

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

**Convenience Translation Of The
Independent Auditor's Review Report And
Condensed Consolidated Financial Statements
For The Six-Month Interim Period
Ended 30 June 2014
Originally Issued in Turkish**

CONVENIENCE TRANSLATION OF THE REVIEW REPORT AND THE CONDENSED
CONSOLIDATED INTERIM FINANCIAL STATEMENTS ORIGINALLY
ISSUED IN TURKISH

REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS

To the Board of Directors of
Aselsan Elektronik Sanayi ve Ticaret A.Ş.
Ankara

Introduction

We have reviewed the accompanying condensed consolidated financial position of Aselsan Elektronik Sanayi ve Ticaret A.Ş. (the "Company") and its subsidiaries (together the "Group") as of 30 June 2014 and the related condensed consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the six-month interim period then ended. The Group management is responsible for the preparation and fair presentation of this consolidated interim financial information in accordance with Turkish Accounting Standards 34 "Interim Financial Reporting" ("TAS 34"). Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with Independent Auditing Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with TAS 34 "Interim Financial Reporting".

Ankara, 19 August 2014

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of DELOITTE TOUCHE TOHMATSU LIMITED

Erdem Taş
Partner

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ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 JUNE 2014**

(Amounts are expressed in Turkish Lira (TL).)

	Note References	Current Period (Reviewed) 30 June 2014	Prior Period (Audited) 31 December 2013
ASSETS			
Current Assets		2.215.547.166	2.049.564.480
Cash and Cash Equivalents		67.583.513	103.683.817
Trade Receivables			
Trade Receivables from Related Parties	3-4	100.450.874	145.157.039
Trade Receivables from Third Parties	4	753.203.535	611.089.356
Other Receivables			
Other Receivables from Related Parties	3	3.634.653	32.771.269
Other Receivables from Third Parties		47.734.072	48.741.727
Inventory	5	749.958.982	645.849.543
Prepaid Expenses	6	285.129.639	277.369.147
Other Current Assets		207.851.898	184.902.582
Non-Current Assets		2.005.260.558	1.958.410.870
Financial Investments		45.127.751	12.724.210
Trade Receivables			
Trade Receivables from Related Parties	3-4	36.303.536	26.392.887
Trade Receivables from Third Parties	4	166.783.233	312.343.820
Other Receivables			
Other Receivables from Related Parties		-	-
Other Receivables from Third Parties		258.161	197.085
Property, Plant and Equipment	7	794.982.776	741.988.200
Intangible Assets	7	397.269.148	372.807.645
Prepaid Expenses	6	321.907.200	274.439.651
Deferred Tax Assets		236.788.600	212.862.628
Other Non-Current Assets		5.840.153	4.654.744
TOTAL ASSETS		<u>4.220.807.724</u>	<u>4.007.975.350</u>

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

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 JUNE 2014**

(Amounts are expressed in Turkish Lira (TL).)

	Note References	Current Period (Reviewed) 30 June 2014	Prior Period (Audited) 31 December 2013
LIABILITIES			
Current Liabilities		997.600.942	936.244.985
Short-term Financial Liabilities		211.668.390	157.226.761
Short-term Portion of Long-term Financial Liabilities		35.953.537	22.832.818
Trade Payables			
Trade Payables to Related Parties	3-4	27.725.555	16.265.805
Trade Payables to Third Parties	4	413.664.693	377.182.297
Employee Benefit Obligations	10	18.900.730	19.226.599
Other Liabilities			
Other Liabilities to Related Parties	3	17.983.962	30.320
Other Liabilities to Third Parties		653.851	418.061
Government Grants and Incentives		14.015.602	11.280.034
Deferred Income	6	132.246.842	214.035.003
Corporate Tax Liability		407.999	480.904
Short-term Provisions			
Short-term Provisions for Employee Benefits	10	33.075.847	25.395.640
Other Short-Term Provisions	8	88.653.492	88.973.470
Other Current Liabilities		2.650.442	2.897.273
Non-Current Liabilities		1.436.671.747	1.459.244.914
Long-term Financial Liabilities		193.682.587	173.227.412
Trade Payables			
Trade Payables to Related Parties	3-4	-	-
Trade Payables to Third Parties	4	6.490.662	12.163.376
Long-Term Payables			
Other Payables to Related Parties		-	-
Other Payables to Third Parties		30.286	30.518
Government Grants and Incentives		2.162.780	1.878.514
Deferred Income	6	1.121.960.099	1.162.027.069
Long-term Provisions			
Long-term Provisions for Employee Benefits	10	109.634.812	107.067.815
Other Long-Term Provisions	8	2.710.521	2.850.210

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 JUNE 2014**

(Amounts are expressed in Turkish Lira (TL).)

	Note References	Current Period (Reviewed) 30 June 2014	Prior Period (Audited) 31 December 2013
EQUITY		1.786.535.035	1.612.485.451
Equity attributable to equity holders of the parent		1.785.555.561	1.611.967.650
Share Capital	11	500.000.000	500.000.000
Share Capital Adjustments	11	98.620.780	98.620.780
Other Comprehensive Income / Expense not to be Reclassified to Profit or Loss			
Remeasurement Income/Loss from Defined Benefit Plans		(3.866.388)	(3.866.000)
Fixed Assets Revaluation Reserves		177.565.341	177.532.454
Restricted Profit Reserves	11	73.669.442	69.677.755
Retained Earnings		740.957.659	531.921.172
Net Profit for the Period	17	198.608.727	238.081.489
Non-Controlling Interests		979.474	517.801
TOTAL LIABILITIES AND EQUITY		<u>4.220.807.724</u>	<u>4.007.975.350</u>

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

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

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX-MONTH INTERIM PERIOD ENDED 30 JUNE 2014**

(Amounts are expressed in Turkish Lira (TL).)

	Note References	Current Period (Reviewed) 1 January- 30 June 2014	Prior Period (Not Reviewed) 1 April- 30 June 2014	Current Period (Reviewed) 1 January- 30 June 2013	Prior Period (Not Reviewed) 1 April – 30 June 2013
PROFIT OR LOSS					
Sales Revenue	12	1.121.727.040	615.322.712	981.685.487	550.680.492
Cost of Sales (-)	12	(850.503.427)	(457.953.477)	(737.044.964)	(413.504.888)
GROSS PROFIT		271.223.613	157.369.235	244.640.523	137.175.604
General Administrative Expenses (-)		(56.608.315)	(30.144.301)	(53.189.817)	(27.356.095)
Marketing Expenses (-)		(19.480.283)	(11.180.622)	(18.074.618)	(10.109.399)
Research and Development Expenses (-)		(31.451.306)	(15.984.806)	(31.024.367)	(14.897.774)
Other Operating Income	14	296.062.087	124.309.794	126.236.844	68.543.287
Other Operating Expenses (-)	14	(286.437.116)	(89.455.691)	(194.425.928)	(133.403.757)
OPERATING PROFIT		173.308.680	134.913.609	74.162.637	19.951.866
Income from Investing Activities		1.874.341	-	10.441.552	(47.500)
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		175.183.021	134.913.609	84.604.189	19.904.366
Financial Income	15	18.216.215	8.701.112	2.399.744	442.862
Financial Expense (-)	16	(17.943.470)	(2.940.841)	(12.959.470)	(9.848.652)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		175.455.766	140.673.880	74.044.463	10.498.576
Tax Income / (Expense) from Continuing Operations		23.517.980	461.023	25.976.445	17.083.061
- Current Corporate Tax Expense		(407.999)	(229.737)	(140.880)	(70.361)
- Deferred Tax Income/(Expense)		23.925.979	690.760	26.117.325	17.153.422
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		198.973.746	141.134.903	100.020.908	27.581.637
Distribution of Profit for the Period:					
Non-Controlling Interest		365.019	211.737	24.770	75.985
Parent Company	17	198.608.727	140.923.166	99.996.138	27.505.652
		198.973.746	141.134.903	100.020.908	27.581.637
Earnings per 100 Shares	17	0,40	0,28	0,20	0,06

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

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

**CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH INTERIM PERIOD ENDED 30 JUNE 2014**

(Amounts are expressed in Turkish Lira (TL).)

Note References	Current Period (Reviewed) 1 January- 30 June 2014	Prior Period (Not Reviewed) 1 April- 30 June 2014	Current Period (Reviewed) 1 January- 30 June 2013	Prior Period (Not Reviewed) 1 April- 30 June 2013
PROFIT FOR THE PERIOD	198.973.746	141.134.903	100.020.908	27.581.637
OTHER COMPREHENSIVE INCOME				
Items not to be Reclassified in Profit/Loss	-	-	6.132.968	6.132.968
Remeasurement Income/Loss from Defined Benefit Plans	-	-	7.666.211	7.666.211
Deferred Tax Expense	-	-	(1.533.243)	(1.533.243)
OTHER COMPREHENSIVE INCOME	-	-	6.132.968	6.132.968
TOTAL COMPREHENSIVE INCOME	198.973.746	141.134.903	106.153.876	33.714.605
Distribution of Total Comprehensive Income:				
Non-controlling Interests	365.019	211.737	24.770	75.985
Parent Company	198.608.727	140.923.166	106.129.106	33.638.620
	198.973.746	141.134.903	106.153.876	33.714.605

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

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH INTERIM PERIOD ENDED 30 JUNE 2014**

(Amounts are expressed in Turkish Lira ("TL").)

