITY						
3.5.1-The board of the corporation has adopted a code of ethics, disclosed on the corporate website.	X					
3.5.2-The company has been mindful of its social responsibility and has adopted measures to prevent corruption and bribery.	X					
4.1. ROLE OF THE BOARD OF DIRECTORS						
4.1.1 - The board of directors has ensured strategy and risks do not threaten the long-term interests of the company, and that effective risk management is in place.	X					
4.1.2 - The agenda and minutes of board meetings indicate that the board of directors discussed and approved strategy, ensured resources were adequately allocated, and monitored company and management performance.	X					
4.2. ACTIVITIES OF THE BOARD OF DIRECTORS						
4.2.1-The board of directors documented its meetings and reported its activities to the shareholders.	X					
4.2.2-Duties and authorities of the members of the board of directors are disclosed in the annual report.	X					
4.2.3-The board has ensured the company has an internal control framework adequate for its activities, size and complexity.	X					
4.2.4-Information on the functioning and effectiveness of the internal control system is provided in the annual report.	X					
4.2.5 - The roles of the Chairman and Chief Executive Officer are separated and defined.	X					
4.2.7 - The board of directors ensures that the Investor Relations department and the corporate governance committee work effectively. The board works closely with them when communicating and settling disputes with shareholders.	X					
4.2.8 - The company has subscribed to a Directors and Officers liability insurance covering more than 25% of the capital.	X					
4.3. STRUCTURE OF THE BOARD OF DIRECTORS						
4.3.9-The board of directors has approved the policy on its own composition, setting a minimal target of 25% for female directors. The board annually evaluates its composition and nominates directors so as to be compliant with the policy.			X			There are no female members in the Board of Directors, and a target was not set to keep the female member ratio at a minimum of 25%. There is no written Company policy regarding this issue.
4.3.10-At least one member of the audit committee has 5 years of experience in audit/accounting and finance.	X					

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

CORPORATE GOVERNANCE COMPLIANCE REPORT	YES	PARTIAL	NO	EXEMPTED	NOT APPLICABLE	EXPLANATION
4.4. BOARD MEETING PROCEDURES						
4.4.1-Each board member attended the majority of the board meetings in person.	X					
4.4.2-The board has formally approved a minimum time by which information and documents relevant to the agenda items should be supplied to all board members.	X					
4.4.3 - The opinions of board members that could not attend the meeting, but did submit their opinion in written format, were presented to other members.	X					
4.4.4-Each member of the board has one vote.	X					
4.4.5-The board has a charter/written internal rules defining the meeting procedures of the board.	X					
4.4.6-Board minutes document that all items on the agenda are discussed, and board resolutions include director's dissenting opinions if any.	X					
4.4.7-There are limits to external commitments of board members. Shareholders are informed of board members' external commitments at the General Shareholders' Meeting.		X				There are no limitations for the members of the Board of Directors regarding them to carry duties outside the company, except the duties that are subject to prohibition of competition.
4.5. BOARD COMMITTEES						
4.5.5-Board members serve in only one of the Board's committees.			X			The independent members take part in more than one committee because the number of independent members is 3.
4.5.6 - Committees have invited persons to the meetings as deemed necessary to obtain their views.	X					
4.5.7-If external consultancy services are used, the independence of the provider is stated in the annual report.					X	
4.5.8-Minutes of all committee meetings are kept and reported to board members.	X					
4.6. FINANCIAL RIGHTS						
4.6.1-The board of directors has conducted a board performance evaluation to review whether it has discharged all its responsibilities effectively.			X			There is no such practice within the company.
4.6.4-The company did not extend any loans to its board directors or executives, nor extended their lending period or enhanced the amount of those loans, or improve conditions thereon, and did not extend loans under a personal credit title by third parties or provided guarantees such as surety in favour of them.	X					
4.6.5-The individual remuneration of board members and executives is disclosed in the annual report.		X				The salaries of the Chairman and the members of the Board of Directors are given seperately in the Board of Directors Report and the annual report but the salaries of the CEO and vice presidents are given as a sum.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

1. SHAREHOLDERS

1.1. FACILITATING THE EXERCISE OF SHAREHOLDERS RIGHTS	EXPLANATION
The number of investor meetings (conference, seminar/etc.) organised by the company during the year	3
1.2. RIGHT TO OBTAIN AND EXAMINE INFORMATION	
The number of special audit request(s)	-
The number of special audit requests that were accepted at the General Shareholders' Meeting	-
1.3. GENERAL ASSEMBLY	
Link to the PDP announcement that demonstrates the information requested by Principle 1.3.1. (a-d)	https://www.kap.org.tr/tr/Bildirim/661371
Whether the company provides materials for the General Shareholders' Meeting in English and Turkish at the same time	https://www.kap.org.tr/tr/Bildirim/661371
The links to the PDP announcements associated with the transactions that are not approved by the majority of independent directors or by unanimous votes of present board members in the context of Principle 1.3.9	-
The links to the PDP announcements associated with related party transactions in the context of Article 9 of the Communique on Corporate Governance (II-17.1)	-
The links to the PDP announcements associated with common and continuous transactions in the context of Article 10 of the Communique on Corporate Governance (II-17.1)	https://www.kap.org.tr/tr/Bildirim/661371
The name of the section on the corporate website that demonstrates the donation policy of the company	Investor Relations > Corporate Governance > Policies
The relevant link to the PDP with minute of the General Shareholders' Meeting where the donation policy has been approved	https://www.kap.org.tr/tr/Bildirim/672690
The number of the provisions of the articles of association that discuss the participation of stakeholders to the General Shareholders' Meeting	-
Identified stakeholder groups that participated in the General Shareholders' Meeting, if any	The representatives of the Independent Audit Company and the Corporate Governance Rating Company attended the general assembly meeting.
1.4. VOTING RIGHTS	
Whether the shares of the company have differential voting rights	No
In case that there are voting privileges, indicate the owner and percentage of the voting majority of shares.	-
The percentage of ownership of the largest shareholder	74.20%
1.5. MINORITY RIGHTS	
Whether the scope of minority rights enlarged (in terms of content or the ratio) in the articles of the association	No
If yes, specify the relevant provision of the articles of association	-
1.6. DIVIDEND RIGHT	
The name of the section on the corporate website that describes the dividend distribution policy	Investor Relations > Corporate Governance > Policies
Minutes of the relevant agenda item in case the board of directors proposed to the general assembly not to distribute dividends, the reason for such proposal and information as to use of the dividend	-
PDP link to the related general shareholder meeting minutes in case the board of directors proposed to the general assembly not to distribute dividends	-

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

GENERAL ASSEMBLY MEETINGS

General Meeting Date	The number of information requests received by the company regarding the clarification of the agenda of the General Shareholders' Meeting	Shareholder participation rate to the General Shareholders' Meeting	Percentage of shares directly present at the GSM	Percentage of shares represented by proxy	Specify the name of the page of the corporate website that contains the General Shareholders' Meeting minutes, and also indicates for each resolution the voting levels for or against	Specify the name of the page of the corporate website that contains all questions asked in the general assembly meeting and all responses to them	The number of the relevant item or paragraph of General Shareholders' Meeting minutes in relation to related party transactions	The number of declarations by insiders received by the board of directors	The link to the related PDP general shareholder meeting notification
02/04/2018	0	87.83%	0.08%	87.75%	Investor Relations > Corporate Governance > General Assembly	Investor Relations > Corporate Governance > General Assembly > General Assembly Documents	Article 11	7	https://www.kap.org.tr/en/Bildirim/672690

