

aselsan

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

**REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN
1 JANUARY – 30 JUNE 2019**

Independent Auditor's Report on Review of Semi-Annual Report

To the Board of Directors of ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi

We have been assigned to the review whether the financial information in the semi-annual report of ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries (together "the Group") prepared as at 30 June 2019 is consistent with the reviewed interim condensed consolidated financial information. Management is responsible for the preparation of the semi-annual report. Our responsibility is to express a conclusion on whether the financial information provided in the semi-annual report is consistent with the reviewed interim condensed consolidated financial information on which we have expressed our conclusion dated 06 August 2019.

We conducted our review in accordance with the Standard on Review Engagements ("SRE") 2410 "Review on Interim Financial Information Performed by the Independent Auditor of the Entity". Our review includes the assessment as to whether the financial information included in the semi-annual report is consistent with the reviewed interim condensed consolidated financial statements and other explanatory notes. A review is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards, the objective of which is to express an opinion on the financial statements. Consequently, a review on the semi-annual financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to conclude that the accompanying financial information included in the semi-annual report is not consistent, in all material respects, with the interim condensed consolidated financial information and the information presented in the explanatory notes to interim condensed consolidated financial information.

Yeditepe Bağımsız Denetim Anonim Şirketi
(Associate member of PRAXITY AISBL)


Mehmet Nadi Abbasoğlu
Partner

06 August 2019, Istanbul, Turkey

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1. Principles of Preparation

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

The report comprises the events took place during the period 1 January – 30 June 2019. 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 production and engineering operations in Ankara, METU Teknokent and Teknopark Ankara; production and engineering operations in Macunköy, Akyurt and Gölbaşı settlements. General Management is located in Ankara Macunköy settlement. Furthermore, the Company maintains engineering operations in Istanbul Teknopark.

REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 30 JUNE 2019

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

Corporation	Research / Study	Related Period	Ranking	
			Current	Prior
• International Rankings				
Defense News Magazine	Defense News Top 100	2019	52	55
SIPRI	SIPRI Top 100	2018	61	68
European Commission	World R&D Expense Top 2500 Company	2018	1.111	1.204
• National Rankings				
Istanbul Chamber of Industry	ICI 500 Top Industry Companies	2019	15	20
	ICI 500 - Private Companies	2019	15	19
Fortune Magazine	The Top 500 Companies	2019	32	38
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	2019	108	68
	Top 500 Service Exporters	2018	148	90
Turkish Time Journal	Study of Research and Development Top 100	2018	1	1
Deloitte	Technology Fast 50 / Big Star Category	2018	1	1
Brand Finance	Most Valuable Firms (100 Brands)	2019	33	28
Bloomberg Businessweek	Top 50 Firms (Between Universities)	2019	7	3
Universum	Ideal Employers (Engineering and Information Technologies- 100 Companies)	2018	1	1
CDP (Carbon Disclosure Project)	Firms Which Have Well Management of Climate Changes and Highest Greenhouse Gas Emission Performance (Turkey)	2019	Our Company has placed within the first 3 companies in “CDP Turkey Leaders”	

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

Company	Type	Country/City	Trade Register No	Address	Telephone/Fax	Web site
ASELSAN Elektronik Sanayi ve Ticaret A.Ş.	Headquarters	Turkey /Ankara	311177	Mehmet Akif Ersoy Mahallesi 296. Cad. 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 Skopje/Macedonia	--	--
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 Faks: +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 Turkish Republic of Northern Cyprus Contact Office	Contact Office	TRNC/ Güzelyurt	--	Orta Doğu Teknik Üniversitesi Kuzey Kıbrıs Kampüsü ODTÜ KALTEV AR-GE Binası No: E-19 99738 Kalkanlı/Güzelyurt/Turkish Republic of Northern Cyprus	--	www.aselsan.com.tr

3. The Company's Shareholder Structure

Registered capital ceiling of the Company is TL 2.000.000.000 (TL two billion). The nominal capital of the Company is TL 1.140.000.000 (TL 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 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.