			Other Comprehensive Income / Expense not to be Reclassified to Profit or Loss			Accumulated Profit			Non- Controlling Interests	Total
	Share Capital	Share Capital Adjustments	Remeasurement Income/Loss from Revaluation of Fixed Assets	Remeasurement Income/Loss from Defined Benefit Plans	Restricted Profit Reserves	Retained Earnings	Net Profit for the Period	Equity Attributable to Parent Company		
Balance as of 1 January 2013 (Restated)	500.000.000	98.620.780	-	(13.175.916)	52.071.680	321.656.271	306.378.584	1.265.551.399	544.192	1.266.095.591
Transfers	-	-	-	-	17.595.111	210.283.473	(227.878.584)	-	-	-
Total Comprehensive Income	-	-	-	6.132.968	-	-	99.996.138	106.129.106	24.770	106.153.876
Dividends	-	-	-	-	-	-	(78.500.000)	(78.500.000)	(2.500)	(78.502.500)
Balance as of 30 June 2013 (Period End)	500.000.000	98.620.780	-	(7.042.948)	69.666.791	531.939.744	99.996.138	1.293.180.505	566.462	1.293.746.967
Balance as of 1 January 2014 (Period Beginning)	500.000.000	98.620.780	177.532.454	(3.866.000)	69.677.755	531.921.172	238.081.489	1.611.967.650	517.801	1.612.485.451
Transfers	-	-	-	-	3.983.319	209.098.170	(213.081.489)	-	-	-
Total Comprehensive Income	-	-	-	-	-	-	198.608.727	198.608.727	365.019	198.973.746
Dividends	-	-	-	-	-	-	(25.000.000)	(25.000.000)	-	(25.000.000)
Transactions with Non- Controlling Interests	-	-	32.887	(388)	8.368	(61.683)	-	(20.816)	96.654	75.838
Balance as of 30 June 2014 (Period End)	500.000.000	98.620.780	177.565.341	(3.866.388)	73.669.442	740.957.659	198.608.727	1.785.555.561	979.474	1.786.535.035

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

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH INTERIM PERIOD ENDED 30 JUNE 2014**

(Amounts are expressed in Turkish Lira ("TL").)

	Note References	Current Period (Reviewed) 1 January- 30 June 2014	(*) Prior Period (Reviewed) 1 January- 30 June 2013
Cash Flows from Operating Activities		44.452.109	(131.697.645)
Net Profit for the Period		198.973.746	100.020.908
Adjustments to Reconcile Profit for the Period		47.271.781	39.695.700
- Adjustments Related to Depreciation and Amortization Expenses	7	47.541.144	40.562.872
- Adjustments Related to Research and Development Expenses		11.399.970	11.077.312
- Provision for Employee Benefits		14.786.116	17.882.192
- Provision for Trade Doubtful Receivables – Net	4	72.304	95.117
- Provision for Guarantee Expenses – Net	8	6.894.458	3.805.565
- Provision for Delay Penalties and Fines – Net	8	(6.228.883)	(3.187.338)
- Provision for Lawsuits – Net	8	(11.200)	(15.000)
- Allowance for Impairment on Inventories – Net	5	4.810.501	(3.231.297)
- Other Provisions		(1.114.042)	(2.354.988)
- Adjustments Related to Interest Income	14	(2.132.593)	(3.043.559)
- Adjustments Related to Interest Expense	16	4.498.924	4.137.760
- Foreign Exchange Differences Related to Financial Borrowings – Net		(7.852.597)	10.385.061
- Adjustments Related to Tax Expense/Income		(23.517.980)	(25.976.445)
- Income from Investing Activities		(1.874.341)	(10.441.552)
Movements in Working Capital		(195.972.039)	(267.785.755)
- Adjustments for Increase/Decrease in Inventory		(108.919.940)	(2.199.979)
- Adjustments for Increase/Decrease in Trade Receivables		38.328.487	(193.766.772)
- Adjustments for Increase/Decrease in Other Receivables		30.605.387	(14.534.274)
- Prepaid Expenses	6	(55.228.041)	1.954.348
- Other Current Assets		(22.659.865)	(18.802.954)
- Other Non-Current Assets		(1.185.409)	(1.354.381)
- Adjustments for Increase/Decrease in Trade Payables	4	42.269.432	(52.487.617)
- Adjustments for Increase/Decrease in Other Payables		225.907	(551.382)
- Employee Benefit Obligations	10	(325.869)	8.148.986
- Government Grants and Incentives		3.019.834	3.419.606
- Deferred Income	6	(121.855.131)	4.439.067
- Other Liabilities		(246.831)	(2.050.403)
Net Cash Provided By Operations		50.273.488	(128.069.147)

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

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH INTERIM PERIOD ENDED 30 JUNE 2014**

(Amounts are expressed in Turkish Lira ("TL").)

	Note References	Current Period (Reviewed) 1 January- 30 June 2014	(*)Prior Period (Reviewed) 1 January- 30 June 2013
Interest Paid		(1.963.653)	(2.522.591)
Interest Received		1.162.090	1.875.846
Tax Payments/Refunds		(480.904)	(304.275)
Employee Termination Benefits Paid	10	(4.538.912)	(2.677.478)
Cash Flows from Investing Activities		(164.670.164)	(132.898.128)
Proceeds from Disposal of Property, Plant and Equipment and Intangible Assets		22.644	91.162
Payments for Property, Plant and Equipment		(78.531.276)	(81.773.840)
Payments for Intangible Assets - Net		(55.708.170)	(61.657.002)
Change in Financial Investments		(32.327.703)	-
Dividends Received		1.874.341	10.441.552
Cash Flows from Financing Activities		84.117.751	(12.024.648)
Proceeds from Borrowings		201.903.020	333.100.355
Repayments of Borrowings		(110.687.446)	(323.003.433)
Repayments of Obligations Under Finance Leases		(61.116)	(23.807)
Dividend Payments		(7.036.707)	(22.097.763)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(36.100.304)	(276.620.421)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		103.683.817	352.533.570
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		67.583.513	75.913.149

(*) Effects of restatement are explained in Note 2.1, Comparative Information and Restatement of Prior Period Financial Statements

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

(Amounts are expressed in Turkish Lira (TL).)

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Aselsan Elektronik Sanayi ve Ticaret A.Ş. (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 subjects 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. The Company has been organized in four main divisions: The Communication and Information Technologies Division (HBT), Radar, Electronic Warfare and Intelligence Systems (REHİS), Defense Systems Technologies (SST) and Microelectronics, Guidance & Electro-Optics Division (MGEO) based on the investment and production requirements of projects carried out. The Company carries out its manufacturing and engineering activities in Macunköy and Akyurt facilities and the Head office is located in Ankara, Macunköy.

Turkish Armed Forces Foundation (“TAFF”) is the main shareholder of the Company which holds 84,58% of the capital and maintains control of the Company. TAFF 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 are quoted in Borsa İstanbul A.Ş. since 1990. 15,30% of the shares of the Company are publicly held as of 30 June 2014 (31 December 2013: 15,30%) (Note 11).

The Company’s trade registry address is Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle/Ankara. Average number of personnel employed by the Group as of 30 June 2014 is 5.387 (31 December 2013: 5.343).

The Company, and its consolidated subsidiaries Mikrodalga Elektronik Sistemleri Sanayi ve Ticaret A.Ş. (“Mikes”) and AselsanNet Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Ltd. Şti. (“AselsanNet”), operating in the same sector with the Company, are collectively referred as the “Group” in the accompanying notes.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

(Amounts are expressed in Turkish Lira (TL).)

1. ORGANIZATION AND OPERATIONS OF THE GROUP (cont'd)

The main operations of the companies included in the consolidation and the share percentage of the Group for these companies are as follows:

Company name	Operation	30 June	31 December
		2014	2013
Mikes (*)	Research and development on microwave projects	97,00	96,37
AselsanNet	Communication systems	100,00	100,00

(*)The increase in share ratio is due to purchase of shares of Mikes from Havelsan Hava Elektronik San. Tic. A.Ş. and AselsanNet.

The subsidiaries Mikroelektronik Ar-Ge Tasarım ve Ticaret Limited Şirketi and Aselsan Bakü Şirketi which are classified as non-current financial assets are excluded from consolidation as their inclusion does not materially affect the consolidated financial results of the Group.