2. DISCLOSURE AND TRANSPARENCY

2.1. CORPORATE WEBSITE	EXPLANATION
Specify the name of the sections of the website providing the information requested by the Principle 2.1.1.	Investor Relations > Corporate Governance
If applicable, specify the name of the sections of the website providing the list of shareholders (ultimate beneficiaries) who directly or indirectly own more than 5% of the shares.	-
List of languages for which the website is available	Turkish, English

2.2. ANNUAL REPORT	
THE PAGE NUMBERS AND/OR NAME OF THE SECTIONS IN THE ANNUAL REPORT THAT DEMONSTRATE THE INFORMATION REQUESTED BY PRINCIPLE 2.2.2.	
a) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the duties of the members of the board of directors and executives conducted out of the company and declarations on independence of board members	The information on the duties of the members of the board of directors and executives conducted out of the company is under Article 4 of the Report of Board of Directors. Declarations on independence of board members are end of the Annual Report > Corporate Governance Principles Compliance Report.
b) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on committees formed within the board structure	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Number of Committees Formed in the Board of Directors with Their Structures and Independency title.
c) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the number of board meetings in a year and the attendance of the members to these meetings	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Principles of Activity of the Board of Directors title.
ç) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on amendments in the legislation which may significantly affect the activities of the corporation	The information is under Article 10 of the Report of Board of Director.
d) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on significant lawsuits filed against the corporation and the possible results thereof	The information is under Financial Information Note 15 and at the same time under Article 18 of the Report of Board of Directors.
e) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the conflicts of interest of the corporation among the institutions that it purchases services on matters such as investment consulting and rating and the measures taken by the corporation in order to avoid from these conflicts of interest	None.
f) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the cross ownership subsidiaries that the direct contribution to the capital exceeds 5%	The information is under Article 17 of the Report of Board of Directors.
g) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on social rights and professional training of the employees and activities of corporate social responsibility in respect of the corporate activities that arises social and environmental results	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Ethical Rules and Social Responsibility title.

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

3. STAKEHOLDERS

3.1. CORPORATION'S POLICY ON STAKEHOLDERS	EXPLANATION
The name of the section on the corporate website that demonstrates the employee remedy or severance policy	Investor Relations > Corporate Governance > Policies
The number of definitive convictions the company was subject to in relation to breach of employee rights	The information is under Article 18 of the Annual Report of Board of Directors.
The position of the person responsible for the alert mechanism (i.e. whistleblowing mechanism)	CEO
The contact detail of the company alert mechanism.	Chairman & CEO Prof. Dr. Haluk GÖRGÜN Phone Number: (0312) 592 10 00 Address: ASELSAN Elektronik Sanayi ve Ticaret A.Ş. Mehmet Akif Ersoy Mahallesi 296. Cadde No: 16 06370 Yenimahalle ANKARA, TURKEY
3.2. SUPPORTING THE PARTICIPATION OF THE STAKEHOLDERS IN THE CORPORATION'S MANAGEMENT	
Name of the section on the corporate website that demonstrates the internal regulation addressing the participation of employees on management bodies.	It was regulated by internal directives and it is not open to the public.
Corporate bodies where employees are actually represented	None.
3.3. HUMAN RESOURCES POLICY	
The role of the board on developing and ensuring that the company has a succession plan for the key management positions	None.
The name of the section on the corporate website that demonstrates the human resource policy covering equal opportunities and hiring principles. Also provide a summary of relevant parts of the human resource policy.	Career > Being Part of Our Team
Whether the company provides an employee stock ownership program	There isn't an employee stock ownership program.
The name of the section on the corporate website that demonstrates the human resource policy covering discrimination and mistreatments and the measures to prevent them. Also provide a summary of relevant parts of the human resource policy.	Career > Our Human Rights Policy
The number of definitive convictions the company is subject to in relation to health and safety measures	The information is under Article 18 of the Annual Report of Board of Directors.
3.5. ETHICAL RULES AND SOCIAL RESPONSIBILITY	
The name of the section on the corporate website that demonstrates the code of ethics	Investor Relations > Corporate Governance > Ethical Principles
The name of the section on the company website that demonstrates the corporate social responsibility report. If such a report does not exist, provide the information about any measures taken on environmental, social and corporate governance issues.	Investor Relations > Sustainability
Any measures combating any kind of corruption including embezzlement and bribery	Investor Relations > Corporate Governance > Policies

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

4. BOARD OF DIRECTORS-I

4.2. ACTIVITY OF THE BOARD OF DIRECTORS	EXPLANATION
Date of the last board evaluation conducted	26/02/2019
Whether the board evaluation was externally facilitated	No
Whether all board members released from their duties at the GSM	Yes
Name(s) of the board member(s) with specific delegated duties and authorities, and descriptions of such duties	It was resolved at the meeting of the Board of Directors of our Company, held on 02.04.2018 that; Haluk GÖRGÜN shall be appointed as the Chairman of the Board of Directors, Mustafa Murat ŞEKER shall be appointed as the Vice Chairman and Haluk GÖRGÜN and Mustafa Murat ŞEKER shall be appointed as the Managing Members. The details regarding the context of the authorities are included in the articles of association.
Number of reports presented by internal auditors to the audit committee or any relevant committee to the board	54
Specify the name of the section or page number of the annual report that provides the summary of the review of the effectiveness of internal controls	The information is under Article 17 of the Annual Report of Board of Directors.
Name of the Chairman	Prof. Dr. Haluk GÖRGÜN
Name of the CEO	Prof. Dr. Haluk GÖRGÜN
If the CEO and Chair functions are combined: provide the link to the relevant PDP announcement providing the rationale for such combined roles	None.
Link to the PDP notification stating that any damage that may be caused by the members of the board of directors during the discharge of their duties is insured for an amount exceeding 25% of the company's capital	https://www.kap.org.tr/tr/Bildirim/696449
The name of the section on the corporate website that demonstrates current diversity policy targeting women directors	None.
The number and ratio of female directors within the Board of Directors	0

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

COMPOSITION OF BOARD OF DIRECTORS

NAME, SURNAME OF BOARD MEMBER	WHETHER EXECUTIVE DIRECTOR OR NOT	WHETHER INDEPENDENT DİRECTOR OR NOT	THE FIRST ELECTION DATE TO BOARD	LINK TO PDP NOTIFICATION THAT INCLUDES THE INDEPENDENCY DECLARATION	WHETHER THE INDEPENDENT DIRECTOR CONSIDERED BY THE NOMINATION COMMITTEE	WHETHER SHE/HE IS THE DIRECTOR WHO CEASED TO SATISFY THE INDEPENDENCE OR NOT	WHETHER THE DIRECTOR HAS AT LEAST 5 YEARS' EXPERIENCE ON AUDIT, ACCOUNTING AND/OR FINANCE OR NOT
Haluk GÖRGÜN	Executive	Not independent	15/03/2017	-	Not considered	No	Yes
Mustafa Murat ŞEKER	Non-executive	Not independent	15/05/2013	-	Not considered	No	Yes
Mehmet ARIK	Non-executive	Independent	02/04/2018	https://www.kap.org.tr/tr/Bildirim/667170	Considered	No	Yes
Ercümend ARVAS	Non-executive	Independent	31/03/2016	https://www.kap.org.tr/tr/Bildirim/667170	Considered	No	Yes
Bayram GENÇCAN	Executive	Not independent	15/03/2017	-	Not considered	No	Yes
İbrahim ÖZKOL	Non-executive	Not independent	15/03/2017	https://www.kap.org.tr/tr/Bildirim/667170	Considered	No	Yes
Ercan TOPACA	Non-executive	Not independent	15/03/2017	-	Not considered	No	Yes
Celal Sami TÜFEKCİ	Non-executive	Not independent	02/04/2018	-	Not considered	No	Yes
Murat ÜÇÜNCÜ	Non-executive	Not independent	15/05/2013	-	Not considered	No	Yes

