



Corporate Governance Rating Report

aselsan

11 December 2020

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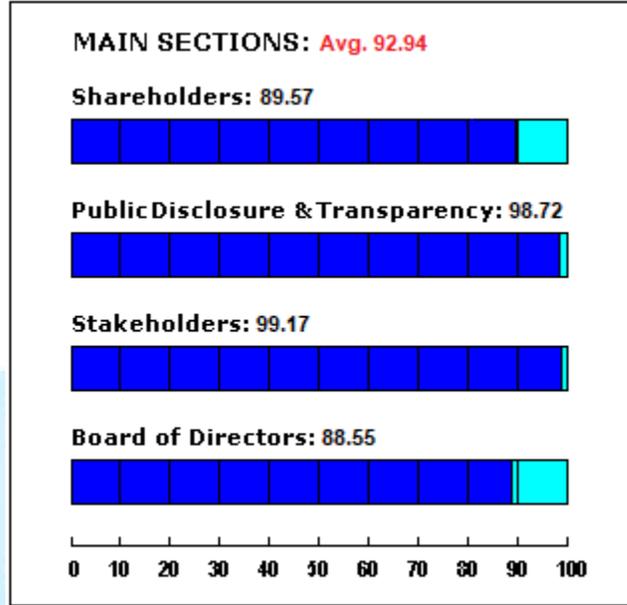
Rating and Executive Summary

ASELSAN ELEKTRONİK SAN. VE TİC. A.Ş. (ASELS)



Corporate Governance Rating:

9.29



EXECUTIVE SUMMARY

The Corporate Governance Rating of 9.29 that has been assigned to ASELSAN Elektronik San. Ve Tic. A.Ş. ("ASELSAN" or "the Company") on December 12, 2019 is hereby reconfirmed as **9.29**. SAHA's rating methodology is based on the Capital Markets Board's ("CMB") "Corporate Governance Principles" ("the Communiqué") released on January of 2014.

SAHA publishes (annually) the World Corporate Governance Index (WCGI) which ranks countries in terms of their level of compliance with corporate governance principles as well as their germane institutions, rules, codes, and regulations together with international standards and indices which evaluate countries in a vast array of areas such as transparency, corruption, ease of doing business, etc.. ASELSAN is analysed as a Turkish company and Turkey takes place at the top classification of the WCGI which is Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA on October 8, 2019 can be accessed at <http://www.saharating.com>.

ASELSAN is rated with **8.96** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation and articles of association, and measures have been taken to ensure the exercise of these rights. Shareholder relations are carried out by the Investor Relations Department. All procedures prior to the general assembly meeting as well as the conduct of the meeting comply with the legislation. There is no privilege or upper limit in exercising voting rights in general assembly meetings. A policy on donations and grants is established and submitted to the general assembly meeting for approval. There is a publicly disclosed, consistent dividend policy of the Company. There are no restrictions on transfer of publicly traded shares. On the other hand, there is no provision in the articles of association on holding general assembly meetings open to public, and prescribed rate of minority rights for public joint stock companies (5%) is adopted as it is. In addition, as per the articles of association, holders of A Group of shares have the privilege on board nominations and the approval of the board of directors is sought for the transfer of such shares.

ASELSAN attained **9.87** under the **Public Disclosure and Transparency** chapter. There is a comprehensive web site that includes all information listed in the Corporate Governance Principles pertinent to "Public Disclosure". Public disclosures are made in accordance with the CMB and Borsa Istanbul A.Ş. rules and regulations. Company's web site is also prepared in English for the benefit of international investors. The annual report covering 2019 activities is in compliance with the legislation, comprehensive and informative. However, benefits provided to board members and senior executives are not listed on individual basis in the annual report.

On the topic of **Stakeholders**, ASELSAN scored **9.92**. The exercise of stakeholders' rights has been facilitated. A written compensation policy for the employees is established and disclosed to the public on the corporate web site. During the rating period, the Company was not held liable by any public authority for any punishment/sanctions. Code of ethics is publicly available through the Company's web site. Company has a documented human resources policy. Sustainability policy and implementations are at top level. Models supporting stakeholders' participation in the Company management have been established and are in operation.

