

**(Convenience Translation of Consolidated Financial
Statements and Related Disclosures and Footnotes
Originally Issued in Turkish)**

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

**CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR
ENDED 31 DECEMBER 2018 WITH INDEPENDENT
AUDITORS' REPORT THEREON**

26 February 2019

This report contains independent audit report comprising
5 pages and consolidated financial statements and footnotes
comprising 102 pages.

(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.

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
<i>Revenue – Accounting of Revenue Recognised Over Time</i>	Our audit procedures included, in addition to others, the following;
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:	Controlling the terms of the contract in accordance with the criteria of over time accounting
a) Customer simultaneously receives and consumes the benefits as the entity performs	Cross-check of the amounts subject to revenue calculation with contracts,
b) the customer controls the asset as the entity creates or enhances it,	Controlling monthly changes of variables that directly affect revenue such as profitability on project basis,
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.	Analytical review of the accuracy of expected loss provision,
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.	Performing control tests and test of details for contract cost,
Accounting policies and amounts of the revenue detailed in Note 2.2 and Note 20 respectively	Performing test of details for financing components
	Questioning the annual changes of over-time revenue and related costs.

Key Audit Matters

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.

How the Matter is Handled

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 performed 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.

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.

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



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ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ 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

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

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ 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.)

	Note References	Audited	
		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
<i>To Related Parties</i>	5	593.911	512.270
<i>To Third Parties</i>		1.954.672	1.277.961
Employee Benefit Obligations	17	34.873	46.133
Other Payables	7	2.732	1.494
<i>To Related Parties</i>	5	60	65
<i>To Third Parties</i>		2.672	1.429
Government Grants and Incentives	13	53.818	41.643
Deferred Income	10	632.645	900.106
<i>To Related Parties</i>	5	510.751	686.837
<i>To Third Parties</i>		121.894	213.269
Corporate Tax Liability	27	2.836	717
Short-term Provisions		634.951	425.907
<i>For Employee Benefits</i>	17	49.382	42.301
<i>Other</i>	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
<i>To Related Parties</i>	5	1.617.969	1.048.376
<i>To Third Parties</i>		150.314	213.639
Other Payables	7	106	105
<i>To Third Parties</i>		106	105
Deferred Income	10	2.296.513	1.642.766
<i>To Related Parties</i>	5	1.669.160	1.461.346
<i>To Third Parties</i>		627.353	181.420
Long-term Provisions		526.996	211.667
<i>Long-term Provisions for Employee Benefits</i>	17	198.611	168.742
<i>Other</i>	15	328.385	42.925

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

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ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ 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.)

	Note References	Audited	
		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
<i>Gain on Revaluation of Property, Plant and Equipment</i>	26	207.431	207.431
<i>Gain/ Loss on Remeasurement of Defined Benefit Plans</i>	26	(18.073)	1.656
Other Cumulative Comprehensive Income / (Expense) will be Reclassified to Profit/Loss		755.119	540.690
<i>Gain on Revaluation of Available for Sale Financial Assets</i>	26	729.612	535.444
<i>Cumulative Translation Adjustments</i>	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

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

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2018

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

	Note References	Audited	
		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

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

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2018**

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

		Audited	
		1 January- 31 December 2018	Restated(*) 1 January- 31 December 2017
	Note References		
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

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

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ 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 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 301December 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
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

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

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ 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.)

	Note References	Audited	
		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
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Receivables</i>	6	(19.239)	1.476
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories</i>	9	(17.541)	5.642
-Adjustments for Provisions		747.129	214.975
<i>Adjustments for (Reversal of) Provisions Related with Employee Benefits</i>	17	55.008	31.375
<i>Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions</i>	15	385.888	29.350
<i>Adjustments for (Reversal of) Warranty Provisions</i>	15	305.852	155.138
<i>Adjustments for (Reversal of) Other Provisions</i>	15	381	(888)
-Adjustments for Interest (Income) Expenses		(112.645)	114.307
<i>Adjustments for Interest Income</i>	22-24	(657.252)	(192.040)
<i>Adjustments for Interest Expense</i>	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)
- 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

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

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

(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 Presidency¹ 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 ("BİST") 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 FIDANCI, the Director of Business Development and Marketing, shall be appointed as the Vice President as of 1 February 2019.