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

4. BOARD OF DIRECTORS-II

4.4. MEETING PROCEDURES OF THE BOARD OF DIRECTORS	EXPLANATION
Number of physical board meetings in the reporting period (meetings in person)	65
Director average attendance rate at board meetings	88%
Whether the board uses an electronic portal to support its work or not	Yes
Number of minimum days ahead of the board meeting to provide information to directors, as per the board charter	3
The name of the section on the corporate website that demonstrates information about the board charter	It was regulated by internal directives and it is not open to the public.
Number of maximum external commitments for board members as per the policy covering the number of external duties held by directors	There are no limitations for the members of the Board of Directors regarding them to carry duties outside the company, except the duties that are subject to prohibition of competition.
4.5. BOARD COMMITTEES	
Page numbers or section names of the annual report where information about the board committees are presented.	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Number of Committees Formed in the Board of Directors with Their Structures and Independency title.
Link(s) to the PDP announcement(s) with the board committee charters	The working principles of the committees are not disclosed on PDP, yet they are presented at the end of the Annual Report.

COMPOSITION OF BOARD COMMITTEES-I

NAMES OF THE BOARD COMMITTEES	NAME OF COMMITTEES DEFINED AS "OTHER" IN THE FIRST COLUMN	NAME-SURNAME OF COMMITTEE MEMBERS	WHETHER COMMITTEE CHAIR OR NOT	WHETHER BOARD MEMBER OR NOT
Audit Committee	-	İbrahim ÖZKOL	Yes	Board member
Audit Committee	-	Ercümend ARVAS	No	Board member
Audit Committee	-	Mehmet ARIK	No	Board member
Corporate Governance Committee	-	Ercümend ARVAS	Yes	Board member
Corporate Governance Committee	-	Celal Sami TÜFEKCİ	No	Board member
Corporate Governance Committee	-	Murat ÜÇÜNCÜ	No	Board member
Corporate Governance Committee	-	Pınar ÇELEBİ	No	Not board member
Committee of Early Detection of Risk		Mehmet ARIK	Yes	Board member
Committee of Early Detection of Risk		Bayram GENÇCAN	No	Board member

Report of the Board of Directors for the Period Between 1 January - 31 December 2018

4. BOARD OF DIRECTORS-III

4.5. BOARD COMMITTEES-II	EXPLANATION
Specify where the activities of the audit committee are presented in your annual report or website (Page number or section name in the annual report/website)	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Number of Committees Formed in the Board of Directors with Their Structures and Independency title.
Specify where the activities of the corporate governance committee are presented in your annual report or website (Page number or section name in the annual report/website)	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Number of Committees Formed in the Board of Directors with Their Structures and Independency title.
Specify where the activities of the nomination committee are presented in your annual report or website (Page number or section name in the annual report/website)	The duties of the nomination committee is carried by the Corporate Governance Committee.
Specify where the activities of the early detection of risk committee are presented in your annual report or website (Page number or section name in the annual report/website)	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Number of Committees Formed in the Board of Directors with Their Structures and Independency title.
Specify where the activities of the remuneration committee are presented in your annual report or website (Page number or section name in the annual report/website)	The duties of the remuneration committee is carried by the Corporate Governance Committee.
4.6. FINANCIAL RIGHTS	
Specify where the operational and financial targets and their achievement are presented in your annual report (Page number or section name in the annual report)	The information is given under Article 9 of the Report of Board of Directors.
Specify the section of website where remuneration policy for executive and non-executive directors are presented.	Investor Relations > Corporate Governance > Policies title.
Specify where the individual remuneration for board members and senior executives are presented in your annual report (Page number or section name in the annual report)	The information is given under Article 4 of the Report of Board of Directors.

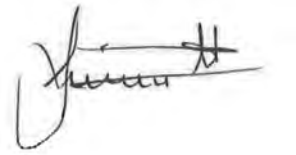
COMPOSITION OF BOARD COMMITTEES-II

NAMES OF THE BOARD COMMITTEES	NAME OF COMMITTEES DEFINED AS "OTHER" IN THE FIRST COLUMN	THE PERCENTAGE OF NON-EXECUTIVE DIRECTORS	THE PERCENTAGE OF INDEPENDENT DIRECTORS IN THE COMMITTEE	THE NUMBER OF MEETINGS HELD IN PERSON	THE NUMBER OF REPORTS ON ITS ACTIVITIES SUBMITTED TO THE BOARD
Audit Committee	-	100%	100%	4	54
Corporate Governance Committee	-	75%	25%	8	15
Committee of Early Detection of Risk	-	100%	50%	6	6

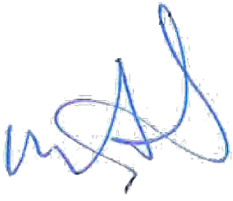
ASELSAN Elektronik Sanayi ve Ticaret A.Ş. Signature Section of Annual Report of the Board of Directors for the Period Between 1 January – 31 December 2018



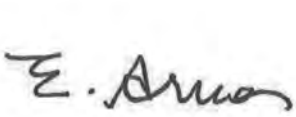
Prof. Dr. Haluk GÖRGÜN
Chairman of the Board of Directors and CEO



Mustafa Murat ŞEKER
Vice Chairman of the Board of Directors



Prof. Dr. Mehmet ARIK
Member of the Board of Directors



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



Bayram GENÇCAN
Member of the Board of Directors



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



Ercan TOPACA
Member of the Board of Directors

NOT ATTENDED

Dr. Celal Sami TÜFEKCİ
Member of the Board of Directors



Dr. Murat ÜÇÜNCÜ
Member of the Board of Directors

Independant Auditor's Report on the Management's Annual Report

(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT

To the Board of Directors
Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi

Opinion

We have audited the annual report of Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries ("the Group") for the period of 1 January 2018 – 31 December 2018.

In our opinion, the consolidated financial information provided in the annual report of the Board of Directors and the discussions made by the Board of Directors on the situation of the Group are presented fairly and consistent, in all material respects, with the audited full set consolidated financial statements and the information we obtained during the audit.

Basis for Opinion

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Annual Report section of our report. We are independent of the Group in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is suffi cient and appropriate to provide a basis for our opinion.

Our Auditor's Opinion on the Full Set Consolidated Financial Statements

We have expressed an unqualified opinion in our auditor's report dated February 26, 2019 on the full set consolidated financial statements of the Group for the period of 1 January 2018 – 31 December 2018.

The Responsibility of the Board of Directors on the Annual Report

In accordance with Articles 514 and 516 of the Turkish Commercial Code 6102 ("TCC") and the provisions of the Communiqué II-14.1 on the Principles of Financial Reporting in Capital Markets" ("the Communiqué") of the Capital Market Board ("CMB"), the management of the Group is responsible for the following items:

a) Preparation of the annual report within the first three months following the balance sheet date and submission of the annual report to the general assembly.

b) Preparation and fair presentation of the annual report; reflecting the operations of the Group for the year, along with its financial position in a correct, complete, straightforward, true and honest manner. In this report, the financial position is assessed according to the consolidated financial statements. The development of the Group and the potential risks to be encountered are also noted in the report. The evaluation of the board of directors is also included in this report.

c) The annual report also includes the matters below:

- Subsequent events occurred after the end of the fiscal year which have significance,
- The research and development activities of the Group,

Independant Auditor's Report on the Management's Annual Report

The Responsibility of the Board of Directors on the Annual Report (continued)

• Financial benefits such as salaries and bonuses paid to the board members and to those charged governance, allowances, travel, accommodation and representation expenses, financial aids and aids in kind, insurances and similar deposits.