From the perspective of the principles regarding the **Board of Directors**, ASELSAN's tally is **8.86**. There is a well communicated Company mission and vision. The board consists of nine members, with only one executive member. There are three independent members on the board of directors. CMB criteria are complied with for the appointment of independent members. Corporate Governance, Audit, and Early Detection and Management of Risk Committees are established within the board of directors and their working principles are disclosed to public. Conduct of board meetings is determined in the articles of association. Principles of remuneration of board members and senior executives are available on the Company's web site. The Company does not lend any funds or extend credit to the members of the board of directors or senior executives. There is a directors' liability insurance covering the rating period with a coverage in accordance with the conditions specified in the Communiqué. On the other hand, there are areas open to improvement, such as the absence of a female member on the board of directors, the lack of a written policy in this direction, as well as the lack of a PDP disclosure stating that the chairman of the board and the general manager are the same person.

Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's "Corporate Governance Principles" released on January 2014.

The CMB based these principles on the leading work of The World Bank, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose. Additionally; many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the Company's governance practices in future should be mentioned in the annual report and disclosed to public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders, and the board of directors.

Based on these Principles, the SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the Company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.

SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.25).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

Shareholders: **25%**
Public Disclosure and Transparency: **25%**
Stakeholders: **15%**
Board of Directors: **35%**

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.

Company Overview

ASELSAN Elektronik San. ve Tic. A.Ş.	
	Chairman of the Board of Directors, President & CEO Prof. Dr. Haluk GÖRGÜN
Mehmet Akif Ersoy Mah., 296. Cad., No:16, Yenimahalle, Ankara https://www.aselsan.com.tr/	Investor Relations Manager Pınar ÇELEBİ Tel: 0850 828 1 828 pberberoglu@aselsan.com.tr

ASELSAN, which was established in 1975 to meet the communication needs of the Turkish Armed Forces with national means, is a joint stock company affiliated to the Turkish Armed Forces Foundation ("TAFF"). The field of activity of the Company is to provide research, development, engineering, production, testing, assembly, integration, sales, after-sales service and similar activities to all kinds of institutions, organizations and consumers in Turkey and abroad, primarily to the Turkish Armed Forces, in communication and information technologies, radar and electronic warfare, electro-optics, avionics, unmanned systems, land, naval and weapon systems, air defense and missile systems, command and control systems, transportation, security, traffic, automation and medical systems.

The Company continues both production and engineering activities in Macunköy, Akyurt and Gölbaşı facilities in Ankara, and engineering activities in METU Technopark and Technopark Ankara. Headquarters is located in Ankara Macunköy and engineering activities take place also at Istanbul Technopark.

ASELSAN is the largest defense electronics company of Turkey. The Company was ranked 48th among the world's top 100 defense companies ("Defense News Top 100") based on their 2019 turnover (2018: 52nd).

According to the independent audit report data, the average number of employees of ASELSAN and its subsidiaries as of September 30, 2020 is 8,462 (Dec. 31, 2019: 6,797). The current capital structure of the Company is given below:

Capital Structure of ASELSAN Elektronik San. ve Tic. A.Ş.		
Shareholder	Share Value (TL)	Share %
Turkish Armed Forces Foundation	1,691,651,248.92	74.20
Free Float	588,348,751.08	25.80
Total	2,280,000,000.00	100.00

The shares of the Company, which went public in 1990 are traded under "ASELS" code at BIST Stars Market and ASELSAN is a constituent of BIST 100 (XU100), BIST 50 (XU050), BIST 30 (XU030), BIST All Shares (XUTUM), BIST Dividend (XTMTU), BIST Liquid 10 Ex Banks (X10Xb), BIST Technology (XUTEK), BIST Stars (XYLDZ), BIST Ankara (XSANK), BIST Sustainability (XUSRD) and BIST Corporate Governance (XKURY) indices.