(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 (continued)

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 ELEKTRONİK SANAYİ VE TİCARET A.Ş. 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.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.1 The Basis of Presentation (continued)****Basis of Consolidation****Subsidiaries:**

The details of the subsidiaries of the Group are as follows:

Subsidiaries	Location	Functional Currency	Group's proportion of ownership and voting power held (%)		Main Activity
			31 December 2018	31 December 2017	
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 established 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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Subsidiaries (continued):

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 ELEKTRONİK SANAYİ VE TİCARET A.Ş. 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.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.1 The Basis of Presentation (continued)****Basis of Consolidation (continued)****Joint Ventures**

The details of the Group's interests in joint ventures as of 31 December 2018 and 2017 are as follows:

Joint Ventures	Principal Activity	Country of incorporation and operation	Group's proportion of ownership and voting power held (%)	
			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 Kazakhstan")	Production, sales and technical maintenance service of electronic and electro-optic devices and systems	Kazakhstan	49	49
ASELSAN Middle East PSC ("ASELSAN Jordan")	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	---

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.1 The Basis of Presentation (continued)****Basis of Consolidation (continued)****Joint Ventures (continued):**

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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Joint Ventures (continued):

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 ELEKTRONİK SANAYİ VE TİCARET A.Ş. 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.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)
2.2 Comparative Information and Restatement of Prior Period Consolidated Financial Statements (continued)

- 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 :

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
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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. 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.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)
2.2 Comparative Information and Restatement of Prior Period Consolidated Financial Statements (continued)

31 December 2017	As Previously Reported	TFRS 15		TFRS 9	Restated 31 December 2017
		Effect of Change in Measurement	Effect of Significant Financing Component	Effect of Impairment	
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
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 kurus)	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

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 Comparative Information and Restatement of Prior Period Consolidated Financial Statements (continued)

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 contracts, 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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 Comparative Information and Restatement of Prior Period Consolidated Financial Statements (continued)

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 Standards 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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.4 New and Revised Turkish Accounting Standards (continued)****Standards Issued But Not Yet Effective and Not Early Adopted as of 31 December 2018 (continued)****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.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POASA

The following standards, interpretations and amendments to existing TFRS standards are issued by the IASB 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 IASB 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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.4 New and Revised Turkish Accounting Standards (continued)

Improvements to TFRSs (continued)

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. 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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.4 New and Revised Turkish Accounting Standards (continued)

Improvements to TFRSs (continued)

TFRS 17 –Insurance Contracts (continued)

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 also 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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

Related Parties (continued)

(b) An entity is related to a reporting entity if any of the following conditions applies:

(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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.5 Summary of Significant Accounting Policies (continued)*****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.

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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

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.

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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.5 Summary of Significant Accounting Policies (continued)****Property, Plant and Equipment (continued)**

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:

	<u>Useful life</u>
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

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.5 Summary of Significant Accounting Policies (continued)****Intangible Assets (continued)****Internally generated intangible assets – R&D expenditure (continued)**

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:

	<u>Useful life</u>
Rights	2-15 years
Computer software	2-11 years
Development expenditures	1-5 years
Leasehold improvements	2-11 years

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;
- elimination 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 reclassifying 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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.5 Summary of Significant Accounting Policies (continued)*****Non-derivative Financial Assets (continued)*****Available-for-sale financial assets (continued)**

If the fair value of an impaired available for sale debt security subsequently increases and the increase can be related objectively to an event occurring 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 withdrawn 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 recoverable 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 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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

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:

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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

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.

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

3. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.6 Summary of Significant Accounting Policies (continued)

Foreign Currency Transactions (continued)

Foreign currency transactions and balances (continued)

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.

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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

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.

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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

Taxes Calculated on the Basis of the Company's Earnings (continued)

Deferred tax (continued)

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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.5 Summary of Significant Accounting Policies (continued)****Employee Benefits (continued)****Dividend and bonus plans (continued)**

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.

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.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.6 Critical Accounting Judgments and Estimates (continued)

Critical judgments in applying the Group's accounting policies (continued)

Deferred tax (continued)

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).

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).

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.6 Critical Accounting Judgments and Estimates (continued)****Critical judgments in applying the Group's accounting policies (continued)****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).

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.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. 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.)

