

ASELSAN and Its Subsidiaries

Annual Report of Board of Directors with Respect to the Period 1 January – 31 December 2012

ANNEX-1 Corporate Governance Principles Compliance Report

1. Statement For Compliance With Corporate Governance Principles

ASELSAN, in scope of the Corporate Governance Principles which has been implemented by Capital Markets Board (CMB) since 2003, has been making efforts to work in compliance with the principles under the titles shareholders, public disclosure and transparency, stakeholders and Board of Directors.

ASELSAN, adopting the corporate management understanding as a principle, was rated with a grade of 87,73 (8,77) as the result of the Corporate Rating Studies realized by SAHA Corporate Governance and Credit Rating Services Inc (SAHA) in 2012 and therefore was included in the Istanbul Stock Exchange Corporate Governance Index.

Corporate governance rating grade shows to what extent the companies comply with the corporate governance principles set out by the CMB and the Company's compliance level with the principles is defined with a methodology measuring under the main titles shareholders, public disclosure and transparency, stakeholders and Board of Directors.

Main Titles	Weight	Grade (%)	ASELSAN Corporate Rating Report published by SAHA can be reached at the company website address: www.aselsan.com.tr
Shareholders	0.25	79.99	
Public Disclosure and Transparency	0.35	93.47	
Stakeholders	0.15	89.37	
Board of Directors	0.25	86.44	
Total	1.00	87.73	
Company Rating	8.77		

The issues which are not yet in compliance with the Corporate Governance Principles have been explained in the relevant parts of the Compliance report and in the fore coming periods, studies aimed at enabling compliance to the extent permitted by the sectoral features shall be maintained.



Cumhur Sait Şahin TULGA
Independent Member of the Board of Directors
Corporate Governance Committee Chairman



Ahmet ŞENOL
Member of the Board of Directors
Corporate Governance Committee Member



Osman Kapani AKTAŞ
Member of the Board of Directors
Corporate Governance Committee Member



Erhan AKPORAY
Member of the Board of Directors
Corporate Governance Committee Member

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PART I - SHAREHOLDERS

2. Relations with Shareholders Department

Information regarding Investor Relations and Affiliates Department formed as a department responsible for the relations with the shareholders in our Company is given below:

Ahmet DEMİR	Chief Financial Officer/Vice President
Aykan ÜRETEN	Finance Director
Pınar ÇELEBİ	Treasury and Fund Manager/Investor Relations Department Responsible
Bâni Betül GÖKÇE	Investor Relations and Affiliates Department/Senior Expert
Yücel SEZER	Investor Relations and Affiliates Department/Expert

Contact Information

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Particular activities carried out by the Investor Relations and Affiliates Department in 2012:

- To enable the exercising of partnership rights of the shareholders and to enable the keeping of shareholder records in a stable, safe and updated manner,
- To Coordinate the public disclosure of material events,
- To respond to the shareholders with respect to their written information requests except for the non-disclosed, confidential information and trade secrets about the Company,
- To enable the General Assembly Meeting to be held in compliance with the applicable legislation, articles of association and other internal regulations, to enable the keeping of voting results and sending the reports related to the results to the shareholders,
- To pursue and monitor all kinds issues regarding public disclosure including the disclosure policy of the Company and the legislation,
- To fulfill the duties set forth by the Corporate Governance Committee,
- To carry on the transactions related to capital increase, profit distribution, amendments to the articles of association and activities related to Corporate Governance Principles studies,
- To coordinate the up-to-dateness of the list of the ones who have access to internal information, to inform the persons on the list of the ones who have access to internal information with respect to the protection of the internal information to enable the rules of confidentiality are abided by until the material events, financial and operational results are disclosed to the public.
- To enable transactions for the dematerialization of the physical shares over the Central Registry System.
- Information and explanations which might affect the exercising of the shareholding rights are submitted to the shareholders through the Company website in an up-to-date manner.

The dematerialization of physical shares of 137 shareholders were realized in 2012 by the Investor Relations and Affiliates Department along with the transaction of profit share receivables. The transactions of dematerialization ended on 31.12.2012 pursuant to the legislation.

3. Exercising of Information Acquisition Rights of the Shareholders

Within 2012, the information requests with regard to utilization of the profit share receivables and bonus shares of 150 shareholders which were not utilized within the required time and the method to follow for the transaction of how the shares should be dematerialized were responded to orally. Attention is paid to respond to the information request of the shareholders who apply to our Company in order to get information in a clear and complete manner.

The content of "Investor Relations" in the Turkish version of our website was extended within 2012. Within the scope of this study, the information on the page "Investor Relations" were collected under main topics and rearranged, Board of Directors Committees (Committee Members, Working Directives and Meeting Minutes), Remuneration Policy, Compensation Policy, Dividend Info, Analyst

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Information and Investor Presentations were added to the website and the content of the Frequently Asked Questions part was extended. On the other hand, the "Investor Relations" topic, which was not present before, was added to the English version of our Company website and the synchronization process of the English content with the Turkish content is continuing.

Due to the reason that a regulation is present within the Turkish Code of Commerce (TCC) numbered 6102 according to which the shareholders will be able to request from the General Assembly the assignment of a private auditor for the inspection and disclosure of the financial status of the shareholders and due to the reason that the law and the relevant legislation are considered for the issues not present in the articles of association of the Company, there is no respective provision with regard to this issue in the articles of association. There were no requests by the shareholders with respect to the assignment of a private auditor.