As of the date of our report, the structure of the board of directors and the Committees established within the board of directors within the scope of the Communiqué numbered II-17.1 are as follows:

Board of Directors	
Name	Title
Haluk GÖRGÜN*	Chairman of the Board (Managing Director), President & CEO
Celal Sami TÜFEKÇİ	Vice-chairman (Managing Director)
Yavuz ÇELİK	Board Member
Mehmet Fatih KACIR	Board Member
Alpaslan KAVAKLIOĞLU	Board Member
Salih KUL	Board Member
Ercümend ARVAS	Independent Board Member
Turan EROL	Independent Board Member
İbrahim ÖZKOL	Independent Board Member

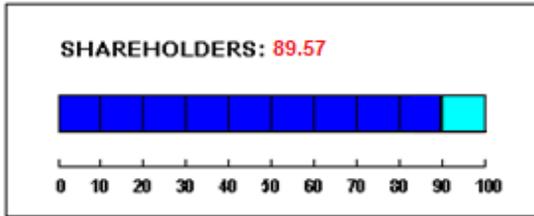
* According to the information disclosed to the public through the Public Disclosure Platform, there is one member with executive duties in the board of directors, which consists of 9 members.

Corporate Governance Committee	
Members	Title
Ercümend ARVAS	Chairman
Celal Sami TÜFEKÇİ	Member
Salih KUL	Member
Pınar ÇELEBİ	Member

Audit Committee	
Members	Title
İbrahim ÖZKOL	Chairman
Ercümend ARVAS	Member
Turan EROL	Member

Early Detection and Management of Risk Committee	
Members	Title
Turan EROL	Chairman
Salih KUL	Member

SECTION 1: SHAREHOLDERS



SYNOPSIS	
+	Active Investor Relations Department.
+	Policy on donations and grants is established and submitted to the general assembly meeting for approval.
+	General assembly meetings are conducted in compliance with the legislation.
+	No privileges on voting rights in general assembly meetings.
+	Specific and consistent dividend distribution policy.
+	No restrictions on transfer of publicly traded shares.
-	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital.
-	No provision in the articles of association permitting general assembly meetings to be held open to public.
-	Group A shares have the privilege to nominate candidates in the board of directors, and the transfer of these shares is limited by the provisions of the articles of association.

1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

An Investor Relations Department is established in order to carry out the

shareholder relations activities in ASELSAN. It has been observed that the Department officials possess the qualifications specified in the Communiqué.

Along with other units of the Company the "Investor Relations Department" plays an active role in protecting and facilitating shareholders' rights and in particular the right to obtain and review information, and its duties are as follows:

- a. To ensure that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner.
- b. To respond to the queries of the shareholders requesting written information on the Company.
- c. To ensure the general assembly meeting is held in compliance with the applicable legislation, articles of association and other Company by-laws.
- d. To prepare the documents that might be used by shareholders in the general assembly meeting.
- e. To supervise the fulfilment of the obligations arising from capital markets legislation including all corporate governance and public disclosure matters.

The Investor Relations Department annually reports the activities of the previous year in relation to the activities it carries out, and presents it to the board of directors. The "Investor Relations Department 2019 Activities" report submitted to the Board of

Directors in 2020 has also been provided to us.

In 2019 a total of 87 meetings were held with corporate investors. 33 of them were one-on-one interviews held in investor conferences and roadshows, 32 were held by visiting corporate investors and portfolio management companies, 11 of them were teleconference calls and 11 were meetings held in ASEL SAN facilities. In addition to the meetings with corporate investors held by means of investor conferences and teleconferences, approximately 800 retail shareholders' questions regarding secondary public offering, fluctuations in the stock price, exercising shareholder rights, material event disclosures, financial tables, etc. were replied to either written or verbally in 2019.

We have come to the conclusion that information and explanations that may affect use of shareholders' rights is available up to date on the corporate web site. The fact that no such related penalty/warning was received during the period supports our opinion.

1.2. Shareholders' Right to Obtain and Evaluate Information:

There is no evidence of any hindering process or application regarding the appointment of a special auditor at the request of shareholders.

All kinds of information about the Company are provided in a complete, timely, honest, and diligent manner and there is no fine/warning received in this direction within the rating period.

The Company has established a disclosure policy and disclosed it to the public on the corporate web site.

1.3. General Assembly Meeting:

In addition to the methods of invitation in the legislation and in order to ensure

attendance of maximum number of shareholders, the invitation to the general assembly meeting held on June 19, 2020 covering 2019 fiscal year is performed through all means of communication available to the Company on May 28, 2020 in accordance with the Corporate Governance Principles.