4. INTERESTS IN OTHER ENTITIES**a) Subsidiaries**

Details of the Group's material subsidiaries as of 31 December are as follow:

Name of Subsidiary	Place of incorporation and operation	Currency	Group's proportion of ownership and voting power held (%)		Principal Activity
			31 December 2018	31 December 2017	
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

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.

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

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.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. 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.)

5. RELATED PARTY DISCLOSURES (continued)

	31 December 2018									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
	Trading	Prepaid Expenses	Other Receivables	Trading	Prepaid Expenses	Trading	Deferred Income	Other Payables	Trading	Deferred Income
Balances with related parties										
<u>Main shareholder</u>										
TSKGV	21	--	--	--	--	--	--	--	--	--
<u>Other shareholder</u>										
Axa Sigorta Anonim Şirketi ("Axa Sigorta")	--	--	--	--	--	--	--	60	--	--
<u>Main shareholder's subsidiaries and associates</u>										
Hava Elektronik Harp Sis. Müh. Tic. Anonim Şirketi ("HAVELSAN EHSİM")	--	943	--	--	--	5.769	--	--	--	--
Hava Elektronik San. ve Tic. Anonim Şirketi ("HAVELSAN")	21.196	29.676	--	957	7.365	55.460	--	--	4.040	--
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi ("HTR")	--	19.592	--	--	--	4.415	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	26.112	--	--	--	14.524	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	22	35.564	--	--	4.806	37.086	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	53.509	10.808	--	374	--	25.257	70.957	--	208.410	20.270
Türk Havacılık ve Uzak Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	78.034	92	--	61.748	--	51.732	114.454	--	16.127	242.424
<u>Financial Instruments</u>										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	1.117	601	--	--	--	6.027	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	75.824	116.171	--	54.483	127.687	50.722	118.359	--	23.632	20.690
<u>Joint ventures and its related parties</u>										
ASELSAN Bilkent Nano	--	4.809	--	--	3.939	2.595	--	--	--	--
İhsan Doğramacı Bilkent University	--	7.533	--	--	--	3.499	--	--	--	--
ASELSAN Optik	2.726	34.985	--	--	--	14.056	--	--	--	--
IGG	37.245	--	--	8.552	--	--	--	--	--	--
IGG ASELSAN	1.934	1.534	--	--	--	--	--	--	--	--
ASELSAN Kazakistan	68.080	--	--	13.905	--	89	1.785	--	--	--
ASELSAN Jordan	12.060	--	--	--	--	2.404	--	--	--	--
TÜBİTAK BİLGEM	--	5.965	--	--	139	10.259	--	--	--	--
TÜBİTAK-UME	--	623	--	--	--	13	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	15.664	506	--	79.122	--	11.015	9.029	--	--	--
TÜBİTAK SAGE Savunma Sanayii	28	16.064	--	5.245	11.997	56.256	--	--	--	660
TÜBİTAK UZAY TEKNOLOJİLERİ	--	--	--	--	--	722	--	--	--	--
Savunma Sanayi Başkanlığı ("SSB")	360.249	90	--	1.752.153	--	241.789	196.167	--	1.365.760	1.382.961
YİTAL	--	--	--	--	--	--	--	--	--	--
Ankaref Bilişim Teknolojileri Limited Şirketi ("ANKAREF")	--	--	24	--	--	--	--	--	--	--
ULAK	44.556	--	--	--	--	--	--	--	--	2.155
SADEC LLC	586	--	--	--	--	222	--	--	--	--
	772.851	311.668	24	1.976.539	155.933	593.911	510.751	60	1.617.969	1.669.160

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. 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.)