When preparing the annual report, the board of directors takes into account the secondary legislative arrangements published by the Ministry of Customs and Trade and related institutions.

Auditor's Responsibilities for the Audit of the Annual Report

Our aim is to express an opinion, based on the independent audit we have performed on the annual report in accordance with provisions of the Turkish Commercial Code and the Communiqué, on whether the consolidated financial information provided in this annual report and the discussions of the Board of Directors are presented fairly and consistent with the Group's audited consolidated financial statements and to prepare a report including our opinion.

The independent audit we have performed is conducted in accordance with the standards on auditing as issued by the Capital Markets Board of Turkey. These standards require compliance with ethical provisions and the independent audit to be planned and performed ta obtain reasonable assurance on whether the consolidated financial information provided in the annual report and the discussions of the Board of Directors are free from material misstatement and consistent with the consolidated financial statements.

The name of the engagement partner who supervised and concluded this audit is Mehmet Nadi Abbasoğlu.

Yeditepe Bağımsız Denetim Anonim Şirketi
(Associate Member of Praxity AISBL)

Mehmet Nadi Abbasoglu
Partner
İstanbul, 26 February 2019

Statement of Responsibility

TO THE PRESIDENCY OF
BORSA ISTANBUL

Date: 26/02/2019
No: AS011-2019-0005

ASELSAN ELEKTRONİK
SANAYİ VE TİCARET A.Ş.

BOARD OF DIRECTORS MEETING ON APPROVAL OF FINANCIAL TABLES AND ANNUAL REPORTS

DATE OF RESOLUTION: 26/02/2018
RESOLUTION NUMBER:

STATEMENT OF RESPONSIBILITY AS PER SECTION TWO, ARTICLE 9 OF THE CAPITAL MARKETS BOARD COMMUNIQUÉ SERIAL NUMBERED II, NUMBERED 14.1

We hereby declare that;

a) We have examined the consolidated balance sheet dated 31 December 2017 and comparative consolidated balance sheet dated 31 December 2018, consolidated income statement issued for the period 1 January 2017 - 31 December 2017 and comparative consolidated income statement issued for the period 1 January 2018 - 31 December 2018, consolidated additional financial tables, all audited independently, notes dated 31 December 2018 and annual report of the Board of Directors issued for the period ending on 31 December 2018,
b) As per the information we obtained in line with our duties and responsibilities at the company, the financial tables and annual report of the Board of Directors do not include any comments which materially misrepresent the facts and any missing data which might be misleading as of the announcement date,
c) As per the information we obtained in line with our duties and responsibilities at the Company, the consolidated financial statements prepared in accordance with the CMB Communiqué Serial II, No:14.1, accurately represents the assets, liabilities, financial position and profit or loss informations of the Company and the companies in the scope of consolidation; the annual report accurately represents the development and performance of the business, the financial position of the Company and the companies in the scope of consolidation and the significant risks and uncertainties which may company faces.

Regards,

Prof. Dr. İbrahim ÖZKOL
Audit Committee Chairman

Prof. Dr. Ercümend ARVAS
Audit Committe Member

Prof. Dr. Mehmet ARIK
Audit Committe Member

Okan TURAN
Chief Financial Officer
Vice President

ASELSAN Board of Directors Assessment Report Regarding Committee Activities in 2018

In accordance with the title "Committees Formed within the Structure of Board of Directors" of Capital Markets Board's (CMB) "Communiqué on Determination and Application of Corporate Governance Principles"; Audit Committee, Corporate Governance Committee and Early Detection and Management of Risk Committee were formed and disclosed to public in our Company's Board of Directors meeting held on 02.04.2018. There are no Nomination and Remuneration Committees within the formation of Board of Directors and in accordance with the Communiqué the duties of these are carried out by the Corporate Governance Committee.

At our Company's Board of Directors meeting held on 02.04.2018 following the Ordinary General Assembly Meeting; in accordance with the Communiqué of CMB it was resolved that;

- Independent Member of Board of Directors İbrahim ÖZKOL shall be assigned as the chairman and Independent Member of Board of Directors Ercümend ARVAS and Independent Member of Board of Directors Mehmet ARIK shall be assigned as members of the Audit Committee,
- Independent Member of Board of Directors Ercümend ARVAS shall be assigned as the chairman and Celal Sami TÜFEKCİ, Murat ÜÇÜNCÜ and pursuant to Capital Markets Board's Communique on Corporate Governance numbered II-17.1, Investor Relations and Enterprise Risk Manager Pınar ÇELEBİ shall be assigned as the members of Corporate Governance Committee,
- Independent Member of Board of Directors Mehmet ARIK shall be assigned as the chairman and Bayram GENÇCAN shall be assigned as the member of the Early Detection and Management of Risk Committee.

While resolving on the forming of committees, Board of Directors paid attention for the members of the Audit Committee; the chairmen of Corporate Governance Committee and Early Detection and Management of Risk Committee to be chosen from the independent members of the Board of Directors and Investor Relations Department executive is a member of the Corporate Governance Committee within the framework of Capital Markets Board regulation.

In 2018, each Board of Directors Committee fulfilled its duties and responsibilities and worked efficiently, with regard to Corporate Governance Principles and their own work directives.

Audit Committee assembled four times with the participation of authorities from the financial audit company within the year 2018 on dates 20.02.2018, 02.05.2018, 14.08.2018 and 30.10.2018. The issues submitted to the information and assessment of Audit Committee and the tasks carried out within the scope of the meetings held, are summarized below:

- The discussion of financial tables dated 31.12.2017, 31.03.2018, 30.06.2018 and 30.09.2018 and their submission to Board of Directors.
- The discussion of 2017 dividend distribution proposal.
- Assessments regarding the election of the independent audit company which will carry the audit task in year 2018 and its submission to Board of Directors.

In order to maintain the efficiency of internal audit, coordination meetings were held with the Internal Audit Presidency to strengthen the communication and establish direct and continuous communication between Audit Committee and Internal Audit Presidency. Audit Committee-Internal Audit Presidency coordination meetings are the most important factor in communicating between Audit Committee and Internal Audit Presidency and in this direction, eleven meetings were conducted on dates 22.01.2018, 12.02.2018, 09.04.2018, 23.05.2018, 19.06.2018, 17.07.2018, 07.08.2018, 25.09.2018, 25.10.2018, 21.11.2018 and 19.12.2018 within the year 2018.

ASELSAN Board of Directors Assessment Report Regarding Committee Activities in 2018

Corporate Governance Committee assembled eight times within the year 2018 on dates 09.01.2018, 13.02.2018, 06.03.2018, 23.05.2018, 20.06.2018, 06.07.2018, 13.07.2018 and 14.08.2018. The issues submitted to the information and assessment of Corporate Governance Committee and the tasks carried out within the scope of the meetings held, are summarized below:

- Corporate Governance Committee Evaluation Report,
- Preparation of ASELSAN Corporate Governance Principles Compliance Report 2017 and the submission of the report to Board of Directors,
- Independent Board Members selection process,
- Corporate Governance Rating,
- Preparation of Corporate Governance Committee 2017 Evaluation Report and the submission of the report to Board of Directors,
- Discussing the tasks carried out by the General Directorate within the context of ASELSAN's export development strategies,
- Discussing Industry 4.0 issue,
- ASELSAN investor base analysis results,
- Self-financed R&D Process Management Functor,
- University Rankings,
- Discussing ASELSAN Personnel Post-Graduate Education Permission Directive,
- Discussing the tasks carried out by the General Directorate regarding the Project and Subsidiaries Management,
- Discussing the studies about Quantum Computers,
- Evaluation of the additional needs of ASELSAN in Teknopark İstanbul,
- Deciding on receiving corporate governance rating service,
- Investor Relations Department and its operations,
- Tasks carried for the revision of the score cards of Sector Presidencies and Vice Presidencies,
- BIST Sustainability Index, sustainability tasks performed in ASELSAN and the draft ASELSAN 2017 Sustainability Report,
- Fluctuations observed in ASELSAN stock.