The Company opened up a branch as “Aselsan Elektronik Sanayi ve Ticaret A.Ş. EP Co.” in 2011 in South Africa. Branch is excluded from consolidation as its inclusion does not materially affect the consolidated financial results of the Group.

In addition, the joint ventures IGG Aselsan Integrated Systems LLC (United Arab Emirates) and Kazakhstan Aselsan Engineering LLP (Kazakhstan) established in 2011 and Aselsan Middle East PSC LTD (Jordan) established in 2012, which are classified as non-current financial assets are excluded from consolidation as their inclusion does not materially affect the consolidated financial results of the Group

In March 2014, “ASELSAN Hassas Optik Sanayi ve Ticaret A.Ş.” company was established, whose 50% is owned by ASELSAN and 50% owned by Sivas Optik Malzemeleri Sanayi ve Ticaret A.Ş.. The production of precision optics technology for ultraviolet, visible and infrared tapes which was designed by ASELSAN and produced abroad will begin afterwards the completion of the facility constructed in Sivas. The Company was excluded from consolidation, as its inclusion does not materially affect the consolidated financial results of the Group.

Approval of the condensed consolidated financial statements

These condensed consolidated financial statements have been approved for issue by the Board of Directors with the decision number 827 on 19 August 2014. No authority other than Board of Directors and General Assembly has the right to amend the consolidated financial statements

(Amounts are expressed in Turkish Lira (TL).)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 The basis of presentation

Statement of Compliance to TAS

The company and its subsidiaries registered in Turkey, Mikes and AselsanNet maintain their books of account and prepare their statutory financial statements (“Statutory Financial Statements”) in accordance with accounting principles in the Turkish Commercial Code (“TCC”) and tax legislation in Turkish Lira (“TL”).

The accompanying condensed consolidated financial statements are prepared in accordance with the requirements of Capital Markets Board (“CMB”) Communiqué Serial II, No: 14.1 “Basis of Financial Reporting in Capital Markets”, which were published in the Official Gazette No: 28676 on 13 June 2013. The accompanying condensed consolidated financial statements are prepared based on the Turkish Accounting Standards and Interpretations (“TAS”) that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority (“POA”) under Article 5 of the Communiqué.

In addition, the condensed consolidated financial statements and its notes are presented in accordance with the format requirements as announced by the CMB’s statement on 7 June 2013.

The consolidated financial statements are prepared according to historical cost accounting except for the revaluation of lands. In order to determine the historical cost, the fair values paid for assets are considered.

Functional Currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). 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 and the reporting currency for the consolidated financial statements.

Preparation of Financial Statements in Hyperinflationary Periods

CMB, with its resolution dated 17 March 2005 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 IAS/TAS 29 “Financial Reporting in Hyperinflationary Economies” was not applied since 1 January 2005.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

(Amounts are expressed in Turkish Lira (TL).)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 The basis of presentation (cont'd)

Comparative Information and Restatement of Prior Period Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with prior period in order to give information about financial position and performance trends. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified and the significant changes are explained.

Basis of Consolidation

Subsidiaries:

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

Subsidiaries	Location	Group's proportion of ownership and voting power held (%)		Principal Activity
		30 June 2014	31 December 2013	
Mikes	Turkey	97,00	96,37	Microwave R&D projects
AselsanNet	Turkey	100	100	Telecommunication systems
ASELSAN Bakü Şirketi (*)	Azerbaijan	100	100	Marketing and sales of the group products
Mikroelektronik Ar-Ge Tasarım ve Tic. Ltd Şti. (*)	Turkey	85	85	Microelectronic R&D projects

(*) Excluded from group consolidation as it does not significantly affect the consolidated financial results.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by 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

(Amounts are expressed in Turkish Lira (TL).)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 The basis of presentation (cont'd)

Basis of Consolidation (cont'd)

Subsidiaries (cont'd):

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. 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:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders,
- potential voting rights held by the Company, other vote holders or other parties,
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate the Company 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.

Consolidation of subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, 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.

Profit or loss and each component of 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 bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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(Amounts are expressed in Turkish Lira (TL).)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 The basis of presentation (cont'd)

Basis of Consolidation (cont'd)

Joint Ventures:

The details of the Group's interests in joint ventures as of 30 June 2014 and 31 December 2013 are as follows:

<u>Joint Ventures</u>	<u>Principal Activity</u>	<u>Country of incorporation and operation</u>	<u>Group's proportion of ownership and voting power held (%)</u>	
			<u>30 June 2014</u>	<u>31 December 2013</u>
ASELSAN Hassas Optik Sanayi ve Ticaret A.Ş.	Precision optics technologies	Turkey	50	-
IGG ASELSAN Integrated Systems LLC	Marketing and sales of the group products	U.A.E.	49	49
Kazakhstan ASELSAN Engineering LLP	Marketing and sales of the group products	Kazakhstan	49	49
ASELSAN Middle East PSC LTD	Marketing and sales of the group products	Jordan	49	49

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.

IGG Aselsan Integrated Systems LLC, Kazakhstan Aselsan Engineering LLP established in 2011, Aselsan Middle East PSC LTD (Jordan) established in 2012 and ASELSAN Hassas Optik Sanayi ve Ticaret A.Ş. established in 2013 which are classified as non-current financial assets and accounted with acquisition cost after impairment were not included in the consolidation, their effect on the consolidated financial statements of the Group are deemed to be immaterial.

2.2 Changes in the Accounting Policies

Significant changes in accounting policies are applied retrospectively and prior period financial statements are restated.

(Amounts are expressed in Turkish Lira (TL).)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.3 Changes in the Accounting Estimates and Errors

If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes are for the following periods, changes are applied both on the current and following years prospectively. The Group has no significant changes to the accounting estimates in the current period.

The estimated errors in the accounting policies are applied retrospectively and the prior year's financial statements are restated accordingly.

2.4 New and Revised Turkish Accounting Standards

(a) Amendments to TASs affecting amounts reported and the disclosures in the financial statements

None.

(b) New and Revised TASs applied with no material effect on the financial statements which are effective since 2014

Amendments to TFRS 10, 11, TAS 27	<i>Investment Entities¹</i>
Amendments to TAS 32	<i>Offsetting Financial Assets and Financial Liabilities¹</i>
Amendments to TAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets¹</i>
Amendments to TAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting¹</i>
IFRIC 21	<i>Levies¹</i>

¹ Effective for annual periods beginning on or after 1 January 2014.

Amendments to TFRS 10, 11, TAS 27 *Investment Entities*

This amendment with the additional provisions of TFRS 10 provide investment entities (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss.

Amendments to TAS 32 *Offsetting Financial Assets and Financial Liabilities*

The amendments to TAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realization and settlement”.

(Amounts are expressed in Turkish Lira (TL).)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

(b) New and Revised TASs applied with no material effect on the financial statements which are effective since 2014 (cont'd)

Amendments to TAS 36 Recoverable Amount Disclosures for Non-Financial Assets

As a consequence of TFRS 13 “Fair Value Measurements”, there are amendments in the explanations about the measurement of the recoverable amount of an impaired asset. This amendment is limited to non-financial assets and paragraphs 130 and 134 of TAS 36 have been changed.

Amendments to TAS 39 Novation of Derivatives and Continuation of Hedge Accounting

This amendment to TAS 39 makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

IFRIC 21 Levies

IFRIC 21 identifies the obligating event for the recognition of a liability the activity that triggers the payment of the levy in accordance with the relevant legislation.

(c) New and revised TASs in issue but not yet effective

The Group has not applied the following new and revised TASs that have been issued but are not yet effective

TFRS 9 Financial Instruments

TFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. TFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Amendments to TFRS 9 and TFRS 7 Mandatory Effective Date of TFRS 9 and Transition Disclosures

On November 2013, it is tentatively decided that the mandatory effective date of TFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017. The amendment has not published by POA yet. The Group evaluate the effects of the standards on financial position and performance.

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(Amounts are expressed in Turkish Lira (TL).)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies

Group prepared the accompanying condensed consolidated financial statements based on TAS 34 "Interim Financial Reporting". The accounting policies applied in preparation of condensed consolidated interim financial statements are compatible with the accounting policies applied for the period between 1 January - 31 December 2013. These condensed consolidated financial statements should be read on a comparative basis with the annual financial statements for the period between 1 January - 31 December 2013.

3. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries which are related parties of the Company have been eliminated on consolidation, and are not disclosed in this note.

The receivables from related parties usually arise from sales activities and are due 1 to 6 months after the date of sales. The receivables are unsecured by nature and bear no interest.

The payables to related parties usually arise from the purchase activities and are due 1 to 3 months after the date of purchase. The receivables bear no interest.

The other receivables from related parties usually arise from fund transfers for financing activities and are due 3 months. The receivables in US Dollars bear an interest of a range between 3,3%-4,3% (2013: 3,8%-4,4%). The receivables in South African Rand bear an interest of a range between 4,8% (2013: 4,8%).