Partners	Share (%)	30 June 2019 (Thousand TL)	Share (%)	31 December 2018 (Thousand TL)
Turkish Armed Forces Foundation (TSKGV)	74,20	845.826	74,20	845.826
Quoted on BIST (Free float)	25,70	293.019	25,70	293.019
Axa Sigorta Anonim Şirketi	0,10	1.155	0,10	1.155
Paid-in capital	100	1.140.000	100	1.140.000
Share capital adjustment	--	98.621	--	98.621
Inflation adjusted capital	--	1.238.621	--	1.238.621

a. Members of the Board of Directors and Senior Executives

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

REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 30 JUNE 2019

Information regarding the Members of the Board of Directors as of publishing date of the report 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	Member of the Board of Directors of IGG ASELSAN Integrated Systems LLC, Member of the Board of Directors of SASAD, Vice Chairman of the Board of Directors of Saudi Arabian Defense and Electronics Company LLC, Member of the Board of Directors of BARQ	15 March 2017
2.	Mustafa Murat ŞEKER	Vice Chairman / Executive Member	Vice President at Presidency of Defence Industries	15 May 2013
3.	Mehmet ARIK	Independent Member	Professor at Özyeğin University Mechanical Engineering Department	2 April 2018
4.	Ercüment ARVAS	Independent Member	Professor at İstanbul Medipol University Electrical Engineering Department, Member of Defense Industries Steering Committee	31 March 2016
5.	Mehmet Fatih KACIR	Member	Deputy Minister of Republic of Turkey Ministry of Industry and Technology, Member of Board of Trustees of Turkey Technology Team Foundation, Member of the Board of Directors of E-Sports Federation	26 April 2019
6.	Alparslan KAVAKOĞLU	Member	Deputy Minister of Ministry of Defense, Member of the Board of Directors of Turkish Parliamentarians Union	26 April 2019
7.	Salih KUL	Member	Member of the Board of Directors of Devrem 84 Social Assistance and Solidarity Association (Treasurer)	26 April 2019
8.	İbrahim ÖZKOL	Independent Member	Professor at İstanbul Technical University Department of Aeronautical Engineering, Member of the Board of Directors of SAHA, TÜBİTAK İstanbul European Region Projects Coordinator, ARC Center Director	15 March 2017
9.	Celal Sami TÜFEKÇİ	Member	Vice President at Presidency of Defence Industries, Member of the Board of Directors of TEKNOHAB Teknoloji Geliştirme Bölgesi Yönetici A.Ş., Chairman of the Board of Directors of STM, Chairman of the Board of Directors of ULAK A.Ş., Chairman of the Board of Ankara Aerospace and Aerospace Organized Industrial Zone, Member of the Board of Directors of METU MEMS	2 April 2018
10.	Okan TURAN	Vice General Manager (Financial Management)	Member of the Board of Directors of Saudi Arabian Defense and Electronics Company LLC	4 January 2016
11.	Bayram GENÇCAN	Vice General Manager (HBT Sector President)	-	15 March 2017
12.	Sezai ELAGÖZ	Vice General Manager (MGEO Sector President)	Vice Chairman of ASELSAN Middle East Psc LTD., Member of the Board of Directors of ASELSAN Bilkent Mikro Nano A.Ş., Chairman of the Board of Directors of ASELSAN Hasas Optik A.Ş., Member of the Board of Directors of TÜBİTAK R&D Support and Process Management Services Group, Member of the Board of Directors TÜYAR A.Ş. (YİTAL A.Ş.)	18 July 2018
13.	Mustafa KAVAL	Vice General Manager (SST Sector President)	Member of the Board of Directors of IGG ASELSAN Integrated Systems LLC, Member of the Board of Directors of Kazakhstan ASELSAN Engineering LLP, Member of the Board of Directors of Defence And Aerospace Ministry Exporters' Association, Chairman of the Board of the Directors of ASELSAN Konya Silah Sistemleri Anonim Şirketi, Member of the Board of Directors of BARQ	1 September 2014
14.	Oğuz ŞENER	Vice General Manager (REHİS Sector President)	Vice Chairman of ASELSAN Bilkent Mikro Nano A.Ş., Chairman of the Board of Managers of Mikroelektronik	1 September 2014
15.	Mehmet ÇELİK	Vice General Manager (Technology & Strategy Management)	Member Of CoHE, Professor at KTO Karatay University Mechanical Engineering Department, Member of the Board of Directors of SSTEK A.Ş., Member of Presidency of Science, Technology and Innovation Technology Policy Board, Member of the Board of the Directors of ASELSAN Konya Silah Sistemleri Anonim Şirketi	14 May 2017
16.	İbrahim BEKAR	Vice General Manager (UGES Sector President)	Member of the Board of Managers of ASELSANNET, Member of the Board of Directors of ASELSAN Hassas Optik A.Ş., Advisory Board Member of Özyeğin University Mechanical Engineering Department, Advisory Board Member of Medipol University Faculty of Engineering and Natural Sciences Department Of Biomedical Engineering	12 February 2018
17.	Hakan KARATAŞ	Vice General Manager (Corporate Management)	Member of the Board of Directors of ASELSAN Middle East Psc LTD, Associate Professor In UAK, Industry And Technology, Member of the Board of Directors of Teknohab Teknoloji Geliştirme Bölgesi Yönetici A.Ş.	2 July 2018
18.	Osman Devrim FİDANCI	Vice General Manager (Business Development and Marketing)	Vice Chairman of the Board of Directors Of Ulak A.Ş.	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 – 30 June 2019:

In the Ordinary General Assembly Meeting held on 26 April 2019, Haluk GÖRGÜN, Mustafa Murat ŞEKER, Mehmet Fatih KACIR, Alpaslan KAVAKLIOĞLU, Salih KUL, Celal Sami TÜFEKÇİ were elected as Member of Board of Directors until the next Generally Assembly Meeting and İbrahim ÖZKOL, Mehmet ARIK and Ercüment ARVAS were elected as Independent Member of Board of Directors until the next General Assembly Meeting.

Total Amount of the Financial Benefits Given To Senior Executives:

The total amount of the remuneration and similar benefits paid to the senior executives by the Company as for the period that ended on 30 June 2019 is TL 8.759 Thousand.

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 ELEKTRONİK SANAYİ VE TİCARET A.Ş. 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	33
2.	Mustafa Murat ŞEKER	BOD Vice Chairman/Executive Member	24
3.	Ercüment ARVAS	BOD Member	22
4.	Bayram GENÇCAN	BOD Member	13
5.	İbrahim ÖZKOL	BOD Member	33
6.	Ercan TOPACA	BOD Member	14
7.	Murat ÜÇÜNCÜ	BOD Member	15
8.	Mehmet ARIK	BOD Member	22
9.	Celal Sami TÜFEKÇİ	BOD Member	22
10.	Salih KUL	BOD Member	8
11.	Alpaslan KAVAKLIOĞLU	BOD Member	8
12.	Mehmet Fatih KACIR	BOD Member	8
13.	CEO/President and Vice Presidents	Higher Level Executives	5.198
TOTAL			5.420

Total amount of domestic and foreign allowances, travel, accommodation and representation expenses and financial benefits in kind and total amounts of insurances granted to the senior executives and members of the Board of Directors of the Group for the period ended by 30 June 2019 is TL 862 Thousand.

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

The Company's consolidated subsidiaries are ASELSAN Baku ("ASELSAN Baku"), Mikroelektronik Ar-Ge Tasarım ve Ticaret Ltd. Co. ("Mikro AR-GE"), ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Ltd. Co. ("ASELSANNET"), ASELSAN Malaysia Sdn. Bhd. ("ASELSAN Malaysia"), Aselsan Konya Silah Sistemleri Anonim Şirketi ("ASELSAN Konya") and BİTES Savunma Havacılık ve Uzay Teknolojileri Yazılım A.Ş. ("BİTES"). They are collectively referred as the "Group" in the accompanying notes. 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.

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 TÜYAR Mikroelektronik Sanayi ve Ticaret A.Ş. ("TÜYAR A.Ş."), ULAK Haberleşme A.Ş. ("ULAK") Teknolab Teknoloji Geliştirme Bölgesi Yönetici A.Ş. are consolidated by the equity method. Since BARQ QSTP LLC has not started to operate yet, there is no consolidation effect on the Group's financial statements.

ROKETSAN which is Group's equity investment is revalued and stated at fair value.