Corporate Governance Committee, which was formed in order to monitor our Company's compliance to Corporate Governance Principles, to conduct studies about the enhancement of compliance and to propose suggestions to the Board of Directors; have detected whether Corporate Governance Principles are applied in our Company or not, and if not, the reason for it along with the conflicts occurring because of not complying fully to these principles; have submitted proposals for improvement of Corporate Governance practices to the Board of Directors and monitored the activities of Investor Relations Department.

Early Detection and Management Risk of Committee has the duties of identifying and assessing the risks that may affect ASELSAN from reaching its goals; managing these risks in conformity with our company's risk taking profile, reporting them, include them in the decision mechanisms and in this direction, auditing and executing the activities for establishing internal control systems. For this reason, Early Detection and Management of Risk Committee assembled six times within the year 2018 on dates 28.01.2018, 26.03.2018, 18.05.2018, 19.07.2018, 02.10.2018 and 15.11.2018. The tasks carried out by Early Detection and Management of Risk Committee and assessment of Early Detection and Management of Risk Committee are summarized below:

- "2017 Evaluation Report" was prepared and submitted to Board of Directors in January 2018.
- "Corporate Risk Evaluation Report" was prepared and submitted to Board of Directors in January 2018, March 2018, May 2018, July 2018, October 2018 and November 2018. In the reports;
  - Important risks of ASELSAN were evaluated and monitored. The risk classification, explanation, rating, strategy, owner/ responsible, current control operations and relevant indicators were included in the report.
  - Warning levels of benchmarks for risk indicators were determined and the risk indicators which divert from the benchmark and can signal the poor performance of a goal during the reporting period were also reported.
- Risk management chapters in the annual report and the other reports set by the legal authorities were prepared.
- Special reports were prepared for specific risks related to recent incidents.

ASELSAN Elektronik Sanayi ve Ticaret A.Ş.
Audit Committee Work Directives

1. PURPOSE

The purpose of These Directives is to determine duties, authorities, responsibilities and work principles of the Audit Committee.

2. SCOPE

These Directives cover the works and activities to be performed by the Audit Committee as per the related regulations.

3. DEFINITIONS

3.1 Independent Auditing Firm (IAF): Firms meeting the requirements of the Capital Markets Board Communiqué and granted with the authority of independent audit on the capital market as per Article 22, 4/c of the Act.

3.2 Auditor: Auditor titles of any seniority and rank assigned to make audits by the Independent Auditing Firms.

3.3 Audit Committee: Committee appointed among the company's Board of Directors as per Capital Markets Board Communiqué Serial numbered X, numbered 22.

3.4 Audit Committee Secretariat: ASELSAN personnel arranging operations and meetings of Audit Committee, archiving correspondences and coordinating communication between the members.

3.5 Financial Tables: Balance sheets and incomes statements issued as interim and annual documents, including the footnotes, and tables enclosed to such documents.

3.6 Financial Reports: Reports including financial tables, Board of Directors activity reports and states of responsibility.

3.7 Internal Auditor: Personnel assigned for internal auditing activities.

3.8 Internal Audit Department (IAD): ASELSAN Department in charge of internal audit activities.

3.9 Executives: Persons having titles such as under Financial Management Vice Presidency, Vice President, Director and Managers that are authorized to represent and bind the company.

3.10 Stakeholders: In achieving the objectives of the Company or with an interest in the activities of employees, creditors, customers, suppliers, various non-governmental organizations as well as individuals, institutions or interest groups.

4. RELATED REFERENCE DOCUMENTS

4.1 Capital Markets Board Communiqué on Independent Audit on Capital Market dated 12.06.2006, Serial numbered X and numbered 22.
4.2 Capital Markets Board Communiqué on Determination and Practice of Corporate Governance Principles dated 03.01.2014, Serial numbered II and numbered 17.
4.3 ASELSAN Board of Directors Work Directives numbered ASY-01-060
4.4 Turkish Commercial Code (TCC).

ASELSAN Elektronik Sanayi ve Ticaret A.Ş.
Audit Committee Work Directives

5. DUTIES AND RESPONSIBILITIES

5.1. BOARD OF DIRECTORS' DUTIES AND RESPONSIBILITIES REGARDING THE AUDIT COMMITTEE

5.1.1. Appointing Audit Committee Members,

5.1.2. Authorizing Committee Members,

5.1.3. Making separate Board of Directors Resolution for approving interim and annual financial tables and reports evaluated by the Committee and submitted to the Board of Directors,

5.1.4. Taking necessary actions for facilitating operations of Audit Committee members.

5.2. DUTIES, AUTHORITIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

5.2.1. GENERAL DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

5.2.1.1. The Audit Committee shall ensure; company's accounting system, public disclosure of financial information, independent audit of the Company's internal control and makes supervision of the operation and effectiveness of the internal control system. Selection of independent audit company, prepared independent audit contracts and the initiation of the audit process and the independent auditors' work in each stage is carried out under the supervision of Audit Committee.

5.2.1.2. The Audit Committee notify, their duties and responsibilities identified in the field and their evaluations and recommendations on the subject immediately to the Board of Directors.

5.2.1.3. The Audit Committee's duties include reviewing, settling the complaints forwarded to the Company about ASELSAN's accounting, internal audit system and independent audit; determining the methods and criteria to be practiced on assessing company personnel's statements on company's accounting and independent audit as per the confidentiality principles are determined by Audit Committee.

5.2.1.4. The Audit Committee might seek assistance of independent consultants on matters required for its operations provided that the costs shall be covered by ASELSAN. But in this case the person who received services / organizations with information about these people / organizations of any relationship with the company on the issue of whether information is given in the annual report.

5.2.1.5. The duties and responsibilities of the Audit Committee shall not relive Board of Directors from its responsibilities imposed by the Turkish Commercial Code.

5.2.2. DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE REGARDING INDEPENDENT AUDIT OF ASELSAN

5.2.2.1. The Audit Committee shall determine the services to be provided by the Independent Auditing Firm and services and submit to the Board of Directors approval.

5.2.2.2. It shall ensure signing a contract with IAF.

5.2.2.3. It shall monitor compliance with contract provisions during IAF operations.

5.2.2.4. It shall always be in contact with the independent auditor for monitoring any incidents having an impact on the independency or objectivity of the independent auditor and shall ensure elimination of such incidents, if any, and efficient performance of the auditor.

ASELSAN Elektronik Sanayi ve Ticaret A.Ş.
Audit Committee Work Directives

5.2.2.5. It shall evaluate the outcomes of audits performed by IAF and financial tables at the joint meetings to be scheduled.

5.2.2.6. It shall evaluate the important findings received from IAF about ASELSAN accounting policy and practices and the auditor's suggestions..

5.2.2.7. It shall obtain the correspondences made between IAF and ASELSAN Management from the Firm.

5.2.2.8. It shall ensure that Independent Audit activities are included on the Board of Directors agenda minimum every 3 months for the purpose of determining efficiency of IAF operations.

5.2.2.9. IAF shall immediately inform the Audit Committee in written about important issues related to ASELSAN's accounting policy and practices, alternative implementation and public disclosure options from Public Oversight Accounting and Auditing Standards Authority as per the firm's accounting standards and accounting principles previously declared to the Company management and possible outcomes, practice suggestions as well as important correspondences made with the Company management.