Total amount of salaries and other short-term benefits paid for key management for the period ended as of 30 June 2014 is TL 2.895.555 (30 June 2013: TL 2.225.164).

Total amount of salaries and other short-term benefits paid for key management during the period are as follows:

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Salaries and other short-term benefits	<u>2.895.555</u>	<u>1.818.245</u>	<u>2.225.164</u>	<u>1.154.033</u>

The details of transactions between the Group and other related parties are disclosed in the next page.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

(Amounts are expressed in Turkish Lira (TL).)

3. RELATED PARTY TRANSACTIONS (cont'd)

	30 June 2014									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
	Trading	Advances given	Non-trading	Trading	Advances given	Trading	Advances received	Non-trading	Trading	Advances received
Balances with related parties										
<u>Main Shareholder</u>										
Turkish Armed Forces Foundation (*)	1.425.153	-	-	-	-	-	-	17.963.293	-	-
<u>Other shareholder</u>										
Axa Sigorta A.Ş.	-	-	-	-	-	-	-	20.669	-	-
<u>Main shareholder's subsidiaries and associates</u>										
Havelsan Ehsim-Elektronik Harp Sis. Müh. Tic. A.Ş.	-	763.645	-	-	949.765	6.316	-	-	-	-
Havelsan Hava Elektronik San. ve Tic. A.Ş.	526	-	-	-	-	171.920	6.085.852	-	-	5.344.488
Havelsan Teknoloji Radar San. ve Tic. A.Ş.	-	192.048	-	-	-	780.543	-	-	-	-
İşbir Elektrik San. A.Ş.	-	1.739.639	-	-	-	-	12.865	-	-	-
Mercedes-Benz Türk A.Ş.	-	-	-	-	-	1.121.900	-	-	-	-
Netaş Telekomünikasyon A.Ş.	-	1.127.030	-	-	9.766.409	16.709.623	-	-	-	-
STM-Savunma Teknolojileri Müh. ve Tic. A.Ş.	-	6.722.915	-	-	54.388	2.900.753	9.594.912	-	-	-
Tusaş-Türk Havacılık ve Uzay San. A.Ş.	8.991.378	-	-	10.327.125	-	920.755	5.345.691	-	-	45.060.100
<u>Subsidiaries</u>										
ASELSAN Bakü	264.895	-	-	243.909	-	-	-	-	-	-
Mikroelektronik Ar-Ge Tas. ve Tic. Ltd. Şti.	63.380	1.009.720	-	-	765.884	652.850	-	-	-	-
<u>Affiliates</u>										
Aspilsan-Askeri Pil San. ve Tic. A.Ş.	-	37.567	-	-	-	847.016	-	-	-	-
Roketsan-Roket San. ve Tic. A.Ş.	14.172.176	62.630.173	-	17.683.873	219.636.609	3.601.014	1.825.983	-	-	54.166.861
<u>Branch</u>										
ASELSAN South Africa Branch	-	656.726	-	-	-	-	-	-	-	-
<u>Joint ventures and its related parties</u>										
International Golden Group	42.351.423	-	-	8.048.629	-	-	-	-	-	-
IGG ASELSAN Integrated Systems	2.872.951	2.126.666	-	-	-	-	-	-	-	-
Kazakhstan ASELSAN Engineering -KAE	14.793.314	-	3.634.653	-	-	-	-	-	-	-
ASELSAN Middle East PSC Ltd	15.515.678	-	-	-	-	-	-	-	-	-
	<u>100.450.874</u>	<u>77.006.129</u>	<u>3.634.653</u>	<u>36.303.536</u>	<u>231.173.055</u>	<u>27.725.555</u>	<u>22.852.438</u>	<u>17.983.962</u>	<u>-</u>	<u>104.571.449</u>

(*) Short-term non-trade payables is due to dividend payment of profit for the year 2013.

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(Amounts are expressed in Turkish Lira (TL).)

3. RELATED PARTY TRANSACTIONS (cont'd)

	31 December 2013									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
Balances with related parties	Trading	Advances given	Non-trading	Trading	Advances given	Trading	Advances received	Non-trading	Trading	Advances received
<u>Main Shareholder</u>										
Turkish Armed Forces Foundation	3.207.644	-	-	-	-	-	43.306	-	-	-
<u>Other shareholder</u>										
Axa Sigorta A.Ş.	-	-	-	-	-	1.948	-	30.320	-	-
<u>Main shareholder's subsidiaries and associates</u>										
Esdaş-Elektronik Sis. Destek San. ve Tic. A.Ş.	21.239	-	-	-	-	-	-	-	-	-
Havelsan Ehsim-Elektronik Harp Sis. Müh. Tic. A.Ş.	-	1.017.379	-	-	698.852	-	-	-	-	-
Havelsan Hava Elektronik San. ve Tic. A.Ş.	4.757.070	682.547	-	1.513.701	-	44.899	-	-	-	1.545.427
Havelsan Teknoloji Radar San. ve Tic. A.Ş.	-	75.791	-	-	-	503.104	-	-	-	-
İşbir Elektrik San. A.Ş.	-	1.601.645	-	-	-	659.529	-	-	-	-
Mercedes-Benz Türk A.Ş.	-	72.094	-	-	-	1.193.994	-	-	-	-
Netaş Telekomünikasyon A.Ş.	-	3.342.557	-	-	9.428.841	8.435.774	-	-	-	-
STM-Savunma Teknolojileri Müh. ve Tic. A.Ş.	2.779.311	9.519.270	-	-	957.570	-	10.643.377	-	-	-
Tusaş-Türk Havacılık ve Uzay San. A.Ş.	11.315.342	-	-	435.006	-	1.114.573	889.434	-	-	4.164.209
<u>Subsidiaries</u>										
ASELSAN Bakü	16.312	-	-	332.402	-	-	-	-	-	-
Mikroelektronik Ar-Ge Tas. ve Tic. Ltd. Şti.	-	1.260.456	-	-	-	-	-	-	-	-
<u>Affiliates</u>										
Aspilsan-Askeri Pil San. ve Tic. A.Ş.	-	37.567	-	-	-	717.378	-	-	-	-
Roketsan-Roket San. ve Tic. A.Ş.	19.158.362	6.035.892	-	15.490.970	168.352.153	3.594.606	1.635.803	-	-	32.092.157
<u>Branch</u>										
ASELSAN South Africa Branch	-	792.439	90.646	-	-	-	-	-	-	-
<u>Joint ventures and its related parties</u>										
International Golden Group	55.710.667	-	-	8.617.662	-	-	-	-	-	-
IGG ASELSAN Integrated Systems	2.980.497	2.321.156	-	-	-	-	-	-	-	-
Kazakhstan Aselsan Engineering -KAE	38.899.450	-	32.680.623	-	-	-	-	-	-	-
ASELSAN Middle East PSC Ltd	6.311.145	-	-	3.146	-	-	-	-	-	-
	<u>145.157.039</u>	<u>26.758.793</u>	<u>32.771.269</u>	<u>26.392.887</u>	<u>179.437.416</u>	<u>16.265.805</u>	<u>13.211.920</u>	<u>30.320</u>	<u>-</u>	<u>37.801.793</u>

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3. RELATED PARTY TRANSACTIONS (cont'd)

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
<u>Transactions with related parties</u>	<u>Purchases</u>	<u>Purchases</u>	<u>Purchases</u>	<u>Purchases</u>
<u>Main Shareholder</u>				
Turkish Armed Forces Foundation	231.500	92.600	260.880	130.440
<u>Main shareholder's subsidiaries and associates</u>				
Esdaş-Elektronik Sis. Destek San. ve Tic. A.Ş.	-	-	298.660	298.660
Havelsan Ehsim-Elektronik Harp Sis. Müh. Tic. A.Ş.	63.157	-	49.785	49.785
Havelsan Hava Elektronik San. ve Tic. A.Ş.	1.046.226	-	1.897.677	1.897.677
Havelsan Teknoloji Radar San. ve Tic. A.Ş.	1.575.825	889.467	1.614.209	902.559
İşbir Elektrik San. A.Ş.	1.780.235	1.630.817	811.475	765.740
Mercedes-Benz Türk A.Ş.	-	-	834.137	-
Netaş Telekomünikasyon A.Ş.	21.112.957	17.545.322	8.006.498	6.084.657
STM Savunma Teknolojileri Müh. ve Tic. A.Ş.	3.637.274	3.637.274	244.755	-
Tusaş-Türk Havacılık ve Uzay San. A.Ş.	-	-	741	741
<u>Subsidiaries</u>				
ASELSAN Bakü	-	-	318.111	129.341
Mikroelektronik Ar-Ge Tas. ve Tic. Ltd. Şti.	2.187.119	1.198.634	2.304.630	1.361.861
<u>Affiliates</u>				
Aspilsan-Askeri Pil San. ve Tic. A.Ş.	1.802.143	820.866	911.106	457.752
Roketsan Roket San. ve Tic. A.Ş.	14.319.996	125.796	127.503	127.503
<u>Branch</u>				
ASELSAN South Africa Branch	2.240.687	1.133.592	1.632.301	678.216
<u>Joint ventures and its related parties</u>				
IGG ASELSAN Integrated Systems	818.456	459.234	-	-
Kazakhstan ASELSAN Engineering -KAE	-	-	2.868	-
	<u>50.815.575</u>	<u>27.533.602</u>	<u>19.315.336</u>	<u>12.884.932</u>