4. General Assembly Meetings

The agenda and convocation related to the 37th Ordinary General Assembly Meeting dated 30.03.2012 with regard to the 2011 activities realized at the Company headquarters were duly announced comprising all necessary information in the Turkish Trade Registry Gazette dated 13.03.2012 along with the five daily newspapers in Turkey. Furthermore the convocation was sent to the principal shareholders and the shareholders attended to the previous meeting by post two weeks before the General Assembly. The General Assembly was realized by the attendance of 11 shareholders representing the 20.018.893.990 pieces of shares (TL 200.188.939,9 nominal) out of the 23.522.400.000 shares representing the TL 235.224.000 of issued shares. Media members did not participate in the General Assembly Meeting.

In scope of the Notification Related to the Determination and Implementation of the Corporate Governance Principles of the CMB, Serial: IV, No:56, three weeks before the Ordinary General Assembly on date 09.03.2012, the Ordinary General Assembly and Preferred Shareholders General Assembly Meeting agenda, place, time, copy of the power of attorney, total number of shares as of 09.03.2012 and the voting rights, the number of shares representing the preferred share group and their voting rights, as there will be an election to change the Board of Directors which is present in the agenda, the grounds for this, the decision of the Board of Directors related to the amendment to the articles of association, the former and new versions of the articles of association with the approvals of the CMB and the Ministry of Customs and Trade, the list of independent members of the Board of Directors, the proposal of the Board of Directors with respect to the 2011 year profit sharing, the profiles of the independent members of the Board of Directors and their statements of independence were published on our Company website. The annual report was made available for the review of the shareholders at the headquarters 15 days before the General Assembly and handed to the shareholders to participate in the General Assembly and to the ones who made requests.

For the facilitation of the transport, transportation was made available to our Company head office and our shareholders who attended the General Assembly had a site visit.

In the Ordinary General Assembly Meeting in 2012, the shareholders were informed regarding the non-presence of Members of the Board of Directors and nominees along with grounds. No proposals were set forth during the meeting regarding the agenda. The shareholders exercised their rights to ask questions regarding the topics in the agenda and the answers to these took place in the General Assembly Meeting minutes. The minutes of the General Assembly Meeting held in 2012 can be reached from the website of the Company.

In the Ordinary General Assembly Meeting in 2012, in scope of the Notifications Regarding the Determination and Implementation of the Corporate Governance Principles issued by the CMB Serial: IV, No:56 No:57 the amendment to the articles of association stating that the regulations of the CMB regarding the corporate governance will be complied in the transactions deemed important with respect to the implementation of Corporate Governance Principles was approved. Again in connection with article 1.3.7 of the Notification No:56 Serial: IV, a topic was added to the agenda of the Ordinary General Assembly in 2012 and in this scope information was provided to the Board of Directors stating that there was no authorization granted to the ruling shareholders with regard to the Company Management, Members of the Board of Directors, senior executives and to their spouses and relatives up to second degree and kins by marriage for them to perform acts which would cause conflict of interest with the Company or its affiliates or to compete.

No Extraordinary General Assembly Meeting was held in 2012 activity year.

The shareholders were informed regarding the amount of donations and aids made in 2011 and the beneficiaries with a respective agenda topic. The policy of our Company with respect to donations and aids shall be formed and be submitted to the shareholders in the General Assembly Meeting in 2013.

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5. Right to Vote and Minority Rights

In article 25 of the articles of association titled "Right to Vote", there is a provision stating that "the Shareholders and their representatives who are present at the Ordinary and Extraordinary General Assemblies shall have one right to vote for each share" and there is no privilege or no upper limit pertaining to the numbers of votes. The right to vote arises as soon as the share is acquired and there is no regulation setting forth that the vote should be used after a certain time the share is acquired.

The regulations regarding the voting of the shareholders through their representatives are abided by, in the event of a legal representation this is certified and the open proxy rule is applied. In the General Assembly in 2013, the amendment to the articles of association regarding the Electronic General Assembly shall be submitted to approval.

Particular attention is paid in exercising the minority rights in our Company and the provisions of Turkish Code of Commerce and the relevant legislation are applied. All shareholders are treated equally in our Company, including the minority and foreign shareholders.

There are no prevailing partners in our Company. In the articles of association, there is no provision with respect to the representation of the minority shares in the management and their accumulated casting of votes. Due to the voluntary implementation of this issue regarding the capital market legislation, provision with respect to the current General Assembly quorum is applied.

6. Profit Share Rights

There is no privilege with respect to the participation in the profit gained by the Company. The profit distribution policy of our Company was submitted to the attention of the shareholders at the General Assembly, took place in the annual report and was published in our Company website.

The profit distribution policy submitted to the attention of the shareholders in the 2011 Annual Report is as follows:

"Dividend Distribution Policy for the Year 2012 and for the Prospective Years

The amount of dividends shall be calculated – by taking into consideration the pertinent legislation, the provisions of the articles of association, the equity capital ratio of the company, the sustainable growth rate, market value and cash flows – as the distributable profit by referring to the annual profit that is indicated in the financial statements of the company, which had been prepared according to the laws and regulations (after subtracting there from the reserves that had to be set aside according to the law, tax, funds, financial liabilities and the losses from previous years). Then, the Board of Directors will prepare its recommendation on the way such dividends would be distributed, i.e. as cash on the set dates, or as bonus shares that represent the profit which would have been added to the capital, and submit it to the approval of the General Assembly.

There are no privileges in the company regarding entitlement to the company's profit."

As per the decision taken in the General Assembly pursuant to the provisions of the articles of association and to the Capital Market Law and other legal regulations in 2012 and within the legal periods stipulated, out of the profit gained, the gross amount of TL 46.456.740 of 2011 (TL 0,1975 per TL 1 of share, gross 19,75% over the capital) (net TL 39.488.229 – TL 0,167875 per TL 1 of share, net 16,7875% over the capital) was distributed to our shareholders as cash dividend.