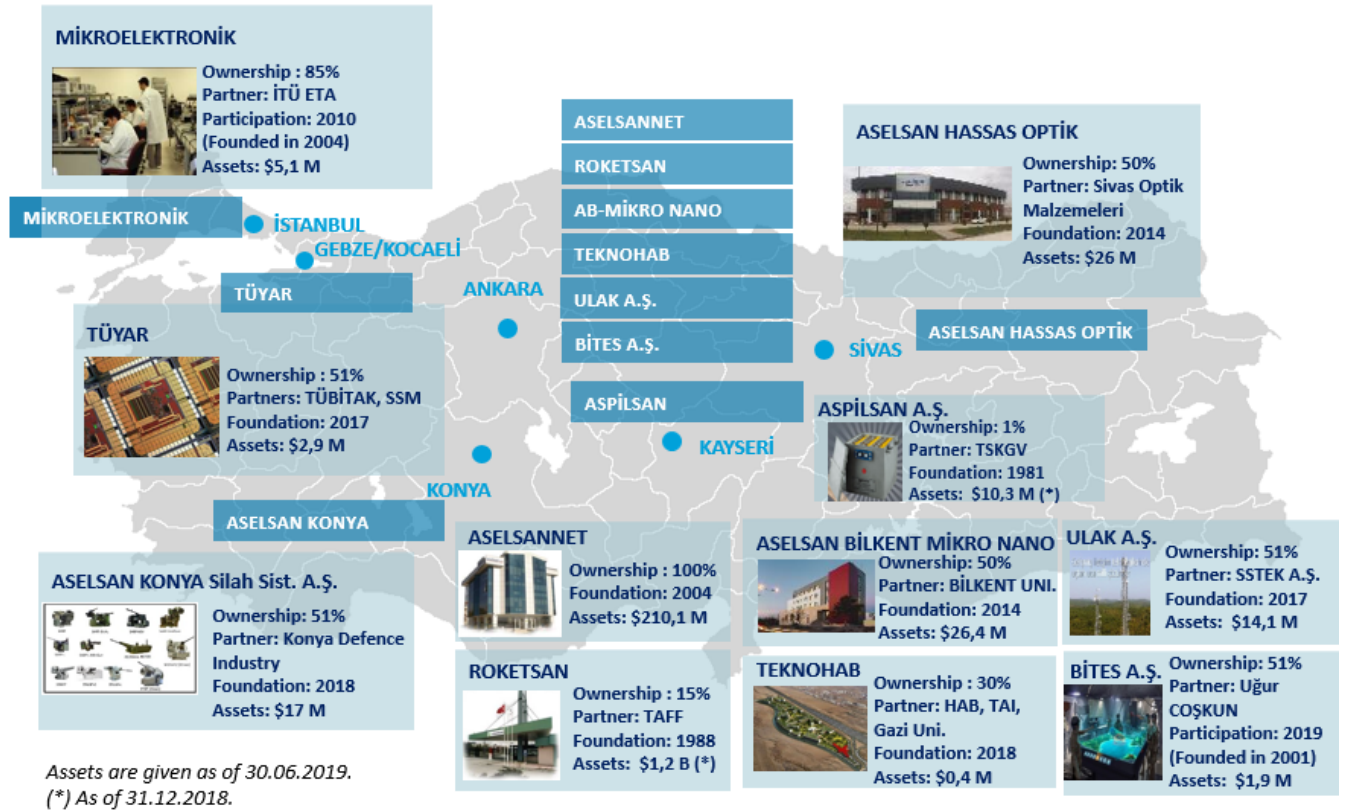
The other equity investment ASPİLSAN is disclosed as from historical cost value in the financial statements.

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 are also shared with the independent audit firm.