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3. RELATED PARTY TRANSACTIONS (cont'd)

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Transactions with related parties	Sales	Sales	Sales	Sales
<u>Main Shareholder</u>				
Turkish Armed Forces Foundation	1.642.426	1.607.172	1.628.087	1.434.931
<u>Main shareholder's subsidiaries and associates</u>				
Esdaş-Elektronik Sis. Destek San. ve Tic. A.Ş.	63.114	21.806	201	-
Havelsan Hava Elektronik San. ve Tic. A.Ş.	4.812.778	2.051.533	12.982.115	5.042.589
Havelsan Teknoloji Radar San. ve Tic. A.Ş.	3.317	-	7.924	1.152
İşbir Elektrik San. A.Ş.	23.881	-	-	-
Netaş Telekomünikasyon A.Ş.	18.834	-	-	-
STM Savunma Teknolojileri Müh. ve Tic. A.Ş.	14.214.966	5.120.307	4.167.054	818.424
Tusaş-Türk Havacılık ve Uzay San. A.Ş.	18.225.352	9.399.495	15.151.780	5.273.308
<u>Subsidiaries</u>				
ASELSAN Bakü	162.035	109.133	8.918	7.903
Mikroelektronik Ar-Ge Tas. ve Tic. Ltd. Şti.	109.105	53.712	94.627	48.748
<u>Affiliates</u>				
Roketsan Roket San. ve Tic. A.Ş.	21.600.952	5.503.456	23.381.046	13.017.966
<u>Joint ventures and its related parties</u>				
International Golden Group	8.515.704	3.724.267	7.425.622	2.862.412
IGG ASELSAN Integrated Systems	609.136	600.758	791.379	664.787
Kazakhstan ASELSAN Engineering -KAE	15.881.898	12.133.652	37.999.314	25.291.634
ASELSAN Middle East PSC Ltd	11.501.554	7.216.969	2.442.721	1.615.377
	<u>97.385.052</u>	<u>47.542.260</u>	<u>106.080.788</u>	<u>56.079.231</u>

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4. TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

Details of Group's trade receivables are as follows:

	30 June 2014	31 December 2013
Short-term trade receivables		
Trade receivables	502.043.626	455.002.013
Trade receivables from related parties (Note 3)	100.450.874	144.530.836
Amounts due from customers under construction contracts	253.018.829	157.715.412
Amounts due from customers under construction contracts – Related party (Note 3)	-	626.203
Notes receivables	1.926.704	2.019.535
Discount on trade and notes receivables (-)	(1.493.228)	(1.458.796)
Other trade receivables	1.804	33.088
Provision for doubtful trade receivables (-)	(2.294.200)	(2.221.896)
	<u>853.654.409</u>	<u>756.246.395</u>
	30 June 2014	31 December 2013
Long-term trade receivables		
Trade receivables	36.965.587	48.386.358
Trade receivables from related parties (Note 3)	1.607.521	564.224
Amounts due from customers under construction contracts	130.794.029	265.534.652
Amounts due from customers under construction contracts – Related party (Note 3)	34.696.015	25.828.663
Notes receivables	100.000	-
Discount on trade and notes receivables (-)	(1.076.383)	(1.577.190)
	<u>203.086.769</u>	<u>338.736.707</u>

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4. TRADE RECEIVABLES AND PAYABLES (cont'd)

a) Trade receivables (cont'd)

The movement for the Group's provision for doubtful receivables is as follows:

	1 January- 30 June 2014	1 January- 30 June 2013
Opening balance	2.221.896	1.985.839
Provision for the period	79.661	95.974
Provision released	(7.357)	(857)
Closing balance	2.294.200	2.080.956

The distribution of trade receivables is as follows:

	30 June 2014	31 December 2013
Receivables from the public sector	468.380.057	561.853.149
Receivables from the private sector	349.547.975	266.514.035
Receivables from companies operating abroad	238.813.146	266.615.918
Total	1.056.741.178	1.094.983.102

Receivables from public sector represent the receivables that are due from Ministry of Defense, Undersecretariat for Defense Industries and other public enterprises. The Group's operations are based on contracts. Generally, no collaterals are obtained from the customers.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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4. TRADE RECEIVABLES AND PAYABLES (cont'd)**b) Trade payables**

Details of Group's trade payables are as follows:

	30 June 2014	31 December 2013
<u>Short-term trade payables</u>		
Trade payables	317.409.535	279.899.705
Payables related to construction contracts in progress	87.099.243	90.119.079
Amounts due to customers under construction		
contracts - Related party (Note 3)	4.290.145	1.466.911
Due to related parties (Note 3)	23.435.410	14.798.894
Notes payables	6.473.795	6.748.296
Discount on trade and notes payables (-)	(1.533.150)	(1.729.224)
Other trade payables	4.215.270	2.144.441
	<u>441.390.248</u>	<u>393.448.102</u>
	30 June 2014	31 December 2013
<u>Long-term trade payables</u>		
Trade payables	3.327.477	6.141.424
Amounts due to customers under construction		
contracts	842.181	842.181
Notes payables	3.079.398	6.262.069
Discount on trade and notes payable (-)	(758.394)	(1.082.298)
	<u>6.490.662</u>	<u>12.163.376</u>

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5. INVENTORIES

	30 June 2014	31 December 2013
Raw materials	436.696.698	332.256.254
Work in progress	214.147.376	222.874.833
Finished goods	46.860.503	41.372.762
Other inventories	17.686.279	12.804.786
Trade goods	8.465.375	7.007.692
Goods in transit (*)	38.965.058	37.585.022
Allowance for impairment on inventories (-)	(12.862.307)	(8.051.806)
	<u>749.958.982</u>	<u>645.849.543</u>

(*) Goods in transit includes the imported goods for which significant risks and rewards of ownership has passed to the Group.

The Group sets an allowance for impairment on inventories when the inventories net realizable values are lower than their costs or when they are assessed as slow-moving inventories.

In the current year, the Group has identified certain inventory items where the net realizable values were below the cost of the related inventory. Consequently, the Group has set an additional allowance for impairment on inventories amounting to TL 4.835.768 (30 June 2013: TL 3.491.632).

The Group reversed previously set allowance for impairment on inventories amounting to TL 25.267 (30 June 2013: TL 6.722.929) in the current period. The amount reversed has been included in “cost of sales” in the statement of profit or loss.

<u>The movement of the allowance for impairment on inventories:</u>	1 January- 30 June 2014	1 January- 30 June 2013
Opening balance	8.051.806	8.198.536
Provision released	(25.267)	(6.722.929)
Provision for the period	4.835.768	3.491.632
Closing balance	<u>12.862.307</u>	<u>4.967.239</u>

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6. PREPAID EXPENSES AND DEFERRED INCOME

	30 June 2014	31 December 2013
<u>Short-term prepaid expenses</u>		
Order advances given for inventory purchases	176.035.675	222.473.292
Short-term order advances given to related parties for inventory purchases (Note 3)	77.006.129	26.758.793
Prepaid expenses	32.087.835	28.137.062
	<u>285.129.639</u>	<u>277.369.147</u>

	30 June 2014	31 December 2013
<u>Long-term prepaid expenses</u>		
Order advances given for inventory purchases	60.530.074	65.361.147
Long-term order advances given to related parties for inventory purchases (Note 3)	231.173.055	179.437.416
Order advances given for fixed asset purchases	28.700.618	24.325.736
Prepaid expenses	1.503.453	5.315.352
	<u>321.907.200</u>	<u>274.439.651</u>

	30 June 2014	31 December 2013
<u>Short-term deferred income</u>		
Order advances received	109.288.509	192.644.590
Order advances received from related parties (Note 3)	22.852.438	13.211.920
Deferred income	105.895	8.178.493
	<u>132.246.842</u>	<u>214.035.003</u>

Short-term order advances received consists of the advances received from 52 customers (31 December 2013: 43 customers) of which first 10 customers form 96,64% (31 December 2013: 98,75%) of total advances.

	30 June 2014	31 December 2013
<u>Long-term deferred income</u>		
Order advances received	1.017.386.675	1.124.223.301
Order advances received from related parties (Note 3)	104.571.449	37.801.793
Deferred income	1.975	1.975
	<u>1.121.960.099</u>	<u>1.162.027.069</u>

Long-term order advances received consists of the advances received from 24 customers (31 December 2013: 25 customers) of which first 10 customers form 99,80% (31 December 2013: 99,84%) of the total advances.