All announcements prior to the general assembly meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting; the body inviting to the general assembly meeting; and the exact location where annual report, financial statements and other meeting documents can be examined.

Besides, the Company has prepared a descriptive disclosure document on agenda items.

Commencing from the date of announcement of invitation for the general assembly meeting; the annual report, financial statements and reports, and all other related documents pertaining to the agenda items are made available to all shareholders for examination purposes in convenient locations including the headquarters of the Company, and the electronic media.

Shareholders are informed of the total number of shares and voting rights reflecting the Company's shareholding structure as of the date of disclosure and whether there are any privileged share groups within the Company capital via the corporate web site.

Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used. Information submitted to the shareholders prior to the conduct of the

general assembly meeting was related to the agenda items.

Due to the Covid-19 pandemic, our observers did not attend the general assembly meeting held in 2020, and the statement of the Company officials was referred for some of the control points highlighted by us in the past years.

In this context, it has been declared that items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions. The Company statement is in line with the opinion we have reached over the past years.

Agenda of the general assembly meeting included the proposal for the permission to be granted to shareholders who have control of the management, members of the board of directors, managers with administrative responsibility, their spouses and up to second degree blood relatives to execute transactions and compete with the Company and/or its affiliates, to make a commercial business transaction for himself or on behalf of others or to join to another company dealing with the same type of commercial business as a partner with unlimited responsibility.

The members of the board of directors related with the issues of a special nature on the agenda, other related personality, authorized persons who are responsible for preparing the financial statements and auditors were present to give necessary information and to answer questions at the general assembly meeting. In addition, attendance of the absolute majority of the members of the board of directors to the general assembly meeting is evaluated positively by us.

Shareholders are informed, with a separate agenda item, on all donations and grants effectuated during the period and the amount of benefits and beneficiaries. In addition, a policy on donations and grants exists, which had previously been submitted to the general assembly meeting for approval.

General assembly meeting is attended by the representative of the external auditor.

On the other hand, the fact that there is no provision in the articles of association or in the internal regulations that allows the public, including stakeholders and media, to participate in general assembly meetings without the right to vote, stands out as an area to be developed under this heading.

1.4. Voting Rights:

It is considered that the Company avoids applications that make it difficult to exercise voting rights and all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately.

In article 25 of the Articles of Association titled "Right to Vote", there is a provision stating that "the shareholders and the proxies who are present in the Ordinary and Extraordinary General Assembly have one voting right against each equity share" and there is no privilege or no upper limit pertaining to the numbers of votes.

Within the scope of the provision in the Company's articles of association - Article 8 - under "Board of Directors", [The affairs and management of the Company shall be carried out by the Board of Directors comprising a total of 9 members, 6 members of which shall be elected by the General Assembly as per the provisions of the Turkish

Commercial Code among the Group A preferred shareholders or the candidates nominated by them, and 3 members of which shall be elected as independent members under the regulations of the Capital Markets Board.], TAFF, which owns Group A registered shares that are not traded on the stock exchange, has the privilege of nominating candidates for the board of directors.

1.5. Minority Rights:

Maximum care is given to the exercise of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the Company has adopted the rate foreseen in the legislation for listed companies.

There is no evidence of any conflict of interest between the majority shareholders and that of the Company.

1.6. Dividend Rights:

The dividend policy of the Company is clearly defined and disclosed to the public on the corporate web site and submitted to the shareholders for approval at the general assembly meeting.

The Company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles. It has been evaluated that a balanced policy is followed between the interests of the shareholders and that of the Company.

At the general assembly meeting covering the 2019 fiscal year, it has been resolved by majority vote that the gross amount of TL 335,000,000.- (29.38596 Kuruş TL per 1 TL of share, gross 29.38596% over the capital) (net TL 284,750,000.- 24.97807 Kuruş TL

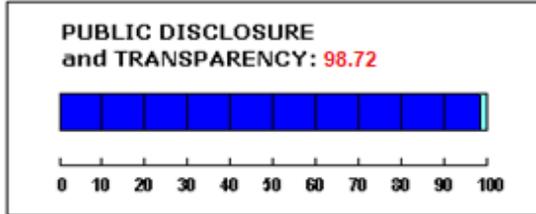
per 1 TL of share, net 24.97807% over the capital) of the net distributable profit calculated within the framework of the regulations and decisions of the board of directors regarding the distribution of profits of the Capital Markets Board, as cash dividend and TL 1,140,000,000,- corresponding to 100% of the issued capital as bonus shares.