Domestic and Foreign subsidiaries information by maps is shown below;

Domestic Associates and Subsidiaries



Foreign Associates and Subsidiaries



REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 30 JUNE 2019

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

Company	Main Activity Area	Share (%)	30 June 2019 (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	44.151
ASELSAN Jordan	Marketing sales and joint production of group products	49	14.956
SADEC LLC	Manufacture and sale of radar, electronic warfare and electrooptic products	50	3.033
ASELSAN Bilkent	Manufacture of micro and nano-sized devices containing semiconductors and similar technological materials	50	11.238
ASELSAN Optik	Precision optic technology	50	11.030
IGG ASELSAN	Production, integration, sales and technical service of high technology products	49	7.815
TÜYAR A.Ş.	Production of micro and nano-sized devices containing semi-conductor and similar technological materials	51	8.591
ASPIİSAN Enerji Sanayi ve Ticaret A.Ş.	Manufacture and sale of Ni-Cd, Ni-MH, Li-Ion battery / battery blocks and aircraft battery systems	1	904
BARQ QSTP LLC	Command and control systems, thermal and night vision camera, crypto, remote-controlled weapon systems	48	834
ULAK	Communication systems	51	12.347
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	747

4. 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 2018 are the USA, China, Saudi Arabia, India and France. Contrary to the decrease in the US defense spending in the last seven years, the exchange rate-adjusted total defense expenditures increased in 2018 compared to the previous year and reached 649 billion USD. In 2018, the 24-year upward trend in East Asia continued to increase by 4.1% and in Western Europe a 4-year upward trend continued by 1.4%. While there is no clear trend in the rest of the world, defense spending in Africa, Oceania, South East Asia, Eastern Europe and the Middle East decreased, while increased in Central America and the Caribbean, North America, South America, Central and South Asia, East Asia, Central Europe and Western Europe in 2018. As of 2018 year-end, Turkey's yearly defense expenditures reached its highest level with USD 18,97 Billion, and 2,5% of the Gross Domestic Product (GDP) is still comprised of defense expenditures. The ratio of defense expenditures over GDP stands steady while the number of Company's projects have increased by the years.

Due to the industry's nature defense projects are spread over years, furthermore a system project lasts approximately 4 to 5 years from its start to its delivery. As of 30 June 2019 long term plans which have been accordingly signed as contracts spread over years amounts to USD 10,2 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 26 April 2019; in accordance with Article 519/(1) of the Turkish Commercial Code, TL 91.456.032,50 to be allocated as General Legal Reserves from the remaining distributable profit obtained after subtracting taxes and statutory obligation from Company's operating profit in 2018. 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 174.000.000 (Kuruş 15,26 per share of TL 1 and 15,26 % on the basis of the capital) (net profit TL 147.900.000 – Kuruş 12,97 per share of TL 1 and 12,97 % on the basis of the capital) as in the form of cash,
- In accordance with Article 519/(2) of the Turkish Commercial Code, TL 11.700 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 distributed in three equal installments on the dates of 19 June 2019, 18 September 2019 and 18 December 2019, were decided. First installment payment of the dividends was made on 19 June 2019

5. 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.

Through Corporate Risk Management practices, "top down" and "bottom up" approaches are applied together and risks that may affect the company's objectives are identified and evaluated along with the risk reactions and precautions to be taken. The reports prepared by the Management and Early Detection of The Risk Committee are presented to the Board of Directors and the Independent Audit Company. The insurable risks are evaluated and the risk is transferred to the outside of the company by means of insurance through cost-benefit analysis.

The risks which have been defined and prioritized in accordance with the opinion and suggestion company-wide 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 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 changes in the currencies during the term of the contract. As a result of the exchange rate fluctuations; there could be profit/loss from delivery, advance offsetting or collection within the scope of a foreign exchange rate based contract. Methods which are used to manage the exchange rate risk are on-balance sheet (structural) methods. On-balance sheet (structural) methods are utilized in order to manage the exchange rate risk. In order to keep foreign currency position at desired levels and to ensure currency conformity, applications such as the use of fixed rate TL denominated credit instead of foreign currency denomination, the determination of the contract currency according to the weighted currency of the contract and the signing of the contract in terms of the main contract currency with subcontractors within the scope of contracts.

ii. Interest Risk and Management Policy

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

As of 30 June 2019, there are no Defense Industry Support Fund (SSDF) loans.

As of 30 June 2019, the loan balance of USD 234 Million, has been used from Türk Eximbank. The interest rate of the loans is fixed for 240 and 360 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 comprises the risks when the matured liabilities cannot be fulfilled, when the increase in assets cannot be funded and the risks which arise due to the transaction realized in non-liquid markets.