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7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

<u>Cost Value</u>	Property, Plant and Equipment	Intangible Assets
Opening Balance as of 1 January 2014	1.223.157.683	513.689.410
Additions	80.711.667	55.708.170
Disposals	(214.582)	(11.399.970)
Closing Balance as of 30 June 2014	1.303.654.768	557.997.610
<u>Accumulated Depreciation and Amortization</u>		
Opening Balance as of 1 January 2014	481.169.483	140.881.765
Charge for the period	27.694.447	19.846.697
Disposals	(191.938)	-
Closing Balance as of 30 June 2014	508.671.992	160.728.462
Net Book Value as of 30 June 2014	794.982.776	397.269.148
<u>Cost Value</u>		
Opening Balance as of 1 January 2013	849.238.809	405.721.147
Additions	88.374.901	61.657.002
Disposals	(2.018.173)	(14.390.207)
Closing Balance as of 30 June 2013	935.595.537	452.987.942
<u>Accumulated Depreciation and Amortization</u>		
Opening Balance as of 1 January 2013	437.146.073	108.033.650
Charge for the period	22.870.731	17.692.141
Disposals	(1.927.011)	(3.312.895)
Closing Balance as of 30 June 2013	458.089.793	122.412.896
Net Book Value as of 30 June 2013	477.505.744	330.575.046

The Group's fair value hierarchy level of the freehold lands that are stated at their revalued amounts are level 3.

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(Amounts are expressed in Turkish Lira (TL).)

8. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

	30 June 2014	31 December 2013
<u>Other short-term provisions</u>		
Provision for delay penalties and fines	3.149.454	9.238.648
Provision for lawsuits	434.373	445.573
Provision for guarantee expenses	79.521.323	72.626.865
Provision for expenses related to costing	2.418.946	1.386.218
Provision for insurance expense	2.167.074	4.135.875
Other	962.322	1.140.291
	<u>88.653.492</u>	<u>88.973.470</u>
	30 June 2014	31 December 2013
<u>Other long-term provisions</u>		
Provision for delay penalties and fines	<u>2.710.521</u>	<u>2.850.210</u>

b) Lawsuits

As of 30 June 2014 and 31 December 2013, according to the declarations of the Group's legal counselors, the lawsuits and executions filed by and against the Group are as follows:

Description	30 June 2014	31 December 2013
a) Ongoing lawsuits filed by the Group	4.331.748	3.757.739
b) Execution proceedings carried on by the Group	5.741.672	5.048.050
c) Ongoing lawsuits filed against the Group	434.373	445.573
d) Lawsuits finalized in favor of the Group within the period	121.767	1.019.456
e) Lawsuits finalized against the Group within the period	98.713	430.231

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9. COMMITMENTS AND CONTINGENCIES

a) Guarantees received

	30 June 2014	31 December 2013
Letters of guarantees received from the customers	1.752.566	1.388.066
Letters of guarantees received from the suppliers	581.785.081	567.030.787
Collaterals received from the customers	17.363.057	17.630.657
Collaterals received from the suppliers	3.765.968	3.773.895
Cheques received from the customers	6.000	6.000
Cheques received from the suppliers	64.248	64.460
Mortgages received from the customers	599.600	599.600
	<u>605.336.520</u>	<u>590.493.465</u>

b) Guarantees given

The tables showing the collaterals/pledges/mortgages (“CPM”) given by the Group as of 30 June 2014 and 31 December 2013 are presented in the following page.

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9. COMMITMENTS AND CONTINGENCIES (cont'd)

b) Guarantees given (cont'd)

30 June 2014	TL Equivalent	TL	US Dollars	EURO	UAE Dirham	Polish Zloty	Indian Rupee	British Pound	Qatari Riyal
A. Total amount of CPM given on behalf of the legal entity									
-Collateral	5.370.330.427	749.515.543	1.461.364.271	515.925.989	26.759.651	2.424.322	79.694.000	1.654.349	60.000
-Pledge	-	-	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-	-	-
B. Total amount of CPM given on behalf of the subsidiaries included in full consolidation									
-Collateral	53.085.000	-	25.000.000	-	-	-	-	-	-
-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									
-Collateral	988.000	988.000	-	-	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-	-	-
iii. Total amount of CPM on behalf of third parties that do not cover C.									
-Collateral	-	-	-	-	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-	-	-
Total	<u>5.424.403.427</u>	<u>750.503.543</u>	<u>1.486.364.271</u>	<u>515.925.989</u>	<u>26.759.651</u>	<u>2.424.322</u>	<u>79.694.000</u>	<u>1.654.349</u>	<u>60.000</u>

The ratio of the other CPM given by the Group to the equity as of 30 June 2014 is 0,06%.

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(Amounts are expressed in Turkish Lira (TL).)

9. COMMITMENTS AND CONTINGENCIES (cont'd)

b) Guarantees given (cont'd)

31 December 2013	TL Equivalent	TL	US Dollars	EURO	UAE Dirham	Polish Zloty	Indian Rupee	British Pound
A. Total amount of CPM given on behalf of the legal entity								
-Collateral	5.248.241.056	765.818.119	1.368.123.658	501.172.743	26.759.651	2.424.322	79.694.000	1.654.349
-Pledge	-	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-	-
B. Total amount of CPM given on behalf of the subsidiaries included in full consolidation								
-Collateral	53.357.500	-	25.000.000	-	-	-	-	-
-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								
-Collateral	988.000	988.000	-	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-	-
iii. Total amount of CPM on behalf of third parties that do not cover C.								
-Collateral	-	-	-	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-	-
Total	<u>5.302.586.556</u>	<u>766.806.119</u>	<u>1.393.123.658</u>	<u>501.172.743</u>	<u>26.759.651</u>	<u>2.424.322</u>	<u>79.694.000</u>	<u>1.654.349</u>

The ratio of the other CPM given by the Group to the equity as of 31 December 2013 is 0,06%.

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10. EMPLOYMENT BENEFITS**a) Payables for employment benefits**

	30 June 2014	31 December 2013
Due to personnel	2.436.576	2.168.590
Social security premiums payable	10.307.558	9.565.489
Taxes and funds payable	6.156.596	7.492.520
	<u>18.900.730</u>	<u>19.226.599</u>

b) Short-term provisions for employment benefits

	30 June 2014	31 December 2013
Provision for annual leave and overtime	<u>33.075.847</u>	<u>25.395.640</u>

The movement of the provision for annual leave and overtime is as follows:

	1 January - 30 June 2014	1 January - 30 June 2013
Opening balance	25.395.640	18.656.924
Provision released	(4.746.279)	(4.026.838)
Provision for the period	12.426.486	11.088.455
Closing balance	<u>33.075.847</u>	<u>25.718.541</u>

c) Long-term provisions for employment benefits

	30 June 2014	31 December 2013
Provision for severance pay	100.078.298	97.341.311
Provision for retirement pay	9.556.514	9.726.504
	<u>109.634.812</u>	<u>107.067.815</u>

The movement for provisions for severance and retirement pays is as follows:

	1 January - 30 June 2014	1 January - 30 June 2013
Opening balance	107.067.815	104.434.432
Actuarial gain/loss	-	(7.666.211)
Cost of service	3.715.690	1.222.748
Interest cost	3.390.219	9.597.826
Severance and retirement benefits paid	(4.538.912)	(2.677.478)
Closing balance	<u>109.634.812</u>	<u>104.911.317</u>

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10. EMPLOYMENT BENEFITS (cont'd)

Retirement pay provisions:

Under the Turkish Labor Law, the Group is required to pay employment termination benefits to each employee who has qualified for such payment. Also, employees are required to be paid their retirement pay who retired by gaining right to receive according to in accordance with the provisions set out in law no: 2422 issued at 6 March 1981, law no: 4447 issued at 25 August 1999 and the amended Article 60 of the existing Social Insurance Law No: 506. Some transitional provisions related to the pre-retirement service term were excluded from the law since the related law was amended as of 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of TL 3.438,22 (31 December 2013: 3.254,44) for each period of service at 30 June 2014.

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. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	30 June 2014	31 December 2013
Interest rate (%)	10,07	10,07
Inflation rate (%)	6,37	6,37
Discount ratio (%)	3,48	3,48
Estimation of probability of retirement ratio (%)	99,04	98,92

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11. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

<u>Shareholders</u>	Share (%)	30 June 2014	Share (%)	31 December 2013
TAFF	84,58	422.912.812	84,58	422.912.812
Other shareholder (Axa Sigorta A.Ş.)	0,12	577.846	0,12	577.846
Quoted in stock exchange	15,30	76.509.342	15,30	76.509.342
Nominal capital	100	500.000.000	100	500.000.000
Share capital adjustment		98.620.780		98.620.780
Inflation adjusted capital		<u>598.620.780</u>		<u>598.620.780</u>

The Group's nominal capital is TL 500.000.000 that consists of 50.000.000.000 shares each of which is 1 kuruş (1% of 1 Turkish Lira). A total of 30.272.727.273 of the shares consists of Group A and 19.727.272.727 of the shares consists of Group B shares. All of the shares are nominative. 6 member 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, when new shares are issued the proportion of nominative Group A shares prevalent in the issued capital are preserved. In accordance with the CMB's requirements, except for Independent members of the Board of Directors, Group A shares are nominative and Members of the Board are assigned from the holders of A type shareholders or from the ones nominated by A type shareholders.