5. RELATED PARTY DISCLOSURES (continued)

Balances with related parties	31 December 2017									
	Receivables					Payables				
	Short-term		Other Receivables	Long-term		Short-term		Other Payables	Long-term	
	Trading	Prepaid Expenses		Trading	Prepaid Expenses	Trading	Deferred Income		Trading	Deferred Income
Ana ortak										
TSKGV	28	--	--	--	--	--	--	--	--	--
Diğer ortak										
Axa Sigorta	--	--	--	--	--	--	--	65	--	--
Ana ortağın ortakları/iştirakleri/bağlı ortaklıkları										
HAVELSAN EHSİM	--	1.165	--	--	--	--	--	--	--	--
HAVELSAN	11.095	21.482	--	1.919	7.365	21.585	--	--	--	--
HTR	--	2.319	--	--	--	6.875	--	--	--	--
İŞBİR	2	12.878	--	--	1.683	6.403	--	--	--	--
NETAŞ	714	2.090	--	--	15.056	41.273	--	--	--	--
STM	55.650	7.577	--	193	--	18.263	133.317	--	144.705	60.871
TUSAŞ	65.044	92	--	101.521	--	68.319	65.629	--	64.381	285.669
Finansal yatırımlar										
ASPILSAN	--	1.235	--	--	--	8.901	--	--	--	--
ROKETSAN	32.335	787	--	72.303	124.686	34.171	18.969	--	11.473	52.520
İş ortaklıkları ve iş ortaklıklarındaki ilişkili taraflar										
ASELSAN Bilkent Mikro Nano	--	215	--	--	4.405	1.890	--	--	--	--
İhsan Doğramacı Bilkent Üniversitesi	--	4.455	--	--	41	6.135	--	--	--	--
ASELSAN Optik	1.882	22.261	--	--	--	12.436	--	--	--	--
IGG	21.535	--	--	8.552	--	--	--	--	--	--
IGG ASELSAN	747	--	--	--	--	916	--	--	--	--
ASELSAN Kazakistan	52.547	--	--	14.015	--	14.884	956	--	--	--
ASELSAN Ürdün	24.545	--	--	9.610	--	--	--	--	--	--
TÜBİTAK BİLGEM	--	6.072	--	--	254	3.770	--	--	--	--
TÜBİTAK-UME	--	228	--	--	--	3	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	10.063	--	--	17.056	--	--	1.023	--	14.506	13.631
TÜBİTAK SAGE Savunma Sanayii	--	9.699	--	6.566	11.997	11.000	--	--	--	--
TÜBİTAK UZAY TEKNOLOJİLERİ	--	--	--	--	--	--	--	--	--	--
SSB	184.440	--	--	853.944	--	255.446	466.943	--	813.311	1.048.655
YİTAL	--	--	14	--	--	--	--	--	--	--
ANKAREF	--	--	20	--	--	--	--	--	--	--
SADEC LLC	214	--	--	--	--	--	--	--	--	--
	460.841	92.555	34	1.085.679	165.487	512.270	686.837	65	1.048.376	1.461.346

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. 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.)

5. RELATED PARTY DISCLOSURES (continued)

	1 January- 31 December 2018	1 January- 31 December 2017
Transactions with related parties	Purchases	Purchases
<u>Main Shareholder</u>		
TSKGV	766	672
<u>Main shareholder's subsidiaries and associates</u>		
NETAŞ	132.739	105.512
STM	9.428	10.334
İŞBİR	47.964	29.776
HTR - HAVELSAN	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
<u>Financial Instruments</u>		
ROKETSAN	34.748	91.264
ASPILSAN	24.412	15.655
<u>Joint ventures and its related parties</u>		
İHSAN DOĞRAMACI BİLKENT UNIVERSITY	14.146	12.526
TÜBİTAK BİLGEM	28.585	9.055
TÜBİTAK-UME	200	184
TÜBİTAK SAGE SAVUNMA SANAYİİ	67.144	15.418
TUBİTAK UZAY TEKNOLOJİLERİ	612	
ANKAREF	--	405
ULAK	3.463	--
	479.608	329.955

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5. RELATED PARTY DISCLOSURES (continued)

	1 January- 31 December 2018	1 January- 31 December 2017
Transactions with related parties	Sales	Sales
<u>Main Shareholder</u>		
TSKGV	293	319
<u>Main shareholder's subsidiaries and associates</u>		
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
<u>Financial Instruments</u>		
ROKETSAN	132.613	59.188
ASPILSAN	1.460	--
<u>Joint ventures and its related parties</u>		
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".

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6. TRADE RECEIVABLES AND PAYABLES**a) Trade receivables**

Details of the Group's trade receivables are as follows:

	31 December	(Restated)
Short-term trade receivables	2018	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

	31 December	(Restated)
Long-term trade receivables	2018	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

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

6. TRADE RECEIVABLES AND PAYABLES (continued)**a) Trade receivables (continued)**

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

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:

	31 December 2018	(Restated) 31 December 2017
Short-term trade payables		
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

	31 December 2018	(Restated) 31 December 2017
Long-term trade payables		
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

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7. OTHER RECEIVABLES AND PAYABLES**a) Other receivables**

	31 December 2018	31 December 2017
Short-term other receivables		
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

	31 December 2018	31 December 2017
Long-term other receivables		
Deposits and guarantees given	764	661

b) Other payables

	31 December 2018	31 December 2017
Short-term other payables		
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

	31 December 2018	31 December 2017
Long-term other payables		
Deposits and guarantees received	106	105

¹ Mainly comprises Value Added Tax (VAT) returns and are expected to be offsetted in the following periods.² Consists of project delay penalties which will be revoked to companies and blocked receivables due to Eximbank loan.