7. Transfer of Shares

The recognition of the prevailing partner who shall be dominant in the management of the Company carries importance in the defense industry in which our Company is active. For this reason, the transfer of the nominated Group A shares representing some part of the capital and which are not treated in the Istanbul Stock Exchange Market has been restricted with the provision of article 6 of the articles of association stating " Group A shares shall not be sold or transferred without the consent of the Board of Directors; in the event that these shares are transferred or sold to third parties partially or completely without the consent of the Board of Directors, the Board of Directors is entitled to abstain from recording this sale in the records without stating a reason".

PART II - PUBLIC DISCLOSURE AND TRANSPARENCY

8. Disclosure Policy

The Disclosure Policy of our Company was revised and submitted to the information of the shareholders in the 2012 Ordinary General Assembly and the updated version is available on our website. As per the Corporate Governance Principles, covering the information requests of the shareholders and investors, exercising the shareholding rights, in particular, the regulations with respect to General Assemblies, enabling the flow of information including the website and provide all coordination with respect to all mentioned in addition to the pursuance of the capital board regulations and conducting the relations with the capital board participants are included in the basics of the Disclosure Policy of our Company. The Board of Directors is responsible for forming, pursuing, reviewing and improving this policy. The Corporate Governance Committee provides information to the Board of Directors and Investor Relations and Affiliates Department with respect to the issue regarding the Disclosure Policy and make proposals.

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All kinds of questions or comments may be responded verbally or in written by:

- Chairman and Members of the Board of Directors
- Members of the Board of Auditors
- General Manager
- Vice President
- Secretary General

Employees other than the ones mentioned above are not authorized to respond to such information requests. The information requests received shall be directed to the Investor Relations and Affiliates Department.

The information to be disclosed to the public are submitted in a timely and accurate, complete, comprehensible, interpretable manner, easily accessible with low costs and equally and in a manner to support the beneficiaries to take decisions.

Investor Relations and Affiliates Department personnel have been assigned to pursue and monitor all kinds of issues related to public disclosure. Investors and financial analysts are directed to this department. Negotiations with the capital markets participants are significant part of developing investor relations. However, no new information is provided in these negotiations but only already disclosed information is updated and ASELSAN does not disclose any internal information which shall affect the value of ASELSAN shares and the decision of the investors and which have not yet been disclosed to the public. The reports and presentations shared with a certain group of investors are also published in the website along with a material event disclosure. In compliance with the transparency principle, accounting policies and activity results are also disclosed to the public in a realistic manner. Besides, our Company was rated with the best grade in the field of "Transparency" with respect to the corporate governance implementations of our Company.

Pursuant to the CMB regulations, 42 material event disclosures were made within 2012. These are made available in our website as well. There were no extra explanation requests by the CMB or by the Istanbul Stock Exchange Market within the year.

Pursuant to the Disclosure Policy of our Company, prospective expectations are also disclosed to the public. Within this direction, our expectations for the 2012 consolidated financial results were disclosed on 14.03.2012 and the management evaluation regarding the realization of our expectations are included in article 9 of the Board of Directors Annual Report.

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Disclosure of the Persons who are able to hold internal Information to the Public

Since the year of 2004 Annual Report, the list of the persons who are able to hold internal information are disclosed to public in the Corporate Governance Principles Compliance Report every year.

The list of the persons who are able to hold internal information as of February 2013 are as follows:

1) Necmettin BAYKUL	Board of Directors Chairman
2) Birol ERDEM	Board of Directors Vice Chairman
3) Ahmet ŞENOL	Member of the Board of Directors
4) Erhan AKPORAY	Member of the Board of Directors
5) Osman Kapani AKTAŞ	Member of the Board of Directors
6) Halil SARIASLAN	Member of the Board of Directors
7) Lamia Zeynep ONAY	Member of the Board of Directors
8) Cumhuri Sait Şahin TULGA	Member of the Board of Directors
9) Mehmet TİMUR	Member of the Board of Auditors
10) İsmail DİKMEN	Member of the Board of Auditors
11) Ali Rıza DADAŞ	Member of Board of Auditors
12) Cengiz ERGENEMAN	CEO/President
13) Özcan KAHRAMANGİL	Division CEO/Vice President (MGEO Division)
14) Fuat AKÇAYÖZ	Division CEO/Vice President (SST Division)
15) Faik EKEN	Division CEO/Vice President (HBT Division)
16) Ergun BORA	Division CEO/Vice President (REHİS Division)
17) Dr. Ahmet DEMİR	CFO/Vice President
18) İnci UYSAL	Internal Audit and Assessment Committee Chairman
19) Aykan ÜRETEK	Finance Director
20) Gönül TETİK	Accounting and Financial Affairs Director
21) Afşin AKKERMAN	Material Supply Director
22) Ali Fatih BİLGİ	Information Management Director
23) Mustafa ERTÜRK	International Marketing Director
24) Nihat İRKÖRÜCÜ	Support Services Director
25) Baran ÖZER	Contracts Director
26) Baki ŞENSOY	Strategy Management Director
27) M. Uğur KARAVELİOĞLU	Military Radio Program Director
28) Sinan ŞENOL	Satellite, Air and Naval Communication Systems Program Director
29) Özge SAVAŞ	Radar Program Director
30) Hayrullah YILDIZ	EH Self Defense Systems Program Director
31) Fikri ATMACA	EH Intelligence and Attack Systems Program Director
32) İbrahim Aybars KÜÇÜK	Land and Missile Program Director
33) Fikret ÜLGÜT	Combat and Command Control Systems Program Director
34) Yavuz Suat BENGÜR	Naval Systems Program Director
35) Yavuz BAYIZ	Professional Communications Systems Program Director
36) Mustafa KAVALL	Air Defense Systems Program Director
37) Murat ACAR	Accounting Manager
38) Pınar ÇELEBİ	Treasury and Fund Manager
39) Devrim AKSU	Human Resources Manager

In scope of the Notification of the Principles Regarding the Public Disclosure of Material Events issued by the CMB on date 06.02.2009 with Serial: VIII, No: 54, the list of the persons who are able to hold internal information is prepared respectively and entered in the Central Registry System of the Central Registry Agency (MKK). The updated version of the list is kept at our Company headquarters in case it is requested with a notice.