Restricted profit reserves

The legal reserves consist of first and second legal reserves, appropriated in accordance with the TCC. The first legal reserve is appropriated out of historical statutory profits of the prior year at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. After the 5% of the dividend is paid to shareholders, 10% of the total distributed to shareholders and employees can be added in general legal reserve.

As of 30 June 2014, The Group's restricted reserves set aside from profit consists of the legal reserves. The total of the Group's legal reserves are TL 73.669.442 (31 December 2013: TL 69.677.755).

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11. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (cont'd)

Retained Earnings

Accumulated profits apart from the net profit for the year and extraordinary reserves which is accumulated profit by nature are shown under the retained earnings. As of 30 June 2014 the extraordinary reserves balance presented in retained earnings is TL 559.092.120 (31 December 2013: TL 508.504.057). According to the statutory records, the Company's profit for the year is TL 99.080.180 (31 December 2013: TL 79.566.382) and its other funds available for profit distribution is TL 575.645.562 (31 December 2013: TL 521.044.181). The details of funds is as follows:

	30 June 2014	31 December 2013
Capital reserves and extraordinary reserves	575.645.562	521.044.181

Profit distribution

On 31 March 2014, in accordance with the consolidated financial statements, the General Assembly of the Company has decided to allocate legal reserve amounting to TL 3.978.319 of the TL 238.081.489 which is based on the profit distribution, and to distribute TL 25.000.000 in cash to shareholders for dividend payment by leaving the amount of TL 209.103.170 within the Group. Thus, the cash dividend amount for TL 1 nominal value per share is TL 0,05 (31 December 2013: TL 0,157).

Besides, on 14 March 2014, in the General Assembly of AselsanNet distribution of dividend amounting to TL 100.000 and allocation of legal reserve amounting to TL 5.000 from the profit of the year 2013 have been decided. As a result total amount of the funds remaining within the Group after profit distribution and transfers of Mikes and AselsanNet as mentioned above is TL 208.998.170 (31 December 2013: TL 210.233.473)

As of 30 June 2014 the unpaid portion of the dividend is equal to TL 17.963.293 (Note 3) (31 December 2013: TL 56.404.737).

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12. SALES REVENUE AND COST OF SALES

	1 January- 30 June 2014	1 April- 30 January 2014	1 January- 30 June 2013	1 April- 30 June 2013
a) Sales Revenue				
Domestic sales	934.628.661	502.653.320	768.065.826	417.896.553
Export sales	188.274.950	113.059.314	213.317.863	133.151.195
Other revenues	70.851	4.206	872.274	4.069
Sales returns (-)	(688.921)	(118.741)	(27.915)	(25.208)
Sales discounts (-)	(558.501)	(275.387)	(407.004)	(210.560)
Other discounts (-)	-	-	(135.557)	(135.557)
	<u>1.121.727.040</u>	<u>615.322.712</u>	<u>981.685.487</u>	<u>550.680.492</u>
b) Cost of Sales (-)				
Cost of raw materials used	342.897.536	184.437.435	310.994.164	171.664.937
Personnel expenses	37.087.003	21.455.075	35.011.062	22.003.548
Production overheads	72.956.607	35.699.261	67.145.672	33.097.171
Change in work in progress	8.727.457	(5.450.740)	(24.020.574)	(14.789.829)
Change in finished goods	(5.487.741)	(6.033.196)	(3.819.954)	(4.667.176)
Development expenses (*)	277.519.996	136.160.213	251.408.248	136.807.556
Cost of services given	35.674.705	21.694.542	62.143.175	35.271.057
Cost of merchandise goods sold	8.004.655	4.645.358	2.241.361	1.371.693
Cost of other sales	<u>73.123.209</u>	<u>65.345.529</u>	<u>35.941.810</u>	<u>32.745.931</u>
	<u>850.503.427</u>	<u>457.953.477</u>	<u>737.044.964</u>	<u>413.504.888</u>

(*) Development expenses consist of raw material, design, personnel, amortization and depreciation expenses.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

(Amounts are expressed in Turkish Lira (TL).)

13. ASSETS AND LIABILITIES REGARDING CONSTRUCTION CONTRACTS

	30 June 2014	31 December 2013
Construction costs incurred plus recognized profits less recognized losses to date	5.802.125.442	5.229.103.266
Less: earned allowances	(5.475.848.138)	(4.871.826.507)
Total	326.277.304	357.276.759
Amounts due from customers under construction contracts (Note 4)	418.508.873	449.704.930
Amounts due to customers under construction contracts (Note 4)	(92.231.569)	(92.428.171)
	326.277.304	357.276.759

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in Turkish Lira (TL).)

14. OTHER OPERATING INCOME AND EXPENSES**a) Other operating income**

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Foreign currency exchange gains from activities (*)	279.088.248	122.732.486	113.489.039	66.344.493
Discount income	12.727.476	(277.071)	7.570.869	126.412
Interest income	2.132.593	847.270	3.043.559	1.135.652
Insurance income for damages	335.113	101.236	106.189	54.964
Non-cost material income	101.059	81.106	584.623	123.253
Other income	1.677.598	824.767	1.442.565	758.513
	<u>296.062.087</u>	<u>124.309.794</u>	<u>126.236.844</u>	<u>68.543.287</u>

(*) Mainly consists of the foreign currency exchange valuation of advances received and advances given denominated in foreign currencies.

b) Other operating expense

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Foreign currency exchange losses from activities (*)	(272.279.082)	(89.347.560)	(185.870.017)	(131.747.872)
Discount expense	(12.789.859)	541.489	(7.921.051)	(1.375.353)
Other expense and losses	(1.368.175)	(649.620)	(634.860)	(280.532)
	<u>(286.437.116)</u>	<u>(89.455.691)</u>	<u>(194.425.928)</u>	<u>(133.403.757)</u>

(*) Mainly consists of the foreign currency exchange valuation of advances received and advances given denominated in foreign currencies.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in Turkish Lira (TL).)

15. FINANCIAL INCOME

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Foreign currency exchange gain from bank loans	<u>18.216.215</u>	<u>8.701.112</u>	<u>2.399.744</u>	<u>442.862</u>

16. FINANCIAL EXPENSES

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Foreign currency exchange losses from bank loans	(13.444.546)	(506.428)	(8.821.710)	(7.465.999)
Short-term borrowing expense	(3.401.496)	(1.879.284)	(3.345.263)	(1.976.433)
Long-term borrowing expense	<u>(1.097.428)</u>	<u>(555.129)</u>	<u>(792.497)</u>	<u>(406.220)</u>
	<u>(17.943.470)</u>	<u>(2.940.841)</u>	<u>(12.959.470)</u>	<u>(9.848.652)</u>

17. EARNINGS PER SHARE

	1 January- 30 June 2014	1 April- 30 June 2014	1 January- 30 June 2013	1 April- 30 June 2013
Common stock	50.000.000.000	50.000.000.000	50.000.000.000	50.000.000.000
Net profit – TL	<u>198.608.727</u>	<u>140.923.166</u>	<u>99.996.138</u>	<u>27.505.652</u>
Earnings per 100 shares	<u>0,40</u>	<u>0,28</u>	<u>0,20</u>	<u>0,06</u>

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

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(Amounts are expressed in Turkish Lira (TL).)