5.2.3. DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE REGARDING THE FINANCIAL REPORTS

5.2.3.1. The Audit Committee shall consult the company's authorized executives and IAF about interim and annual financial reports to be disclosed to the public in terms of compliance to the Company's accounting principles and to the actual figures and shall inform the Board of Directors in written with its own evaluation.

5.2.3.2. It shall sign the interim and annual financial tables, activity reports controlled and undersigned by the ASELSAN's authorized executives as well as the statement of responsibility enclosed as Annex-A quarterly and ensure public disclosure of these.

5.2.3.3. Financial Reports approved by the Audit Committee and Board of Directors shall be disclosed to the public on the Public Disclosure Platform and Company's website.

5.2.4. DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE REGARDING TO INTERNAL CONTROLS

5.2.4.1 It shall monitor efficiency and adequacy of the internal control system adopted by the company and its subsidiaries and ensures its acknowledgement by the personnel and support of the management.

5.2.4.2. It shall evaluate auditor and internal auditor suggestions related to internal control and whether or not the necessary ones are applied.

5.2.4.3. It shall monitor the process of forming a mechanism for reviewing and settling complaints received from Stakeholders related to company transactions, which violate the regulation and are unethical, and its operations as per the confidentiality principle.

5.2.5. DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE REGARDING TO THE INTERNAL AUDITS

5.2.5.1. It shall review efficiency of IAD directives, structure and activities and ensure settlement of particulars limiting the internal audit operations.

5.2.5.2. It shall monitor the coordination and communication between the IAD and Company's other departments, subsidiaries and independent audits for ensuring smooth processes.

5.2.5.3. It shall evaluate the audit plans and internal audit reports issued by IAD.

ASELSAN Elektronik Sanayi ve Ticaret A.Ş.
Audit Committee Work Directives

5.3. DUTIES AND RESPONSIBILITIES OF AUDIT COMMITTEE SECRETARIAT

5.3.1. It shall provide communication between the members, prepare committee meetings, keep meeting minutes and duly archive correspondences.

5.3.2. It shall plan, realize and follow up formalities before, during and after the Committee meetings in order to ensure outmost efficiency.

5.3.3. It shall ensure timely communication all of kinds of information to the committee members.

5.3.4. It shall always keep the records available to the members.

6. STRUCTURE OF THE AUDIT COMMITTEE

6.1. The Audit Committee shall be as a member of Board of Directors and have minimum 2 (two) members. If the committee has two members the both members shall be Board of Directors Non-executive independent members If there are more than two members, then the same rule shall be applicable for majority of the members. Members of the Audit Committee should have experience at least five (5) years at audit / accounting and finance subject.

6.2. As per the Capital Markets Board regulations, the Audit Committee shall be formed and authorized on the first Board of Directors Meeting held after the Annual Ordinary ASELSAN General Assembly Meeting.

6.3. At least two Audit Committee members shall be required for the committee meetings and at least two members are required for decisions.

6.4. The Audit Committee shall convene minimum every 3 months and four times a year and outcome of the meeting connecting with the minute submitted to the Board of Directors. The audit committee's activities and about the outcome of the meeting must be disclosed in the annual report. During the period how many times the audit committee makes written notification to the Board shall indicated in the annual report.

6.5. The Committee's secretariat duties related to the financial tables shall be performed by the Chief Office of Capital Markets Board Financial Control and Reporting attached to the Accounting Department and the secretariat duties related to internal control and internal audit activities shall be performed by IAD.

7. ENFORCEMENT

These Directives have been approved by the Board of Directors as per the resolution dated 22.09.2003 and numbered 443/16 and came into force as of 25.09.2003

8. EXECUTION

The Audit Committee shall be responsible for executing the provisions listed on these Directives.

9. CIRCULATION PLAN

The document shall be circulated as per ASELSAN PLAN A. It shall be published to all users via intranet and internet.

ANNEX-STATEMENT OF RESPONSIBILITY

Statement of Responsibility

TO THE PRESIDENCY OF
BORSA ISTANBUL

Date: XX/XX/ 20XX
No: AS300-16M-

ASELSAN ELEKTRONİK
SANAYİ VE TİCARET A.Ş.

BOARD OF DIRECTORS MEETING ON APPROVAL OF FINANCIAL TABLES AND ANNUAL REPORTS

DATE OF RESOLUTION:
RESOLUTION NUMBER:

STATEMENT OF RESPONSIBILITY AS PER SECTION TWO, ARTICLE 9 OF THE CAPITAL MARKETS BOARD COMMUNIQUÉ SERIAL NUMBERED II, NUMBERED 14

We hereby declare that;

a) We have examined the consolidated balance sheet dated ../../20xx and comparative consolidated balance sheet dated ../../20xx, consolidated income statement issued for the period ../../20xy - ../../20xy and comparative consolidated income statement issued for the period ../../20xx - ../../20xx, consolidated additional financial tables, all audited independently, notes dated ../../20xx and annual report of the Board of Directors issued for the period ending on ../../20xx,

b) As per the information we obtained in line with our duties and responsibilities at the company, the financial tables and annual report of the Board of Directors do not include any comments which materially misrepresent the facts and any missing data which might be misleading as of the announcement date,

c) As per the information we obtained in line with our duties and responsibilities at the Company, the consolidated financial statements prepared in accordance with the CMB Communiqué Serial II, No:14.1, accurately represents the assets, liabilities, financial position and profit or loss informations of the Company and the companies in the scope of consolidation; the annual report accurately represents the development and performance of the business, the financial position of the Company and the companies in the scope of consolidation and the significant risks and uncertainties which may company faces.

Regards,
ASELSAN A.Ş.

Audit Committee Chairman

Audit Committee Member | Audit Committee Member | Deputy General Manager

Board of Directors' Early Detection and Management of Risk Committee Work Directives

1. PURPOSE

The purpose of these directives is to determine the duties, authorities, responsibilities and work principles of the Early Detection and Management of Risk Committee, which is established under Article 378 of the Turkish Commercial Code numbered 6102 and Board of Directors Resolution dated 10.04.2012, as per the Turkish Commercial Code and Corporate Governance Principles announced by the Capital Markets Board.

2. SCOPE

These directives cover works and actions to be performed as per the Turkish Commercial Code and Corporate Governance Principles by the Early Detection and Management of Risk Committee and/or Company personnel not a member of the Committee but assigned by the Committee.

3. DEFINITIONS

3.1. Independent Auditing Firm (IAF): Firms meeting the requirements of the Capital Markets Board Communiqué and granted with the authority of independent audit on the capital market as per Article 22/d of the Act.

3.2. Auditor: Auditor titles of any seniority and rank assigned to make audits by the Independent Auditing Firms

3.3. Early Detection and Management of Risk Committee (Committee): A committee to be appointed by the Board of Directors among the Board of Directors members or third parties specialized in certain areas for the purpose of fulfilling the liabilities listed on the Turkish Commercial Code for systematic early detection and management of company risks and executing, coordinating related risks.

3.4. Early Detection and Management of Risk Committee Secretariat (Secretariat): ASELSAN personnel arranging operations and meetings of Early Detection and Management of Risk Committee, archiving correspondences and coordinating communication between the members.

3.5. Capital Markets Board: Public legal entity established as per Article 17 of the Capital Market Law

3.6. Company: ASELSAN Elektronik Sanayi ve Ticaret A.Ş.

4. RELATED REFERENCE DOCUMENTS

4.1. Turkish Commercial Code.
4.2. Capital Markets Board Regulations.
4.3. Corporate Governance Principles published by the Capital Markets Board
4.4. Regulations, provisions and principles on ASELSAN Articles of Association

5. DUTIES AND RESPONSIBILITIES

5.1. DUTIES AND RESPONSIBILITIES OF ASELSAN EARLY DETECTION AND MANAGEMENT OF RISK COMMITTEE

5.1.1. The main function of the Early Detection and Management of Risk Committee is early detection of risks threatening existence, development and sustainability of ASELSAN as well as taking action for the risks determined and trying to manage the risks determined.