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9. Company Website and its Content

The website of the Company at the address www.aselsan.com.tr is actively used and updated regularly. The information in the website is consistent with the ones disclosed pursuant to the provisions of the legislation. The Company letterhead also bears the website address.

The part "Investor Relations" is included in our website also comprising the issues listed in article 2.2 of the Notification Regarding Determination and Implementation of Corporate Governance Principles issued by the CMB, Serial: IV, No: 56

Under the section investor relations below topics are included:

- 1 Corporate Governance
 - 1-1 Shareholder Structure
 - 1-2 Board of Directors
 - 1-3 Board Committees
 - 1-4 Articles of Association
 - 1-5 Company Profile
 - 1-6 Policies
 - 1-7 Ethical Principles
 - 1-8 General Assembly
 - 1-9 Compliance with Corporate Governance Principles
 - 1-10 Corporate Governance Rating
- 2 Stock Info
 - 2-1 Stock ID
 - 2-2 Non-deposit shares
 - 2-3 Capital Increases
 - 2-4 Dividend Info
 - 2-5 Analyst Coverage
 - 2-6 Registration Statement and Public Offering Circular
- 3 Annual Reports
- 4 Financial Data
 - 4-1 Financial Reports
 - 4-2 Financial Highlights
 - 4-3 Investor Presentations
- 5 ISE Disclosures
- 6 Frequently Asked Questions
- 7 Contact

Necessary records and information are included under these topics. The synchronization process of the English content with the Turkish content is continuing.

10. Annual Report

The Board of Directors prepare the annual report in details regarding the Company activities and which enable the public to reach complete and accurate information that can be comprehensive. The 2012 annual report of our Company was prepared as per the Turkish Code of Commerce numbered 6102, the Regulation Regarding the Determination of the Minimum Content of the Annual Reports of Companies (Regulation) issued by the Ministry of Customs and Trade, the Notification Regarding the Principles Related to financial Reporting in the Capital Market and the Notification Regarding the Determination and Implementation of the Corporate Governance Principles, both issued by the Capital Markets Board.

PART III - STAKEHOLDERS

11. Informing the Stakeholders

The information requests of stakeholders are keenly handled and attention is paid in responding these accurately and in an understandable manner. Our employees are informed with a personnel hand book and informing presentations over the intranet. As for our suppliers, strategic cooperation and certified suppliers policy is followed and our suppliers are informed through the internet and regular visits are paid to their side.

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Our Company's main principle is the continuous development, improvement and verification of processes, services and products and to provide its customers with services and products without any defects in order to meet all their requirements. For this purpose, a quality system has been established where the Quality Handbook, directives, quality plans, standards, audit and test directives and other documents are available and implemented.

Our core principle related to customer satisfaction is to deliver products and services meeting the expectations and requirements of the customers. For this purpose, requirements are defined in an accurate and complete manner and products tailored for these requirements are designed and produced and the logistics support is provided accordingly. Other studies to measure the customer satisfaction and to make necessary improvements:

- A customer satisfaction survey is generated after each delivery of products and the survey results are evaluated by the relevant departments.
- Various evaluation forms are used in order to measure the services such as maintenance/repair, customer training and user manual and maintenance/repair documents. The customer evaluations with respect to these services are analyzed periodically and the matters requiring improvement are defined and improvements are initiated.

Customer satisfaction measurements are accessed by the Management Reports and the results achieved are evaluated by the top management yearly.

Our products are designed and produced considering the usage and storing conditions. The military, civil and international standards are abided by. Starting with the design phase, these quality standards are fulfilled throughout the life-cycle of our high-end technology products and strict tests and controls are applied in every stage of production starting at the material procurement stage in order to guarantee that all products are produced in the same quality. As for the products remaining below these standards, the applications and regulations are carried out pursuant to the relevant standards before the delivery and applied with the consent of the customer. Our products which break down during its guarantee period is repaired and activated free of cost and after the expiry of the guarantee period, the service support is enabled with certain service agreements for the active life time of the product. In order to maintain these measures, qualified and expert personnel is employed within the quality management system which is backed with test and inspection environment and equipment. Our products and services have been certified by internationally accepted standards AS9100, ISO 9001, AQAP. The conformity of our products and services are approved every year with the audits performed.

To minimize the quality problems, the suppliers are subject to commercial, technical and qualitative evaluations in order that, materials and software or related services are supplied from reliable suppliers. The result of the evaluation, is submitted to the suppliers and qualified ones are chosen to work with. In 2012, orders were given to 4000 suppliers, 200 of which were certified, 12 of which were strategic cooperation.

Information regarding the customer and supplier are treated according to their confidentiality levels. The quotations of the suppliers and the written communications are deemed confidential and not disclosed to third parties or unauthorized people. With the directives formed, provision and implementation of unfair benefit with respect to the relations between the customers and the suppliers have been prevented.

In eliminating the disputes experienced between our stakeholders, our Company prevails in eliminating the conflicts and resolve them.

The ASELSAN Magazine published every 4 months provides information regarding the activities, technical issues and up-to-date social events. Hardcopies of ASELSAN Magazine is delivered to the end users of ASELSAN products, shareholders who participated to the General Assembly, Company employees and other stakeholders and it is also published on the website.

The compensation policy of our Company was prepared in 2012 and the policy is available at our website under the topic Corporate Governance.

The members of the Board of Directors and the executives are not performing any activities to result against the shareholders causing to incur them losses or which diminish the Company assets.