1.7. Transfer of Shares:

Neither the articles of association of the Company nor any decisions adopted at the general assembly meeting contain any provisions that impede the transfer of shares which are publicly traded.

On the other hand, the transfer of the nominated Group A shares representing majority part of the capital and which are not traded in Borsa Istanbul has been restricted with the provision of article 6 of the Articles of Association stating; "As the Company operates in security and defense sector; 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".

SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



SYNOPSIS

+	Comprehensive web site, actively used for public disclosure.
+	Annual report complies with the legislation, comprehensive and informative.
+	Important events and developments disclosed in accordance with the legislation.
+	English version of the web site for international investors.
-	Benefits provided to board members and senior executives are not disclosed on individual basis.

2.1. Corporate Web Site:

Company's web site is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the Company's web site includes; trade register information, information about latest shareholder and management structure, detailed information on privileged shares, the date and the number of the trade registry gazette on which the changes are published along with the final version of the Company's articles of association, publicly disclosed material information, periodical financial statements, annual reports, prospectuses and circulars and other public disclosure documents, agendas of the general assembly

meetings, list of participants and minutes of the general assembly meeting, form for proxy voting at the general assembly meeting, disclosure policy, dividend distribution policy, ethical rules of the Company, frequently asked questions including requests for information, questions and notices, and responses thereof.

The information contained on the web site exists also in English for the benefit of international investors and is identical to the Turkish content.

The Company's web site also includes; investor presentations, working principles of the Committees, important board decisions, the vision/mission of the Company established by the board, information on capital increases and dividend payments, general assembly meeting internal guidelines, news, social responsibility/sustainability activities, information on senior management, financial data, main ratio analysis, timetable on events/developments which considers investments, and the human resources policy.

As per the CMB decision dated January 10, 2019 and numbered 2/49 published on the Bulletin no: 2019/2, The Corporate Governance Compliance Report prepared in accordance with the Corporate Governance Communiqué number II-17.1 must be disclosed through the PDP in The Corporate Governance Compliance Report ("CRF") and the Corporate Governance Information Form ("CGIF") templates. ASELSAN disclosed its CGIF and CRF notifications via PDP on February 11, 2020, within the specified notification period.

In addition, the shareholding structure of the Company is disclosed showing the amount and rates of shares and the privileges held. 74.20% of ASELSAN's issued capital belongs to TAFF. There is no real person shareholder with a share greater than 5% in shares not traded on the stock exchange.

2.2. Annual Report:

It has been concluded that the annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the Company.

It covers information such as;

- Period covered by the report, the title of the Company, trade register number, contact information,
- The names and surnames of the chairman, members and executive members involved in the management and supervisory boards during the covered period, their limits of authority, tenure of office (with start and end dates),
- The sector in which the Company operates and information on its position in the sector,
- Qualifications of the departments within the Company, general explanations regarding the activities during the year and developments witnessed,
- Progress on investments,
- CGIF and CRF templates,
- Information on related party transactions,

- Other issues not included in the financial statements, but are beneficial for users,
- Company's organization, capital and ownership structure and any changes in the related accounting period,
- All benefits provided to staff and workers, information on number of personnel,
- Information on privileged shares,
- Information on board members' involvement in any transactions with the Company on their behalf or someone else within the framework of permission granted by general assembly meeting along with their activities within the scope of restraint of trade,
- Research and development activities,
- Dividend distribution policy,
- Basic ratios on the financial position, profitability and solvency,
- Company's financing resources and risk management policies,
- Information on major events occurred between the closing of accounting period and the date of the general assembly meeting where financial statements are evaluated.

In addition to the matters specified in the legislation, following issues also took place in the annual report:

- External duties of board members and executives and declaration of independence of the related board members,

- Members of the Committees within the board and the frequency of meetings held, assessment of the board of directors regarding the working principles and the effectiveness of the Committees, including the activities carried out,
- Number of board meetings held during the year and status of participation of the members,
- Changes in legislation which could significantly affect the Company's operations,
- Major court cases against the Company and possible consequences,
- Information on shareholding in excess of 5% of the capital,
- Benefits and vocational training of employees, and other Company activities that give rise to social and environmental results,
- Rating results,
- Corporate Governance Compliance Declaration.