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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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8. EQUITY ACCOUNTED INVESTMENTS (continued)

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.

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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

	31 December 2018	(Restated) 31 December 2017
Short-term prepaid expenses		
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

	31 December 2018	31 December 2017
Long-term prepaid expenses		
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

	31 December 2018	(Restated) 31 December 2017
Short-term deferred income		
Order advances received	92.303	158.484
Order advances received from related parties (Note 5)	510.751	686.837
Deferred 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).

	31 December 2018	31 December 2017
Long-term deferred income		
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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11. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other fixed assets ¹	Leasehold improvements	Construction in progress ²	Total
<u>Cost and revaluation</u>										
Opening balance as of 1 January 2018	249.265	18.229	193.499	828.923	4.540	190.169	91.638	197.842	93.063	1.867.168
Additions ³	52.780	421	--	170.755	1.272	48.529	22	488	91.636	365.903
Revaluation fund	--	--	--	--	--	--	--	--	--	--
Disposals	--	--	--	(499)	(320)	(320)	--	(194)	(587)	(1.870)
Transfers	--	16.904	11.462	3.457	--	345	14.286	3.947	(50.401)	--
Closing balance as of 31 December 2018	302.045	35.554	204.961	1.002.686	5.492	238.723	105.946	202.083	133.711	2.231.201
<u>Accumulated depreciation</u>										
Opening balance as of 1 January 2018	--	9.946	73.466	481.111	2.175	127.149	57.442	25.036	--	776.325
Charge for the period	--	1.798	7.238	68.029	525	23.574	10.087	7.708	--	118.959
Disposals	--	--	--	(116)	(132)	(43)	--	(89)	--	(380)
Closing balance as of 31 December 2018	--	11.744	80.704	549.024	2.568	150.680	67.529	32.655	--	894.904
Net book value as of 31 December 2018	302.045	23.810	124.257	453.662	2.924	88.043	38.417	169.428	133.711	1.336.297

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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11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other fixed assets	Leasehold improvements	Construction in progress	Total
<u>Cost and revaluation</u>										
Opening balance as of 1 January 2017	246.318	15.259	175.925	710.762	3.839	155.280	85.809	197.205	61.277	1.651.674
Additions	--	199	--	107.103	1.178	34.903	15	637	69.949	213.984
Revaluation fund	2.947	--	--	--	--	--	--	--	--	2.947
Disposals	--	--	--	(47)	(477)	(14)	--	--	(899)	(1.437)
Transfers	--	2.771	17.574	11.105	--	--	5.814	--	(37.264)	--
Closing balance as of 31 December 2017	249.265	18.229	193.499	828.923	4.540	190.169	91.638	197.842	93.063	1.867.168
<u>Accumulated depreciation</u>										
Opening balance as of 1 January 2017	--	9.123	66.917	428.067	2.303	110.997	48.744	18.001	--	684.152
Charge for the period	--	823	6.549	53.088	349	16.153	8.698	7.035	--	92.695
Disposals	--	--	--	(44)	(477)	(1)	--	--	--	(522)
Closing balance as of 31 December 2017	--	9.946	73.466	481.111	2.175	127.149	57.442	25.036	--	776.325
Net book value as of 31 December 2017	249.265	8.283	120.033	347.812	2.365	63.020	34.196	172.806	93.063	1.090.843

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

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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11. PROPERTY, PLANT AND EQUIPMENT (continued)**Fair value measurement of the Group's land and buildings (continued)**

Details of the Group's lands and information regarding fair value hierarchy are as follows:

	Fair value as of reporting date			
	31 December	Level 1	Level 2	Level 3
	2018	TL	TL	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	Level 1	Level 2	Level 3
	2017	TL	TL	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	Level 2	Level 3
	TL	TL	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 assets¹	Total
<u>Cost</u>				
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
<u>Accumulated Amortization</u>				
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

¹ Other intangible assets include licences related to computer software.