12. Participation of Stakeholders in the Management

In the articles of association, there is no provision setting forth the participation of the stakeholders in the management. However, their participation to the management is supported provided that it does not interrupt the Company activities.

The corporate governance structure of the Company gives the opportunity to all stakeholders including the employees and representatives to convey their worries with regard to transactions not proper in terms of legality and ethics.

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The Company employees have the opportunity to convey their expectations and requests through the representatives. The Company employees are informed about their financial and social rights over the intranet. Besides, there is an Employee Representative Agency in the Company where 43 representatives are present and which is formed by the Company personnel to enable the contact between the Company personnel and the management.

The periodical meetings held with the employee representatives is a platform where employers and employees exchange their wishes, requests and opinions regarding the implementations. The meeting minutes formed as the result of these meetings are announced to all personnel through the employee representatives page on the internal network. The presidency of the employee representative is performed by Hakan YILDIZ, who is employed as a Design Leader. The duties and authorizations of the Employee Representative Agency is to convey the wishes, proposals and problems of the group personnel represented and to share the received opinions with the group personnel and to pay efforts to provide an open and efficient communication between the personnel and the management.

13. Human Resources Policy

The human resources policy of our Company is to adopt an understanding which adds successful and dynamic talents to ASELSAN family required pursuant to the vision of ASELSAN, which contributes to the sustainable success of ASELSAN with employee oriented approaches, which adds values and which is at all times on the side of its employee.

Within this scope and pursuant to the vision, mission and the principles of the Company, regulations have been set out pertaining to the working conditions of the personnel, their qualifications, recruitment, promoting, remuneration, rewarding, dismissal, disciplinary treatments, rights, tasks and liabilities and other personal rights.

55% of our employees stand for the engineering group, 32% for the technician group 7% for the administrative group, 3% for the office personnel and 3% of the worker group.

There is an employee representative agency within the Company in which there are 13 persons representing the engineering group, 2 persons for the administrative personnel, 22 persons for the technician group, 2 persons for the office personnel and 4 persons for the worker group which make 43 representatives.

There were no complaints related to discrimination from the employees in 2012. Performance and rewarding policies are announced to all of our employees through Company directives.

14. Ethical Rules and Social Responsibility

The ethical rules of our Company have been put down into writing and were published on our website. Furthermore, in order to integrate and develop the ethical rules with the implementations, an Ethical Committee was established to meet the evaluation, direction, consulting and recommendation needs.

The Audit Committee pursues the complaints with respect to the transactions contrary to the legislation and not in conformity with the ethics and evaluates and resolves these pursuant to confidentiality principles.

Pursuant to social responsibility understanding, our Company gives importance to projects in particular to the ones regarding education and shows great efforts in building schools at the severe earthquake stricken locations. The primary school built in Van – Erciş started its activities in 2012. Again as the result of the support given to education, it serves as the main sponsor at the International METU Robot Days.

A British based institution, Carbon Disclosure Project (CDP) which reports how the risks of climate changes are managed by the companies announced the 2012 results of the Turkey Carbon Transparency Project. Our Company was ranked in the “highest” category with the degree it was rewarded. ASELSAN, being proud to work to leave a better world to live in for the future generations, shall continue to take place in the national and international platforms with respect to sustainability and climate change matters with its leading applications.

Our Company is sensitive on the social activities lead and supported in favour of the public in general and is respectful towards its environment. The greenhouse gas emissions of our Company are calculated by taking the TS ISO 14064 and Green House Protocol as the reference and are monitored all the time. We have certifications for ISO 14001 Environmental Management System and OHSAS 18001 Work Health and Safety Integrated Management System. In addition to these, a decision has been taken to plant a tree for each new employee of the Company in 2013.

PART IV - BOARD OF DIRECTORS

15. Structure and Forming of the Board of Directors

In scope of the notifications of the Capital Markets Board Serial: IV, No: 56, No: 57, in order to enable the compliance with the corporate governance principles, the amendment to the articles of association stating that the number of the Members of the Board of Directors

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shall be increased from 7 to 9 by enabling the participation of 3 independent members, was approved in the General Assembly Meeting in 2012. In the same meeting, the report dated 07.03.2012 prepared by the Audit Committee as the result of nominee determination activities was submitted to the Board of Directors on 08.03.2012 and the profiles of the 5 nominees along with their statements of independence were announced to the public on 09.03.2012 on our website. As the result of the voting at the General Assembly dated 30.03.2012, the 3 nominees who collected the highest votes within the 5 nominees were elected as the Independent Members of the Board of Directors. There were no cases to eliminate the independency of the Independent Members of the Board of Directors in 2012.

The CVs of the Members of the Board of Directors are included in the 2012 annual report and the information with respect to their term of office is provided in the below table.

<u>Name and Surname</u>	<u>Duty</u>	<u>Date of General Assembly at which he/she was elected</u>	<u>Date of Duty End</u>	<u>Assignments out of the Company</u>
Necmettin BAYKUL	Chairman/Managing Member	March 2010	March 2013	-
Birol ERDEM	Vice Chairman/Managing Member	March 2010	March 2013	-
Ahmet ŞENOL	Member	March 2010	March 2013	TAFF Services Group President
Osman Kapani AKTAŞ	Member	March 2010	March 2013	-
Erhan AKPORAY	Member	March 2011	March 2014	-
Halil SARIASLAN	Independent Member	March 2012	March 2013	Başkent University International Trade Department Head
Lamia Zeynep ONAY	Independent Member	March 2012	March 2013	METU Business Administration Department Lecturer
Cumhur Sait Şahin TULGA	Independent Member	March 2012	March 2013	Mentoro Ltd. Şti. Founding Partner, Director
Cengiz ERGENEMAN	CEO/President	-	-	IGG ASELSAN Integrated Sys. LLC Board of Directors Vice Chairman SASAD Board of Directors Chairman

In article 13 of the articles of association titled "Duties and Authorizations of the Board of Directors", the duties and authorizations of the Board of Directors have been defined and the amendment to the articles of association with regard to the compliance of these with the corporate governance principles was approved. Besides, the Board of Directors Working Directive also describes the Duties and Authorizations of the Board of Directors. With the article 14 of the articles of association titled "Assignment of the Authorizations to the General Manager", the assignment of the authorizations of the Board of Directors to the General Manager has been set out. The duties and authorizations of the executives are described in the "Duties and Liabilities Directive" formed within the Company.