On the other hand, in the last rating period, all benefits provided to the members of the board of directors were given on an individual basis in accordance with the Communiqué, while the benefits provided to senior managers were given collectively. In the 2019 annual report however, which forms the basis for this rating period, benefits provided to both the members of the board of directors and senior executives are given collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

2.3. External Audit:

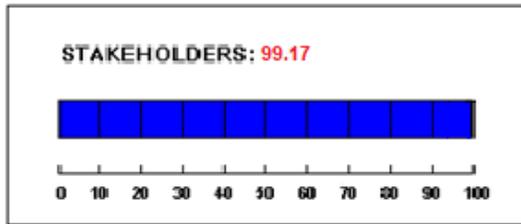
The external audit of the Company is conducted by Yeditepe Bağımsız Denetim ve YMM A.Ş., a joint member of Praxity AISBL.

There has not been a situation where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion. It has been declared that there has been no legal conflict between the Company and the external audit firm.

External audit firm and their audit staff did not provide consulting services for a price or free of charge during the audit period.

No consulting company in which the external audit firm is in a dominant position either directly or indirectly in management or capital provided any consulting services during the same period.

SECTION 3: STAKEHOLDERS



SYNOPSIS

+	Measures to safeguard stakeholders' rights are facilitated.
+	A set of code of ethics is prepared and disclosed to public.
+	A written compensation policy for employees established and disclosed to the public.
+	Company is not held liable by any public authority for any punishment/sanctions within the rating period.
+	Sustainability activities are at top level.
+	Incentive models are developed for employees to participate in management of the Company.

3.1. Company Policy Regarding Stakeholders:

ASELSAN recognizes the rights of stakeholders established by law or through any other mutual agreement. In case the rights of the stakeholders are not regulated by the relevant legislation and protected by contracts, the Company protects the interest of stakeholders under good faith principles and within the capabilities of the Company. Effective and expeditious compensation is provided in case of violation of the rights.

It is considered that the web site of the Company is actively used to provide adequate information on policies and

procedures towards the protection of stakeholders' rights. According to the 2019 Corporate Governance Principles Compliance Report disclosed to the public, employees are informed with an employee hand book and informative presentations over the intranet, and continuous access to data and support is provided through help desk application via the intranet. Nonetheless, some general and personal information that may be required outside the Company is also accessible over the internet.

On the supplier side, the activities for the dissemination of the "Supplier Portal", which has been put into use to ensure effective information exchange, has been accelerated. Besides, With the "Powerful Together Platform" developed exclusively for suppliers, infrastructure works for carrying supplier communication and development activities to a single interface have been completed and put into practice in the first quarter of 2020. Products that are selected for localization process are shared and coordinated with suppliers via informative brochures. Moreover, information is also shared through ASELSAN web site, joint workshops and face to face meetings.

It has been considered that the corporate governance structure of the Company ensures that its stakeholders, including its employees and representatives, report their concerns to the management concerning any illegal or unethical transactions. The e-mail mechanism for the stakeholders to report their complaints regarding the transactions of the Company, which are against the legislation or deemed unethical, is stated in the ASELSAN Ethical Principles Policy. The policy has

been published on the Turkish and English web site following its approval. Within the scope of the policy, information is provided to the Corporate Governance Committee by the Ethical Principles Board.

In addition, a written employee compensation policy is established and disclosed to public on the Company's web site.

3.2. Stakeholders' Participation in the Company Management:

ASELSAN has developed models for stakeholders, particularly employees to participate in management without impeding the operations of the Company.

According to the Corporate Governance Principles Compliance Report disclosed to the public, within the scope of the workshops that started in 2018 and continued also in 2019, employees in different channels came together. In each of these organizations where the executive staff also participated, opinions of employees on issues and areas of development were received in many topics related to performance, compensation and career management, loyalty, satisfaction, and ASELSAN working experience. The data obtained as a result of the completion of all workshops were handled together with all the feedback mechanisms (satisfaction surveys, exit interviews, one-on-one interviews with employees) used in ASELSAN, solid solutions and action plans were produced and certain projects were implemented. Consequently, the opinions of the employees have been transformed into action plans.