Liquidity risk is managed by considering short term liabilities, assets with high liquidity, anticipated cash flows and balance sheet maturity ladder. Through this scope, sufficient level of cash and assets which may be convertible to cash is maintained, attention is paid that the Company finances its activities without using any loans and the resources of funding are varied by keeping the commercial bank credit limits ready for any cash requirement.

As of 30 June 2019, 25% 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 are 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.

6. Financial Information of the Company

The forecasts under the normal conditions regarding the Group's consolidated financial results for the 2019 year are presented below;

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%	
Consolidated 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 Defense Industry list since 2006, "Defense News Top 100", published by "Defense News" magazine, aims to increase its ranking in the list in following years.

In 2018, the Company raised its ranking to 52th in the list of 2019 with a USD 1,79 Million defense sales.

44th Ordinary General Assembly Meeting held on 26 April 2019.

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 requires high technology.
- Inorganic expansion will be also evaluated as well as organic expansion.

a. Financial Resources of the Company

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

During 1 January - 30 June 2019 period, the cash requirements were met with the available cash, cash inflows from other operations and use of Türk Eximbank export discounted foreign currency loan due to low cost. Within the scope of the Eximbank Loan Program, during 1 January - 30 June 2019 period, "Discounted Foreign Currency Loan" was used as USD 125 Million with 240-360 days of maturity and EUR 78,2 Million with 240-360 days of maturity. As of 30 June 2019, there is a loan balance equivalent to USD 234 Million in total which is used from Türk Eximbank.

In the period ended on 31 March 2019, the entire loan obtained from Defense Industry Support Fund (SSDF) was closed by offsetting from receivables.

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.

b. Research and Development Activities

The Group, as a leading defense industry establishment, develops advanced technology system solutions on land, air, naval and aerospace platforms, places great importance to Research and Development activities and technological gains since it was founded.

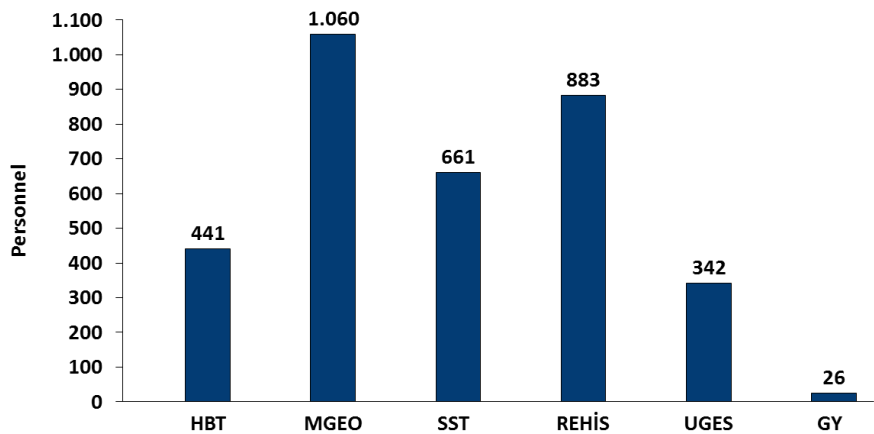
By following up on all kinds of technological developments pertaining to land, air, naval and aerospace platform product/system technologies, the Company not only applies technology but also designs, develops and produces product/system technologies in order to share or sell with/to national and international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

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

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

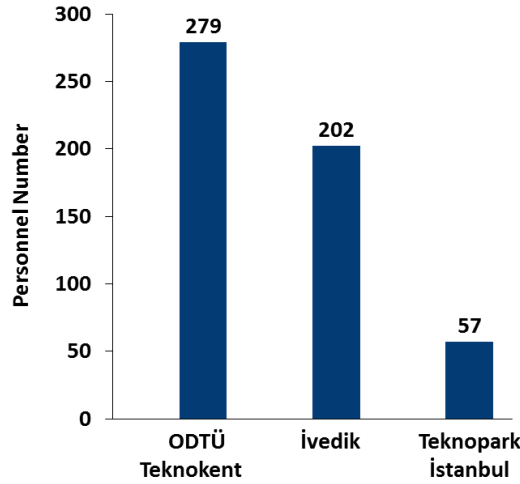
Within the Company, there are 6 Research and Development centers within the scope of Defense System Technologies (SST), Radar Electronic Warfare and Intelligence Systems (REHİS), Microelectronics, Guidance and Electro-optics (MGEO), Communication and Information Technologies (HBT), Transportation, Security, Energy & Automation Systems (UGES) Vice Presidencies as well as ASELSAN Research Center of Vice Presidency of Technology and Strategy Management. Currently, 3.413 staff are employed at the Group’s Research and Development centers.