The duties of the Members of the Board of Directors and of the General Manager carried out outside the Company, information regarding the term of office and the statements of the board of members with respect to their independencies:

There are no Members of the Board of Directors carrying out an executive duty.

The statements of independence of the Independent Members of the Board of Directors have been provided at the end of the Compliance Report.

The Members of the Board of Directors fulfill their duties without any interest or benefit and pursuant to the liabilities and authorizations undertaken by the Board of Directors and to the regulations of the Turkish Code of Commerce and Capital Markets Board.

Members of the Board of Directors are liable not to enter into any commercial treatments directly or indirectly with the Company that coincides with the Company objectives, on their behalf or on behalf of others without the consent of the General Assembly.

16. Principles of Activity of the Board of Directors

The Agenda of the Board of Directors Meetings is formed with the proposals of the Members of the Board of Directors and the committees and the General Manager, it is afterwards evaluated by the Board of Directors Chairman and finalized. The Agenda also includes the topics which the Board of Auditors would like to negotiate.

As per article 10 of the articles of association, the Board of Directors assemble when required and at least once a month. The number of Board of Directors Meetings in 2012 was 48 (34 out of 48 decisions are interim decisions). All of the Members of the Board of Directors attended 38 meetings.

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The place, date, time and agenda of the next meeting is decided at the Board of Directors Meetings. Documents pertaining to the meeting agenda are sent to the members of Board of Directors and Board of Auditors at least 3 work days before the meeting by the instructions of the Managing Members who are also Board of Directors Chairman and Vice Chairman. No invitations through telephone are possible and the members of the Board of Auditors are also invited to the meetings.

The Members of the Board of Directors at all times attend the meetings, unless they have reasonable excuses and fulfill their duties as per their authorizations and responsibilities. The members who do not attend the meetings inform their excuses.

There is a secretary available for informing and enabling the communication of the Members of the Board of Directors. There is a reporter to carry out required tasks.

In writing the meeting resolutions to the Board of Directors Official Minutes Book, the Board of Directors Reporter acts as per articles 64, 65 and 390 of Turkish Code of Commerce with respect to the liability to keep books, the method of keeping books and the decisions of the Board of Directors, respectively.

According to this, the reporter enables, the date and number of the decision, names and surnames of the attendants and the non-attendants and the excuses of the non-attendants, if any, the agenda of the meeting, proposals and negotiations, the decision, rejection annotations, if any and the signatures of the attendants to be recorded in the book.

All members have one right to vote, including the chairman. If the numbers of votes are equal, the vote of the chairman does not change the result. Abstaining is not possible, either rejection or acceptance is voted. The vote of the abstaining member is considered as a rejecting vote. The member casting a reject vote states the ground for this in the meeting minutes and undersigns it. In scope of the compliance with the corporate governance principles, upon the amendment to article 11 of the articles of association titled “Quorum of Meeting and Decision Making”, the provision stating “The provisions of the Turkish Commercial Code, Capital Market Law, regulations of the Capital Markets Board in connection with corporate governance and other relevant legislation are taken into account with respect to the meetings and decision making quorums of the Board of Directors as well as with respect to any Board of Directors members assuming duties and positions outside the Company. Any action and resolutions taken by the board of Directors without complying with the Corporate Governance Principles, which are made obligatory as to be complied by the Capital Markets Board, are invalid and considered as in contrary to the “Articles of Association” has been added. There were no related party transactions or any other significant issue which had to be submitted to the approval of the general assembly since they were not approved by the Independent Members of the Board of Directors.

The signed decisions are made available to the follow up of the Members of the Board of Directors, Members of the Board of Auditors and Executive Committee Members in the electronic environment.

17. Number of Committees Formed in the Board of Directors with Their Structures and Independency

As per the title “Committees Formed Within the Board of Directors” in the Notification Regarding Determination and Implementation of Corporate Governance Principles by the Capital Markets Board, our Company’s Board of Directors, in the meeting dated 10.04.2012, formed an Audit Committee, Corporate Governance Committee and Early Detection and Management of Risk Committee and announced to the public. There are no Nomination Committee and a Remuneration Committee within the Board of Directors and the duties of these are carried out by the Corporate Governance Committee.

The directives of Audit Committee, Corporate Governance Committee and Early Detection and Management of Risk Committee are made available at the website of our Company. The Independent Members of the Board of Directors and one Member of the Board of Directors have duties in more than one committee. This is because it is obligatory that all members of the Audit Committee and the chairman of the other committees should be Independent Members of the Board of Directors and one member is missing in the Board of Directors.

AUDIT COMMITTEE

Halil SARIASLAN	Chairman/Independent Member of the Board of Directors
Lamia Zeynep ONAY	Member/Independent Member of the Board of Directors
Cumhur Sait Şahin TULGA	Member/Independent Member of the Board of Directors

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The main duties of the Audit Committee were set out in the “ASELSAN Audit Committee Work Directives” as follows:

- To enable the disclosure of the financial data of ASELSAN, to pursue the operation and efficiency of the accounting system, independent audit, internal audit and internal control system of the company,
- To assemble at least every 3 months, to share the meeting minutes with the Board of Directors.