18. FOREIGN EXCHANGE POSITION

FOREIGN EXCHANGE POSITION				
30 June 2014	TL Equivalent (Functional currency)	US Dollar	EURO	Other
1. Trade Receivables	515.360.895	112.087.410	95.907.358	-
2a. Monetary Financial Assets (including cash and banks)	56.543.771	14.815.605	8.669.967	11.639
2b. Non-Monetary Financial Asset	144.926.240	22.384.458	31.566.833	6.106.954
3. Other	9.249.803	3.717.042	467.164	6.047
4. Current Assets (1+2+3)	726.080.709	153.004.515	136.611.322	6.124.640
5. Trade Receivables	171.158.007	35.117.664	29.213.585	12.106.393
6a. Monetary Financial Assets	-	-	-	-
6b. Non-Monetary Other Assets	201.246.199	11.768.529	60.947.800	1.962
7. Other	7.666.274	1.635.499	490.980	2.773.591
8. Non-Current Assets (5+6+7)	380.070.480	48.521.692	90.652.365	14.881.946
9. Total Assets (4+8)	1.106.151.189	201.526.207	227.263.687	21.006.586
10. Trade Payables	207.214.994	35.553.776	42.902.218	7.651.185
11. Financial Liabilities	198.444.644	83.256.719	7.488.961	-
12a. Other Monetary Liabilities	334.747	93.980	-	135.190
12b. Other Non-Monetary Liabilities	85.010.822	17.332.300	16.659.746	29.095
13. Current Liabilities (10+11+12)	491.005.207	136.236.775	67.050.925	7.815.470
14. Trade Payables	173.514	-	60.000	-
15. Financial Liabilities	193.682.586	91.189.967	17.224	-
16 a. Other Monetary Liabilities	2.738.306	1.285.500	3.000	-
16 b. Other Non-Monetary Liabilities	878.274.825	237.730.801	129.145.974	-
17. Non-Current Liabilities (14+15+16)	1.074.869.231	330.206.268	129.226.198	-

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18. FOREIGN EXCHANGE POSITION (cont'd)

FOREIGN EXCHANGE POSITION				
30 June 2014	TL Equivalent (Functional currency)	US Dollar	EURO	Other
18. Total Liabilities (13+17)	1.565.874.438	466.443.043	196.277.123	7.815.470
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)	(459.723.249)	(264.916.836)	30.986.564	13.191.116
21. Net foreign currency asset / liability position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	140.473.882	(49.359.263)	83.319.507	4.331.657
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	188.274.950	57.512.808	19.661.398	5.496.622
26. Imports	392.520.374	127.269.024	36.293.115	17.321.268

As of 30 June 2014, the Company's financial statements prepared according to General Communiqué on Accounting System Application (GCASA), demonstrates TL 1.467.878.435 (31 December 2013: TL 1.112.855.063) of short position. Accompanying foreign exchange position which was prepared in accordance with CMB's regulation, is different from the foreign exchange position of the financial statements prepared according to GCASA. The difference is mainly due to the adjustments and classifications which are related with TAS 11 "Construction Contracts".

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

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(Amounts are expressed in Turkish Lira (TL).)

18. FOREIGN EXCHANGE POSITION (cont'd)

FOREIGN EXCHANGE POSITION				
31 December 2013	TL Equivalent (Functional currency)	US Dollar	EURO	Other
1. Trade Receivables	517.490.318	127.291.868	83.708.934	-
2a. Monetary Financial Assets (including cash and banks)	67.038.285	16.455.073	9.019.330	5.432.962
2b. Non-Monetary Financial Asset	164.131.899	45.172.234	21.403.656	4.868.966
3. Other	40.540.689	17.344.170	1.166.888	96.460
4. Current Assets (1+2+3)	789.201.191	206.263.345	115.298.808	10.398.388
5. Trade Receivables	306.131.239	94.310.935	32.474.625	9.481.673
6a. Monetary Financial Assets	-	-	-	-
6b. Non-Monetary Other Assets	160.060.832	15.897.227	42.111.364	2.471.360
7. Other	6.204.910	1.390.415	134.576	2.842.165
8. Non-Current Assets (5+6+7)	472.396.981	111.598.577	74.720.565	14.795.198
9. Total Assets (4+8)	1.261.598.172	317.861.922	190.019.373	25.193.586
10. Trade Payables	182.815.320	20.921.280	44.100.439	8.662.094
11. Financial Liabilities	151.595.532	71.028.176	32	-
12a. Other Monetary Liabilities	184.520	86.454	-	-
12b. Other Non-Monetary Liabilities	90.684.044	24.846.847	12.812.911	28.305
13. Current Liabilities (10+11+12)	425.279.416	116.882.757	56.913.382	8.690.399
14. Trade Payables	4.583.361	2.065.772	59.385	-
15. Financial Liabilities	173.227.412	81.130.540	24.008	-
16 a. Other Monetary Liabilities	2.878.226	1.344.430	3.000	-
16 b. Other Non-Monetary Liabilities	890.839.786	240.222.783	128.769.726	-
17. Non-Current Liabilities (14+15+16)	1.071.528.785	324.763.525	128.856.119	-

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18. FOREIGN EXCHANGE POSITION (cont'd)

FOREIGN EXCHANGE POSITION				
31 December 2013	TL Equivalent (Functional currency)	US Dollar	EURO	Other
18. Total Liabilities (13+17)	1.496.808.201	441.646.282	185.769.501	8.690.399
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)	(235.210.029)	(123.784.360)	4.249.872	16.503.187
21. Net foreign currency asset / liability position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	375.375.471	61.481.224	81.016.025	6.252.541
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	398.126.535	107.075.767	72.484.232	11.123.388
26. Imports	773.435.412	159.859.080	130.599.492	48.742.769

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in Turkish Lira (TL).)

18. FOREIGN EXCHANGE POSITION (cont'd)Foreign Currency Sensitivity

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and the EURO.

The following table details the Group's sensitivity to a 10% increase and decrease in the US Dollars and EURO. 10% 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 adjusts their translation at the period end for a 10% change in foreign currency rates. This analysis includes group companies' balance sheet items which are functional currency of the non TL. The effects of 10% changes in foreign currency rate on financial statements is as follows;

Foreign currency sensitivity table				
30 June 2014				
	Profit/Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Appreciation of US Dollars against TL by 10%:				
1- USD denominated net assets/liabilities	(56.252.441)	56.252.441	-	-
2- Hedged amount against USD risk (-)	-	-	-	-
3- Net effect of USD (1+2)	(56.252.441)	56.252.441	-	-
Appreciation of EURO against TL by 10%:				
4- EURO denominated net assets/liabilities	8.961.004	(8.961.004)	-	-
5- Hedged amount against EURO risk (-)	-	-	-	-
6- Net effect of EURO (4+5)	8.961.004	(8.961.004)	-	-

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

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18. FOREIGN EXCHANGE POSITION (cont'd)

Foreign Currency Sensitivity (cont'd)

Foreign currency sensitivity table				
31 December 2013				
	Profit/Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Appreciation of US Dollars against TL by 10%:				
1- USD denominated net assets/liabilities	(26.419.296)	26.419.296	-	-
2- Hedged amount against USD risk (-)	-	-	-	-
3- Net effect of USD (1+2)	(26.419.296)	26.419.296	-	-
Appreciation of EURO against TL by 10%:				
4- EURO denominated net assets/liabilities	1.247.975	(1.247.975)	-	-
5- Hedged amount against EURO risk (-)	-	-	-	-
6- Net effect of EURO (4+5)	1.247.975	(1.247.975)	-	-

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**19. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES AND EXPLANATIONS
ON HEDGE ACCOUNTING**

30 June 2014	Financial assets at fair value	Loans and receivables (including cash and cash equivalents)	Available for sale financial assets	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
Cash and cash equivalents	-	67.583.513	-	-	67.583.513	
Blocked deposits	-	17.452.228	-	-	17.452.228	
Financial investments	-	-	45.127.751	-	45.127.751	
Trade receivables	-	1.056.741.178	-	-	1.056.741.178	4
<u>Financial liabilities</u>						
Borrowings	-	-	-	441.304.514	441.304.514	
Trade payables	-	-	-	447.880.910	447.880.910	4
Other payables	-	-	-	18.668.099	18.668.099	
31 December 2013	Financial assets at fair value	Loans and receivables (including cash and cash equivalents)	Available for sale financial assets	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
Cash and cash equivalents	-	103.683.817	-	-	103.683.817	
Blocked deposits	-	18.805.762	-	-	18.805.762	
Financial investments	-	-	12.724.210	-	12.724.210	
Trade receivables	-	1.094.983.102	-	-	1.094.983.102	4
<u>Financial liabilities</u>						
Borrowings	-	-	-	353.286.991	353.286.991	
Trade payables	-	-	-	405.611.478	405.611.478	4
Other payables	-	-	-	478.899	478.899	

(*) The Group's management assesses that the carrying value reflects the fair value of financial instruments. Related financial assets are presented with acquisition cost after impairment allowance if exists.

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20. EVENTS AFTER THE REPORTING PERIOD

The amount of contracts signed by the Group after the balance sheet date is approximately TL 91 Million, USD 44 Million and EURO 3 Million.

As disclosed on the stock market release on 09 May 2014, an application was made to the controlling shareholder TAFF for merging of Aselsan A.Ş. and Mikes A.Ş. by takeover and simplified joining method. The decision made on ending the legal personality of Mikes A.Ş. by merging Aselsan A.Ş. and Mikes A.Ş. by takeover and simplified joining method was announced on the the release of TAFF on 09 July 2014.

In the Board of Directors Meeting held on 19 June 2014, it was decided to issue debt instruments in the domestic market with maturity between 6 months and 3 years which will not exceed TL 250.000.000 Million with sale to dedicated or/and qualified investors with no public offering. The Company has applied to CMB on 23 June 2014 with reference to the decision and an approval was given by CMB on 18 July 2014.