**The Number of Personnel Employed at R&D Centers
(3.413)**



The Company also carries on its activities in Teknokent facility within Middle East Technical University and İstanbul Technology Development Area Teknopark within the scope of the Law numbered 4691 on Technology Development Regions. Group employed 538 staff within this region.

**The Number of Personnel Employed at Technopark
(538)**



c. Progress in Investments and Degree of Incentive Utilization

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.

Between the period 1 January – 30 June 2019 because of having Research and Development centers, TL 69.904 Thousand within the scope of income tax withholding incentive, promotion of insurance premium, stamp duty exception; as a result of being active at ODTÜ Teknokent, İstanbul Technology Development Area Technopark and ITU Arı Technopark TL 13.301 Thousand incentives have been used.

Within the scope of the Research and Development Law No 5746 and Teknokent Law No 4691, TL 208.340 Thousand Corporate Tax advantage has been gained as of 1 January - 30 June 2019 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 2019 and the Company benefited from the incentives (TL 190 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 296 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 context of "Taxes and Funds Exemption Certificate" received from Republic of Turkey Ministry of Trade in order to increase exports and gain competitiveness in international markets, stamp duty and fee exemptions are used in export sales and deliveries and foreign exchange gain activities. (69.395 TL)

Within the Decision Regarding the Governmental Grant in Investments, there are 5 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 14.642 Thousand).

VAT exemption is applied in domestic and foreign purchases and customs tax exemption is used in foreign purchases (TL 107.726 Thousand).

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

The Source of Incentives	Type of Advantage	30 June 2019 Amount (Thousand TL)
Research and Development Promotion Law numbered 5746 and Teknopark Law numbered 4691	Corporate Income Tax	208.340
VAT Law numbered 3065	VAT Return	107.726
Research and Development Promotion Law numbered 5746	Income tax withholding, Insurance Premium, Stamp Tax	69.904
Export Promotion Practices (Taxes and Funds Exemption Certificate)	Stamp Duty Exemptions	69.395
Ministry of Industry Incentive	VAT and Customs Duty Exemptions	14.642
Teknopark Law numbered 4691	Income tax withholding, Insurance Premium, Stamp Tax	13.301
The Support and Price Stabilization Fund	Cash Support	296
Support Programme (TÜBİTAK 1003, 1501, 1511, 1509)	Cash Support	190
TOTAL		483.794

d. 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)	30 June 2019	30 June 2018	Δ %
Domestic sales	4.227.955	2.958.873	43
Export sales	396.460	320.903	24
TOTAL	4.624.415	3.279.776	41

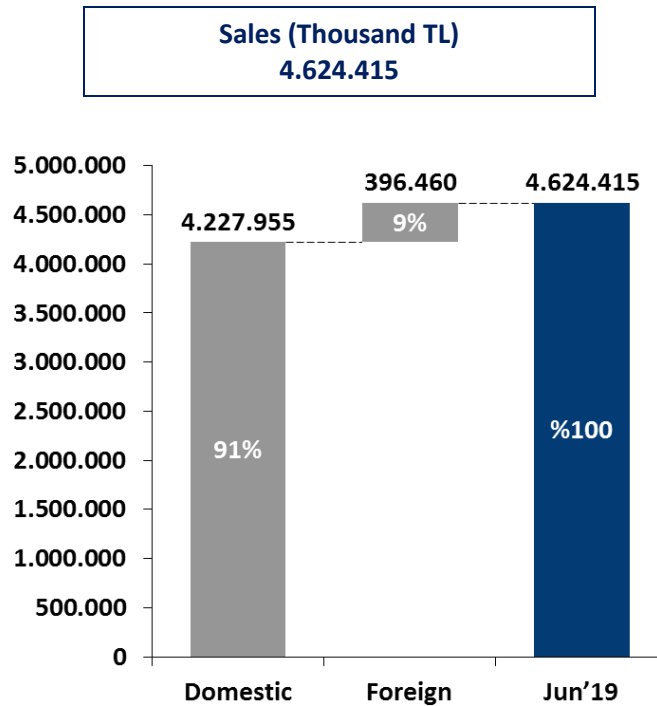
Substantial part of production has been realized based on orders. All related processes are being managed efficiently since product requirements, quantities and prices are different.