Meetings were held on dates 08.03.2012, 16.05.2012, 29.08.2012 and 15.11.2012 with the participation of the relevant independent audit company regarding the financial statements by Audit Committee in 2012.

In order to strengthen the contact with the Presidency of Internal Audit and Assessment Board (IAAB), Audit Committee-IAAB Coordination meetings were held three times on dates 24.01.2012, 06.06.2012 and 11.11.2012. Audit Committee was informed about the IAAB activities in these meetings.

The Committee was active in three main topics in 2012:

i. Updates to the Audit Committee Work Directives:

The Directive comprising the working principles of Audit Committee was approved in 2003 and came into effect. The Committee took a decision to update the Audit Committee Work Directives as per the modified Notification and the updated Directive was submitted to the Board of Directors on 29.11.2012 and following the approval of the Board of Directors, published in our website and announced to the public.

ii. Independent Audit Studies and Activities Regarding the Audited Financial Statements:

The aim is to define the principles and methods related to the financial reports to be prepared by the establishments pursuant to the “Notification Regarding the Principles Related to the Financial Reporting in the Capital Market” (Notification) of Capital Markets Board, Serial: XI, No:29 and to their preparation and submission to the authorities. As per the Notification 29, financial statements and Board of Directors annual report was prepared by our Company in the periods December 2011, March 2012, June 2012 and September 2012 and the financial statements and Board of Directors annual report were submitted to the Board of Directors by Audit Committee and after the approval were announced to the public on the Public Disclosure Platform.

The agreement executed with the independent audit company for the independent audit of the financial statements prepared in accordance with the Notification 29 expired as of year end of 2012. As for the 2013 activity period, the elections are ongoing and an agreement shall be executed with the elected company following the approval of the General Assembly.

iii. Internal Audit and Assessment Committee Activities:

Within the scope of the internal audit activities of the Company, the relations between the Presidency of Internal Audit and Assessment Board (IAAB) and the Board of Directors have been carried out through Audit Committee. A direct and continuous contact between Audit Committee and IAAB is present.

The internal audit reports prepared by IAAB and the risk based annual audit plan have been reviewed. The Directive of IAAB Activities were updated and the new version of the directive came into effect upon the approval of the Board of Directors dated 29.08.2012.

CORPORATE GOVERNANCE COMMITTEE

Cumhur Sait Şahin TULGA	Chairman/Independent Member of the Board of Directors
Ahmet ŞENOL	Member/Member of the Board of Directors
Osman Kapani AKTAŞ	Member/Member of the Board of Directors
Erhan AKPORAY	Member/Member of the Board of Directors

The main duties of the Corporate Governance Committee were set out in the “ASELSAN Corporate Governance Committee Work Directives” as follows:

- To carry out studies for the implementation of Corporate Governance Principles in the Company,
- To observe whether the Corporate Governance Principles have been implemented or not and if not implemented to determine the grounds for this and the conflicts of interest arising due to not complying with these principles and to make proposals for improving the status,
- To pursue the studies of the Investor Relations Department,
- Corporate Governance Committee assembles every 3 months and in every situation when necessary. The meeting minutes are submitted to the Board of Directors.

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The Committee assembled three times within the activity year 2012 on dates 25.04.2012, 28.08.2012 and 15.11.2012. The meeting minutes of the Committee may be reached on our website. The committee was active in three respective tasks in 2012:

i. Updates to the Corporate Governance Committee Work Directives:

The directive related to the working principles of the Corporate Governance Committee formed in order to make studies with regard to the compliance report to be prepared in scope of the compliance with the Corporate Governance Principles was approved in February 2006. The Committee took a decision to update ASELSAN Corporate Governance Committee Work Directives in compliance with the Notification and initiated studies in this respect. The Directive was submitted to the Board of Directors Meeting dated 29.11.2012 and following the approval of the Board of Directors, it was announced to the public over our Company website.

ii. Investor Relations Department and its Activities:

The duties and responsibilities of the Investor Relations Department are carried out by the Investor Relations and Affiliates Department within the Treasury and Fund Management Department in our Company. In the first meeting of the Corporate Governance Committee, the Committee was informed with regard to the duties and responsibilities of the Investor Relations and Affiliates Department and all meetings were attended by the relevant department representatives and they informed the Committee accordingly.

The responsibility of pursuing of the activities of the Investor Relations and Affiliates Department was given to the Corporate Governance Committee in scope of the Notification. The application for the registered capital upper limit filed by the Investor Relations and Affiliates Department during the activity period 2012, the transactions of dematerializing physical shares, material event disclosures made in scope of the "Notification Regarding the Principles of Public Disclosure of Material Events" by the Capital Markets Board (Serial: VIII, No:54), the analyst and/or investor meetings attended by the department and the updating of the title "Investor Relations" present in our Company website have been pursued by the Committee.

iii. Corporate Governance Rating:

The process of corporate governance rating assessment of ASELSAN which had been considered for evaluation in the Corporate Governance Committee meeting dated 28.08.2012 and submitted to the Board of Directors by the Committee on 29.08.2012, was found appropriate and initiated by the Board of Directors.

The corporate governance rating of our Company was assessed by SAHA Corporate Governance and Credit Rating Services, Inc. and on 13.12.2012 the report and our rating grade was announced to the public. According to the report prepared as the result of detailed reviews by SAHA at our Company, our Company's Corporate Governance Grade was defined as 8,77 over 10. The breakdown of the grade over 100 in order have been defined as 79,99 for the subtitle Shareholders, 93,47 for Public Disclosure and Transparency, 89,37 for Stakeholders and 86,44 for the subtitle Board of Directors. Within the scope of this report, our Company was included Corporate Governance Index starting with 14.12.2012.