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12. INTANGIBLE ASSETS (continued)

	Rights	Development Costs	Other intangible assets¹	Total
<u>Cost</u>				
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
<u>Accumulated Amortization</u>				
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

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

¹ Other intangible assets include licences related to computer software.

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

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 Undersecretariat 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.

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

13. GOVERNMENT GRANTS AND INCENTIVES (continued)

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 qualifying assets. (31 December 2017: None).

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

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**a) Provisions**

	31 December 2018	31 December 2017
Other short-term provisions		
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

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

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 Contract² Provision for delay penalties and fines are calculated in accordance with interest rates mentioned in the agreement for default and within the client's knowledge.

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

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (continued)**a) Provisions (continued)**

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

	31 December 2018	(Restated) 31 December 2017
Other long-term provisions		
Provision for delay penalties	328.385	42.925
	328.385	42.925

The movement of the provision for onerous contracts 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	(7.541)	(7.142)
Closing balance	328.385	42.925

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

15. PROVISION, CONTINGENT ASSET AND LIABILITIES (continued)**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	2017
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 position 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.

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

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 escalated 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.

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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16. COMMITMENTS AND CONTINGENCIES (continued)
c) Guarantees given (continued)

31 December 2018	TL Equivalent	TL	USD	EURO	UAE Dirham	Indian Rupee	British Pound	Qatar Rial
A. Total amount of CPM given on behalf of the legal entity								
-Collateral	17.683.695	2.337.667	1.842.279	935.983	50	10.000	1.654	25
-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	935.983	50	10.000	1.654	25

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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16. COMMITMENTS AND CONTINGENCIES (continued)
c) Guarantees given (continued)

31 December 2017	TL Equivalent	TL	USD	EURO	UAE Dirham	Indian Rupee	British Pound
A. Total amount of CPM given on behalf of the legal entity							
-Collateral	13.304.922	1.916.017	1.838.751	984.226	50	10.000	1.654
-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	984.226	50	10.000	1.654

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.

¹ The 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 pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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

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:

	2018	2017
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

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.

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17. EMPLOYEE BENEFITS (continued)**Provision for severance pay (continued)**

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 5.434¹ (31 December 2017: TL 4.732)¹

As of 1 January 2018, the ceiling for the severance payments is TL 6.017¹

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.

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

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

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.

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

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

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 Communiqué 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.

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

19. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (continued)

Retained Earnings (continued)

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).

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)

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20. REVENUE AND COST OF SALES

	1 January- 31 December 2018	(Restated) 1 January- 31 December 2017
a) Revenue		
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

	1 January - 31 December 2018	(Restated) 1 January - 31 December 2017
Revenue Recognized Regarding Performance Obligation		
Over time	5.634.134	3.002.472
Point in time	3.374.382	2.409.781
	9.008.516	5.412.253

	1 January- 31 December 2018	(Restated) 1 January- 31 December 2017
b) Cost of sales(-)		
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

	1 January - 31 December 2018	1 January - 31 December 2017
a) General administrative expenses (-)		
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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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21. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES (continued)

	1 January- 31 December 2018	1 January- 31 December 2017
b) Marketing expenses (-)		
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
c) Research and development expenses (-)		
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

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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

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

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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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

	1 January- 31 December 2018	1 January- 31 December 2017
Revaluation reserve available for sale financial assets		
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.

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

26. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS (continued)

	1 January- 31 December 2018	1 January- 31 December 2017
Revaluation of property		
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.

	1 January- 31 December 2018	1 January- 31 December 2017
Foreign currency exchange differences:		
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

	1 January- 31 December 2018	1 January- 31 December 2017
Gain/Loss on remeasurement of defined benefit plans		
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

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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27. INCOME TAXES

	31 December 2018	31 December 2017
Corporate tax liabilities:		
Current corporate tax provision	11.022	2.036
Less: Prepaid taxes and funds	(8.186)	(1.319)
	2.836	717

	1 January- 31 December 2018	(Restated) 1 January- 31 December 2017
Tax income:		
Current corporate tax expense	(11.022)	(2.036)
Deferred tax income	88.603	213.054
	77.581	211.018

1 January-31 December 2018

	Amount before tax	Tax income/expense	Net of tax amount
Tax effects related to components of other comprehensive income			
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

	Amount before tax	Tax income/expense	Net of tax amount
Tax effects related to components of other comprehensive income			
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

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27. INCOME TAXES (continued)

	1 January- 31 December 2018	1 January- 31 December 2017
Tax recognized directly in equity		
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)

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).