e. 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 - 30 June 2019; TL 4.227.955 Thousand of this realized as domestic sales and TL 396.460 Thousand of it realized as foreign sales.



f. The Basic Ratios

As of 30 June 2019, the Group's financial statements prepared in accordance with the Communiqué Series II, No: 14.1 "Communiqué on Capital Market Financial Reporting Standards" issued by Capital Markets Board, Gross Margin is 24%, Operating Profit Margin (EBIT) is 18%, Adjusted EBITDA Margin is 20% and Net Profit Margin is 29%. At the end of the 1st Half, Return on Equity (ROE) is 27%, Average Net Working Capital / Net Sales is 46% and Return on Assets (ROA) is 15%.

BASIC RATIOS / CONSOLIDATED FINANCIAL STATEMENT	30 June 2019	31 December 2018
Current Ratio (Acid-test)	2,12	2,48%
Liquidity Ratio	0,93	1,36%
Short Term Current Liabilities / Total Financial Liabilities	100%	97%
Total Financial Liabilities / Total Assets	7%	4%

BASIC RATIOS / CONSOLIDATED BALANCE SHEET	30 June 2019	30 June 2018
Gross Profit Margin	24%	%25
Operating Profit Margin (EBIT)	18%	%19
Adjusted EBITDA Margin (*)	20%	%21
Net Profit Margin	29%	%29
Return On Equity (ROE)	27%	%29
Average Net Working Capital / Net Sales	46%	%35
Return on Assets (ROA)	15%	%14

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

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

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

There are no change made in the Legislation within the reporting period.

8. Compliance Report on Corporate Governance Principles

Corporate Governance Updates Information Note has been updated on www.kap.org.tr with respect to the 44th Ordinary General Assembly held in 26 April 2019. Corporate Governance Updates Information Note and Compliance Report will be announced in the year-end BOD Report.

9. Information Regarding the Lawsuits of the Group

The lawsuits and execution proceedings filed by or against the Group as of 30 June 2019 are summarized below;

Description	30 June 2019 (Thousand TL)
Ongoing lawsuits filed by the Group	27.122
Execution proceedings carried on by the Group	132.923
Lawsuits proceedings carried against the Group	12.715
Lawsuits finalized in favor of the Group within the period	977
Lawsuits finalized against the Group within the period	1.380

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 2019.

10. Information Regarding the Transactions Made within the Reporting Period

i. Changes in the Articles of Association

There are no changes in the Articles of Association within the reporting period.

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

The Group recruited a total number of 632 people (221 with fixed term contract) as the personnel including fixed-term contracted personnel, disabled and terror-stricken personnel during the period 1 January - 30 June 2019 and the number of people quit for the same period is 153 (11 with fixed-term contracted).

The rights and benefits provided to the personnel by the Company are bonus payments, meal allowances, marriage benefits, maternity benefits, death allowances, transportation, private health insurance, childcare, and kindergarten benefits. The average number of personnel employed by the Group as of 30 June 2019 is 6.760.

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

There has not been such an event within the period.

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

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

v. Information Regarding the Donations and Social Responsibility

Within the period of 1 January 2019 - 30 June 2019, the Group did not make any donation.

11. Events After the Reporting Period

There is no contract signed by Group after the reporting date (31 December 2018: USD 509 Million).

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.
SIGNATURE SECTION OF ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
BETWEEN 1 JANUARY – 30 JUNE 2019

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. Ercüment ARVAS
Member of the Board of
Directors

Mehmet Fatih KACIR
Member of the Board of
Directors

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

Alpaslan KAVAKLIOĞLU
Member of the Board of
Directors

Dr. Celal Sami TÜFEKÇİ
Member of the Board of
Directors

Salih KUL
Member of the Board of
Directors