EARLY DETECTION AND MANAGEMENT OF RISK COMMITTEE

Lamia Zeynep ONAY	Chairman/Independent Member of the Board of Directors
Biröl ERDEM	Member/Board of Directors Vice Chairman
Erhan AKPORAY	Member/Member of the Board of Directors

The main duties of the Early Detection and Management of Risk Committee established in 2012 were set out in the "ASELSAN Early Detection and Management of Risk Committee Work Directives" as follows:

- Early detection of the risks which might endanger the existence, development and sustainability of ASELSAN, implementation of the relevant measures with respect to the risks and carrying out studies in order to manage the risk,
- Detect beforehand and define the potential risks to have an impact on ASELSAN and enabling the management of these risks in compliance with the Company's risk taking approach,
- To make a due diligence in the two monthly report to be submitted to the Board of Directors and to point out dangers, if any and to propose solutions,
- Early Detection and Management of Risk Committee assembles every 2 months and in every situation when necessary.

The Committee assembled twice within the activity year 2012 on dates 10.05.2012 and 22.11.2012. As of 2013 it is planned to assemble every two months. The activities carried out in 2012 have been shown under two respective titles:

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i. Preparation of the Early Detection and Management of Risk Committee Work Directives:

The Committee which was established in 2012 prepared the directive regarding its working principles and submitted it to the Board of Directors and following the approval of the Board of Directors the directive went into effect in November 2012.

ii. Risk Management System Studies:

In scope of the studies carried out by the Committee, the risks which ASELSAN might be exposed have been classified under five groups, namely, Strategic Risks, Operational Risks, Managerial Risks, Financial Risks and External Factors. Furthermore, in order to maintain a more efficient risk management, each risk has been divided into groups and therefore sub risk groups have been defined. The inventory related to the risks which might prevent ASELSAN to reach its targets has been determined within the direction of ASELSAN top management views and proposals and has been prioritized. A "Corporate Risk Inventory Report" comprising ASELSAN's critical risks and defining information pertaining to these risks has been prepared to be presented in the Board of Directors Meeting dated January 2013. Apart from this, the preparation of "Corporate Risk Assessment Report" and its submission to the information of the Board of Directors with 2 monthly periods is being planned.

18. Risk Management and Internal Control Mechanism

The Internal Audit and Assessment Board (IAAB) formed connected to the Board of Directors in order to evaluate the risk management, control and corporate governance processes and to improve their efficiencies, audit the Company departments and processes pursuant to the annual plans and reports their founding to the Board of Directors regularly. Continuous studies are being carried on in order to increase and improve the efficiency of the system.

Furthermore, within 2012, an Early Detection and Management of Risk Committee was established pursuant to the Turkish Code of Commerce and Notification of Corporate Governance Principles. The committee reports to the Board of Directors.

19. Strategic Objectives of the Company

The Board of Directors is the top level body to take strategic decisions and to execute and represent. As per the articles of association of the Company, the Board of Directors is responsible to determine the strategy plans and control their implementations. The Strategic Plan is prepared to include the period of five years and updated every year. In the Strategic Plan, new period targets are defined by considering the developments in Turkey and the world in particular pertaining to the defense industry along with the target realizations of the previous year. Following the approval of the Strategic Plan, work plans are prepared and top level targets are detailed in these work plans and they are implemented after being associated with the budget and investment plan. To what extent the Company reached the defined targets are instantly monitored over the Information Management System and controlled monthly by the Board of Directors and the General Manager. The updated versions of the mission and vision have been announced to the public through our Company website.

20. Financial Rights

Monthly remunerations provided to our Members of the Board of Directors are determined by the General Assembly and no other benefits are granted apart from the monthly remuneration. Pursuant to the resolution taken at the 37th Ordinary General Assembly held on 30.03.2012, the Members of the Board of Directors, Managing Members and the Members of the Board of Auditors are paid TL 2.000 per month. As for the determination of the financial rights of the board members, no reward system is applied to reflect the Company performance and which is based on the performance of the Members of the Board of Directors.

No Member of the Board of Directors or Director has been provided with loans or credits by our Company.

The remuneration principles for the Board of Directors and the Senior Managers of the Company have been formed and the shareholders were provided with this information at the Ordinary General Assembly Meeting held in 2012 and it was announced to the public through our website.

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The Remuneration Policy of our Company has assumed the idea of protecting the remuneration structure which;

- has adopted the motto “equal pay for equal work” as a principle,
 - takes the added value created for ASELSAN as the basis,
 - is fair,
 - is objective,
 - is comprehensible by the employees and manageable,
 - protects the balance in the Company,
 - competes with local and foreign markets,
 - is developed by considering the economic status of the Company and industry tendencies
- and revising it as per the daily requirements in order to support the retaining of the competent, loyal and highly motivated talents which ASELSAN needs in order to realize its strategies arising pertaining to its vision and mission.

ASELSAN and Its Subsidiaries

Annual Report of Board of Directors with Respect to the Period 1 January – 31 December 2012


Statement of Independence

To the Board of Directors of ASELSAN Elektronik Sanayi ve Ticaret A.Ş.;

I hereby agree, represent and undertake that I comply with the regulations of the Capital Market Board related to Independence Board Membership and with the criteria determined for Independence Board Membership within the scope of Corporate Governance Principles.

I hereby submit this to the knowledge of the Board of Directors, shareholders and all relevant parties.

Sincerely yours,

Prof. Dr. Halil Sarıođlan


ASELSAN and Its Subsidiaries

Annual Report of Board of Directors with Respect to the Period 1 January – 31 December 2012

Statement of Independence

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I hereby submit this to the knowledge of the Board of Directors, shareholders and all relevant parties.

Sincerely yours,

Doç. Dr. Zeynep Aray
Zeynep Aray

ASELSAN and Its Subsidiaries

Annual Report of Board of Directors with Respect to the Period 1 January – 31 December 2012

Statement of Independence

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Sincerely yours,


5 Mart 2012