In addition, ASELSAN has a Personnel Representation system. Personnel Representatives also work as one of the channels through which opinions and suggestions gathered from the

employees are transferred to the senior management.

The written processes of the aforementioned models are not mentioned in the Company's articles of association, but are included in the internal regulations.

3.3. Company Policy on Human Resources:

The Company has a written human resources policy which is available on the corporate web site.

Within this scope, the Company offers equal opportunity to persons with the same qualifications in recruitment and career planning.

In cases which management reshuffle could cause disruptions, succession planning for determination of new manager appointments is in place.

In addition, as per the CRF and CGIF notifications given in 2020;

- The criteria for recruitment are determined in writing and adhered to,
- Employees are treated equally with regard to their rights. Training programs are organized and training policies are developed to enhance the knowledge, skills, and conduct of personnel,
- Meetings are held for employees on matters such as financial status of the Company, wage, career, education, health, and opinions are exchanged,
- Decisions taken or developments concerning employees are notified to employees or their representatives,

- Job descriptions, distribution of duties, performance and rewarding criteria are shared with employees,
- Productivity is taken into account in determining the wages and other benefits of employees,
- The Company does not discriminate among its employees in terms of their race, religious belief, language or gender, and takes precautions to protect employees against all kinds of physical, emotional or spiritual abuse, and
- Safe working environment and conditions are provided for employees.

3.4. Relations with Customers and Suppliers:

As per ASELSAN's 2020 CRF notification and 2019 Corporate Governance Principles Compliance Report, the Company has taken all necessary precautions to attain customer satisfaction in the sales and marketing of its products and services, quality standards of services are complied with and care is taken on the confidentiality of information about customers and suppliers.

Accordingly, requirements of the quality standards are met and inspections, tests are applied through every process from projects' start till the delivery phases. All processes are administered by directives, quality plans, standards, audits and test instructions. They are certified by internationally accepted standards such as AS9100, ISO 9001, AQAP and CMMI so that products and services are secured to protect quality standards. These certificates are renewed every year with the audits performed.

Changes and improvements on international standards are being followed and processes are developed accordingly. Customer satisfaction, which is the primary objective, is evaluated and reported for the access of related executives. In addition, results and trends are evaluated by the senior management on an annual basis and required improvement activities are scheduled.

Also, ASELSAN suppliers are subject to product and/or field of activity-based selection and evaluation processes.

All information is shared within the context of confidentiality with suppliers of the Company, considered as business partners, and it is not permitted to share this information with unauthorized persons and third parties. Through related directives, handling any kind of relations between ASELSAN and the suppliers within the scope of law and ethical values, minimizes the occurrence of unsuitable conditions for protecting parties and secures justice and transparency.

During the rating period, we have witnessed no evidence on non-market pricing of goods and services that the Company offers.

3.5. Ethical Rules & Social Responsibility:

Ethical rules of the Company are established and disclosed to the public on the corporate web site. In addition, an Ethics Committee consisting of representatives from senior management has been established within the Company to ensure the implementation of ethical principles.

It has been declared in the 2019 Corporate Governance Principles Compliance Report that "ASELSAN Ethical Principles Instruction" document is announced to all Company personnel with all its exhibits and the personnel

makes a written commitment that s/he acknowledges the information and ethical values. When an amendment or an update is made, changes are made known to all the personnel, and if deemed necessary, relevant training programs are organized. In 2019, "Disciplinary Procedures and Practices Instructions" and "Ethical Principles Instructions" were updated and shared with the employees.

We consider that the activities of the Company within the scope of social responsibility are at a sufficient level in general. In this context, ASELSAN supported the following events through sponsorship in 2019:

- Turkish Armed Forces Rehabilitation and Nursing Centre's Handicapped Sports Club's sport activities held in 2019,
- 180th Foundation Anniversary Celebration of Gendarmerie General Command,
- The Young Eagles Week 2019 event performed by Turkish Air Force,
- Electro-Optic Workshop held by the Presidency of Defense Industries,
- TEKNOFEST 2019, İstanbul Aerospace and Technology Festival,
- 19th Submarine Commanders Conference,
- ROBOIK 2019 Unmanned and Autonomous Land Vehicles Development Competition Award Ceremony held by Presidency of Defense Industries,

- Sniper Competition held by Gendarmerie General Command.