5.1.2. The Committee shall determine, identify the potential risks having an impact on ASELSAN beforehand and ensure duly management of the risks according to the risk-taking approach of the company.

Board of Directors' Early Detection and Management of Risk Committee Work Directives

5.1.3. It shall evaluate the situation by means of a report to be submitted to the Board of Directors every two months as well as pointing out the threats, if any, and suggesting solutions.

5.1.4. It shall review the changes suggested to the risk management systems by the Investor Relations and Corporate Risk Management Department under Finance Directorate as often as the agenda permits but minimum once a year.

5.1.5. The Committee shall advise the Board of Directors on internal audit systems including risk management and information systems and processes minimizing the risks and related impacts to be suffered by the shareholders and company stakeholders.

5.1.6. The Committee shall prepare an annual assessment report, including meeting frequency of Committee members and activities performed, which shall be included in the Annual Company Activity Report and basis to the Board of Directors assessment related to the work principles and Committee's efficiency.

5.1.7. The resolutions taken at the meetings shall be documented and undersigned by the Committee Members and archived by the Secretariat.

5.2. DUTIES AND RESPONSIBILITIES OF THE EARLY DETECTION AND MANAGEMENT OF RISK COMMITTEE SECRETARIAT

5.2.1. It shall provide communication between the members, prepare committee meetings, keep meeting minutes and duly archive correspondences.

5.2.2. It shall plan, realize and follow up formalities before, during and after the Committee meetings in order to ensure outmost efficiency.

5.2.3. It shall ensure timely communication all of kinds of information to the committee members.

5.2.4. It shall always keep the records available to the members.

6. STRUCTURE AND AUTHORITIES OF THE EARLY DETECTION AND MANAGEMENT OF RISK COMMITTEE

6.1. COMMITTEE'S STRUCTURE

6.1.1. The Committee shall be formed and authorized at the first Board of Directors meeting held after the Annual Ordinary General Assembly Meeting of the company, as per the Capital Markets Board regulations.

6.1.2. The Committee shall have minimum two members. If the committee has two members then both members shall be Board of Directors members not having executive function and if there are more than two members, then majority of the members shall not have executive functions. Third parties specialized in certain areas can also be appointed as Committee members. The Committee chairman shall be appointed among Independent Members of Board of Directors.

6.1.3. The Chief Executive Officer / General Manager shall not take office in the committee.

6.1.4. The secretariat formalities of the Committee including the preparation of the report submitted to the Board of Directors shall be performed by Investor Relations and Corporate Risk Management Department under Finance Directorate.

6.1.5. One more than half of the total members shall be required for committee meetings and majority is required for decisions.

Board of Directors' Early Detection and Management of Risk Committee Work Directives

6.1.6. The Committee shall convene once every two months, unless otherwise is required, and, if required, it shall convene at the Company's registered office following a call to be made by the Secretariat on behalf of the Committee Chairman. The Committee Chairman might offer to reschedule the meeting date, hour and place provided that the Committee Members are informed beforehand.

6.2. AUTHORITIES OF THE COMMITTEE

6.2.1. If required, the Committee shall start special inspections and appoint people specialized in their areas as consultant for the purpose of ensuring assistance in such inspections.

6.2.2. If required, the Committee shall hold meetings with representatives of Company's related parties and specialists, including Company personnel or subsidiaries; and under the provision of the Board of Directors and coordinated with the General Manager, it shall seek external and professional consultancy service.

6.2.3. The Committee shall act according to its authorities and responsibilities and make recommendations to the Board of Directors however the Board of Directors shall always have the final decision making responsibility and the Committee shall not relieve the Board of Directors from its duties and responsibilities arising from the Turkish Commercial Code.

7. ENFORCEMENT

These directives have been approved by the Board of Directors as per the resolution dated 29.11.2012 and numbered 750/4.3.e and came into force as of 29.11.2012.

8. EXECUTION

ASELSAN Early Detection and Management of Risk Committee shall be responsible for executing the provisions listed on these directives.

9. CIRCULATION PLAN

The document shall be circulated as per ASELSAN PLAN A. It shall be published to all users via intranet and internet. The document shall be circulated as per ASELSAN PLAN A. It shall be published to all users via intranet and internet.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. Board of Directors' Corporate Governance Committee Work Directives

1. PURPOSE

The purpose of these directives is to determine the duties, authorities, responsibilities and work principles of the Corporate Governance Committee established as per the Corporate Governance Principles announced by the Capital Markets Boards (CMB).

2. SCOPE

These directives cover works and actions to be performed as per the Corporate Governance Principles by the Corporate Governance Committee and/or Company personnel not a member of the Committee but assigned by the Committee.

3. DEFINITIONS

3.1. Corporate Governance: Index of relations between the Board of Directors, shareholders and other stakeholders of a company.

3.2. Corporate Governance Committee (Committee): A committee to be appointed by the Board of Directors among the Board of Directors members or third parties specialized in certain areas for the purpose of executing and coordinating Corporate Governance Principles related formalities of the Company, provided that majority of the members are from the Board of Directors and the executive of Investor Relations Department shall be appointed as a member of the Committee.

3.3. Corporate Governance Committee Secretariat (Secretariat): ASELSAN personnel arranging operations and meetings of Corporate Governance Committee, archiving correspondences and coordinating communication between the members.

3.4. Capital Markets Board: Public legal entity established the Capital Market Law numbered 6362.

3.5 Company: ASELSAN Elektronik Sanayi ve Ticaret A.Ş.

4. RELATED REFERENCE DOCUMENTS

4.1. Capital Markets Board Regulations.

4.2. Corporate Governance Principles published by the Capital Markets Board.

4.3. Prepared as per the regulations, provisions and principles on ASELSAN Articles of Association.

5. DUTIES AND RESPONSIBILITIES

5.1. DUTIES AND RESPONSIBILITIES OF ASELSAN CORPORATE GOVERNANCE COMMITTEE

5.1.1. The Corporate Governance Committee shall mainly work on implementing corporate governance principles at the Company.

5.1.2. The Committee shall determine whether or not the Corporate Governance Principles are implemented and if not implemented, the Committee shall determine the reasons as well as conflicts of interest caused by failing to fully comply with these principles.

5.1.3. It shall monitor the operations of Investor Relations Department.

5.1.4. It shall play a leading part in maintaining effective communication between the Board of Directors, Company and shareholders, eliminating and settling any possible disputes as well as advising the Board of Directors accordingly.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. Board of Directors' Corporate Governance Committee Work Directives

5.1.5. The Committee shall advise the Board of Directors on due effectiveness of infrastructures related to management applications aiming at improving company performance as well as acknowledgement by the personnel and support of the management.

5.1.6. The Committee shall issue the Company's Corporate Governance Compliance Report.

5.1.7. The Committee shall revise the Company's Activity Report to be disclosed to the public and checks whether or not the information included in the Report conform to the information possessed by the Committee.

5.1.8. The Committee shall prepare an annual assessment report, including meeting frequency of Committee members and activities performed, which shall be included in the Annual Company Activity Report and basis to the Board of Directors assessment related to the work principles and Committee's efficiency.

5.1.9. The Committee shall make suggestions ensuring compliance to the law and regulations, company's Information Policy in terms of public disclosures to be made.