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27. INCOME TAXES (continued)**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.

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

27. INCOME TAXES (continued)**Deferred Tax (continued)**

The details of deferred tax assets and liabilities of the Group are as follows:

		(Restated)
	31 December 2018	31 December 2017
Deferred Tax Assets:		
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:		
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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27. INCOME TAXES (continued)
Deferred tax (continued)

	1 January- 31 December 2018		(Restated) 1 January- 31 December 2017	
<u>Movement of deferred tax assets/(liabilities):</u>				
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
<u>Tax reconciliations:</u>	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)

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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	(Restated) 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

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 2018
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

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29. FINANCIAL INVESTMENTS (continued)**a) Available for sale financial investments (continued)****Financial Investments (continued)**

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	Ratio (%)	31 December 2018	Ratio (%)	31 December 2017
ULAK	51	5.100	--	--
ASPIŁSAN	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.

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30. FINANCIAL LIABILITIES (continued)**Financial Liabilities (continued)**

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			
	Weighted average interest rate (%)	Short-term	Long-term
Currency			
TL	-	22.811	--
USD	3,17	742.992	20.234
		765.803	20.234

31 December 2017			
	Weighted average interest rate (%)	Short-term	Long-term
Currency			
TL	12,67	354.672	--
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

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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.

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)**a) Capital risk management (continued)**

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)

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.

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)
Credit risk (continued)

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	--	--	--	--	--	--

¹ While determining the amount, components which provide increase on credit reliability, like guarantees received are not taken into consideration.

² The guarantees consist of the letters of guarantees, collaterals, checks and mortgages.

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)
Credit risk (continued)

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	--	--	--	--	--	--

¹ While determining the amount, components which provide increase on credit reliability, like guarantees received are not taken into consideration.

² The guarantees consist of the letters of guarantees, collaterals, checks and mortgages.

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)**Credit Risk (continued)**

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 from its 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.

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.

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)**Liquidity Risk (continued)**

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	--

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)**Liquidity Risk (continued)**

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	--

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

31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

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.

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.

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

FOREIGN EXCHANGE POSITION						
31 December 2018	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other¹
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	--	--	--
16a. Other monetary financial liabilities	52	6	34	3	18	--
16b. Other non-monetary financial liabilities	1.577.348	132.773	698.504	284.949	1.717.669	--
17. Non-current liabilities (14+15+16)	3.309.892	346.182	1.821.231	386.113	2.327.486	--

¹ Comprises of the currencies CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR.

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

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
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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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

FOREIGN EXCHANGE POSITION						
31 December 2017	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other¹
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	--

¹ Comprises of the currencies CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR.

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

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.

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)**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;

Foreign currency sensitivity table				
31 December 2018				
	Profit/Loss		Equity¹	
	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

¹ Comprises of profit/loss effect.

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)**Foreign currency sensitivity (continued)**

Foreign currency sensitivity table				
31 December 2017				
	Profit/Loss		Equity¹	
	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)	114.270	(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)

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:

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32. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING

31 December 2018	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
<u>Financial assets</u>						
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
<u>Financial liabilities</u>						
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 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
<u>Financial assets</u>						
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
<u>Financial liabilities</u>						
Borrowings	--	--	--	534.143	534.143	30
Trade payables	--	--	--	3.052.246	3.052.246	6
Other payables	--	--	--	1.599	1.599	7

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.

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

32. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING (continued)

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	568.767	516.032
Total gain/loss - transferred to other comprehensive income	204.387	52.735
Closing balance	773.154	568.767

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

33. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING (continued)**31 December 2018**

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
Financial Investments	--	--	773.154
	--	--	773.154

31 December 2017

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
Financial Investments	--	--	568.767
	--	--	568.767

The movement of the fair value level as of 31 December 2017 is as follows:

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	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*

	31 December 2016	Cash Movements	Non-cash movements			31 December 2017
			Additions	Exchange rate change	Other non-cash movements	
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.