5.1.10. The Committee shall present its operations and suggestions to the Board of Directors in the form of a report.

5.1.11. The resolutions taken at the meetings shall be documented and undersigned by the Committee Members and archived by the Secretariat.

5.1.12. If Nomination Committee and Remuneration Committee cannot be established separately due to the structure of the Board of Directors, the Committee shall perform the duties assigned to these committees as per the Corporate Governance Principles published by the Capital Markets Board.

5.1.13. Within the scope of the responsibilities of Nomination Committee; the Committee carries the duties on creating a transparent system for the evaluation of the nominees for Board of Directors and the nominees for the executives with administrative responsibility, their training and setting out policies and strategies regarding these matters. In this context, the Committee also regularly makes assessments on the structure and efficiency of Board of Directors and presents suggestions for improvement related to these issues.

5.1.14. Within the scope of the responsibilities of Remuneration Committee; the Committee determines and monitors the principles, criteria and the practices for the remuneration of the members of Board of Directors and executives with administrative responsibility, considering the long term objectives of the Company. In this context, the Committee also presents suggestions about the remuneration of the members of Board of Directors and executives with administrative responsibility, taking the level of achievement regarding the remuneration criteria met into account.

5.2. DUTIES AND RESPONSIBILITIES OF THE CORPORATE GOVERNANCE COMMITTEE SECRETARIAT

5.2.1. It shall provide communication between the members, prepare Committee meetings, keep meeting minutes and duly archive correspondences.

5.2.2. It shall plan, realize and follow up formalities before, during and after the Committee meetings in order to ensure outmost efficiency.

5.2.3. It shall ensure timely communication all of kinds of information to the Committee members.

5.2.4. It shall always keep the records available to the members.

5.2.5. It shall periodically submit reports on investor questions and content.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. Board of Directors' Corporate Governance Committee Work Directives

6. STRUCTURE AND AUTHORITIES OF THE CORPORATE GOVERNANCE COMMITTEE

6.1. COMMITTEE'S STRUCTURE

6.1.1. The Committee shall be formed and authorized at the first Board of Directors meeting held after the Annual Ordinary General Assembly Meeting of the company, as per the Capital Markets Board regulations.

6.1.2. The Committee shall be formed by at least 3 (three) members; two of whom shall be members of Board of Directors and one shall be the Investor Relations Department Executive. The majority of the members of Board of Directors in the Committee shall not have executive functions. Investor Relations Department Executive must have the "Capital Markets Activities Advanced Level" and "Corporate Governance Rating Expertise" certificates and must be working full time in the Company.

6.1.3. Third parties specialized in certain areas who are not members of Board of Directors can also be appointed as Committee members. The Committee Chairman shall be appointed among Independent Members of Board of Directors.

6.1.4. The Chief Executive Officer / General Manager shall not take office in the Committee.

6.1.5. The secretariat formalities of the Committee shall be performed by Investor Relations Department.

6.1.6. One more than half of the total members shall be required for Committee meetings and majority is required for decisions.

6.1.7. The Committee shall convene every 3 (three) months as a principle and, if required, it shall convene at the Company's registered office following a call to be made by the Secretariat on behalf of the Committee Chairman. The Committee chairman might reschedule the meeting date, hour and place provided that the Committee Members are informed beforehand.

6.2. AUTHORITIES OF THE COMMITTEE

6.2.1. If required, the Committee shall start special inspections and appoint people specialized in their areas as consultant for the purpose of ensuring assistance in such inspections.

6.2.2. If required, the Committee shall hold meetings with representatives of Company's related parties and specialists, including Company personnel or subsidiaries; and it shall seek external and professional consultancy service.

6.2.3. The Committee shall act according to its authorities and responsibilities and make recommendations to the Board of Directors however the Board of Directors shall always have the final decision making responsibility

7. ENFORCEMENT

These directives have been approved by the Board of Directors as per the resolution dated 23.02.2006 and numbered 529/2.d and came into force as of 30.05.2006.

8. EXECUTION

ASELSAN Corporate Governance Committee shall be responsible for executing the provisions listed on these directives.

9. CIRCULATION PLAN

The document shall be circulated as per ASELSAN PLAN A. It shall be published to all users via intranet and internet.

Profit Distribution Proposal

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.
2018 DIVIDEND DISTRIBUTION TABLE (TL)

1- Issued Capital		1.140.000.000,00
2- First Legal Reserve (Accounting to Legal Records)		130.160.336,12
Information regarding the privileges on profit distribution as per the Company Articles of Association, if there are any		There are no privileges.
	According to Capital Markets Board	**According to the Legal Records**
3- Profit for the Period	2.241.765.791,00	1.829.120.650,00
4- Taxes Payable (+) [1]	77.582.111,00	0,00
5- NET PROFIT FOR THE PERIOD (=) [2]	**2.318.198.086,00**	**1.829.120.650,02**
6- Accumulated Loss (-)	0,00	0,00
7- Firs Legal Reserve (-)	91.456.032,50	91.456.032,50
8- NET DISTRIBUTABLE PROFIT FOR THE PERIOD (=)	**2.226.742.053,50**	**1.737.664.617,52**
9- Donations Made throughout the Year (+)	100.000,00	
10- Net distributable profit for the period, donations included	2.226.842.053,50	
11- First Dividend to Shareholders	157.000.000,00	157.000.000,00
Cash	57.000.000,00	57.000.000,00
Non paid-up share	100.000.000,00	100.000.000,00
Total	157.000.000,00	157.000.000,00
12- Dividends distributed to Preferred Shareholders	0,00	0,00
13- Dividends distributed to;	0,00	0,00
Members of the Board of Directors	0,00	0,00
Employees	0,00	0,00
Others than Shareholders	0,00	0,00
14- Dividends distributed to Holders of Usufruckt Right Certificates	0,00	0,00
15- Second Dividend to Shareholders	28.000.000,00	28.000.000,00
16- First Legal Reserve	2.800.000,00	2.800.000,00
17- Statutory Reserve	0,00	0,00
18- Special Reserve	0,00	0,00
19- EXTRAORDINARY RESERVE	**2.038.942.053,50**	**1.549.864.617,52**
20- Other resources to be distributed	0,00	0,00

1 Our Company has gained Continuing Operations Tax Income valuing TL 77.582.111,- within the scope of the Law regarding the Support of Research and Development Activities, numbered 5746.
2 The net profit for the period attributable to equity holders of the parent valuing TL 2.318.198.086,- is used, since TL 1.149.816,- of the net profit for the period corresponds to non-controlling interests, where our Company's net profit for the period is TL 2.319.347.902,-

Profit Distribution Proposal

As presented in the table above, of the net profit generated by our company from its 2018 activities;

- In accordance with Article 519/(1) of the Turkish Commercial Code, General Legal Reserves amounting to TL 91.456.032,50 is going to be allocated,

- 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 85.000.000 (Kuruş 7,45614 per share of TL 1 and 7,45614% on the basis of the capital) (net profit TL 72.250.000 – Kuruş 6,33772 per share of TL 1 and 6,33772% on the basis of the capital) as in the form of cash and TL 100.000.000,- profit as non paid-up share which equals to 8,77193% of the capital,

- In accordance with Article 519/(2) of the Turkish Commercial Code, General Legal Reserves amounting to TL 2.800.000,- 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 planned to be distributed as of June 19, 2019, September 18, 2019, and December 18, 2019 in three equal installments and the non paid-up share to be distributed following the completion of the legal process.

Yours Faithfully,
Board of Directors


ASELSAN is a company of Turkish Armed Forces Foundation.

aselsan

P.O. BOX: 1, Yenimahalle, 06370 ANKARA
Phone: (312) 592 10 00 Fax: (312) 354 13 02 - 354 26 69
www.aselsan.com.tr