The Company has not been subject to any significant sanctions by the public administrations during the course of the year.

We have come to the conclusion that the Company complies with ethical rules through its regulations relating to the environment, the consumer, public health and respects internationally recognized human rights. In addition, ASELSAN is the holder of ISO 14001: 2015 Environmental and ISO 45001: 2018 Occupational Health and Safety Integrated Management System certificates.

3.6. Sustainability:

We consider that ASELSAN's sustainability activities are at top level. The Company has policies and internal regulations on environment, nature, energy conservation and recycling issues. ASELSAN has an "Environmental Management Policy" approved by the senior management. An Environmental Safety Board is established for the purpose of determining measures to be taken in connection with environmental safety at the Macunköy Facility, and assessing results of environmental problems caused.

In addition, ASELSAN publicly announces the Sustainability Report and the Carbon Disclosure Report ("CDP") prepared by taking into account the Global Reporting Initiative ("GRI") 2016 Standards Fundamental Principles annually on its corporate web site.

In ASELSAN, where decreasing carbon emission is one of the strategic goals, carbon emission has been monitored since 2009. According to the 2018 results of the Carbon Disclosure

Project, an independent British institution which reports how the companies manage the risks of climate changes, within the list of large companies traded on Borsa Istanbul, ASELSAN was included in the "A-" list among the companies that best manage climate change risks in their production processes and have the highest greenhouse gas emission performance.

Thanks to the "Zero Waste Project" launched in 2019, waste from the dining halls and offices across the Company has been started to be collected separately to be recycled in a manner that will add value to the environment and the economy. The lunch leftovers are being shipped to animal shelters and used as organic waste composting and office waste is recycled. Garment and toy collection boxes were placed in the campus parking areas and delivered to those in need within the scope of social responsibility. With the help of vegetable waste oil cans placed in the parking lots, the vegetable waste oils brought by the personnel from their homes were sent for recycling.

It is understood from both the CRF notification and the sustainability reports disclosed to the public that the Company is fighting against all kinds of corruption, including extortion and bribery, and no contrary finding was found.

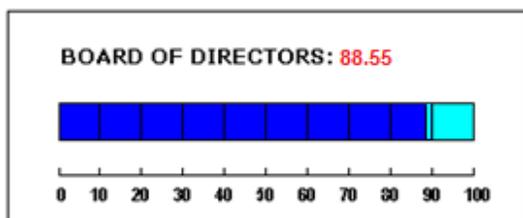
In addition, ASELSAN is included in the Corporate Governance (XKURY) and BIST Sustainability (XUSRD) indices. The purpose of BIST Sustainability Index, established in November 2014, is to create an index whose constituents are selected by the companies whose corporate sustainability performance is high level among the listed companies in Borsa Istanbul and in extent to

increase awareness, know-how and hand-on practice of the companies about sustainability in Turkey, especially the ones listed in Borsa Istanbul. Index methodology includes evaluations under the topics of environment, biodiversity, climate change, board structure, anti-bribery, human rights, supply chain, health and safety, banking criteria and public disclosure.

There are no fines or any lawsuits filed against the Company for damages to the environment during the rating period.

Details of the sustainability studies carried out by the Company can be accessed on the corporate web site.

SECTION 4: BOARD OF DIRECTORS



SYNOPSIS

+	Formation of the board of directors is in accordance with the Communiqué.
+	Three independent members on the board.
+	Corporate Governance, Audit, and Early Detection and Management of Risk Committees are established and functional.
+	Principles of remuneration of board members and senior executives are established and disclosed to the public.
+	Conduct of board meetings defined in internal regulations.
+	There is a directors', liability insurance policy in accordance with the conditions specified in the Communiqué.
-	No female members on the board of directors and a written policy document in this direction has not yet been prepared.
-	No PDP statement stating that the chairman of the board and the general manager are the same person.

4.1. Functions of the Board of Directors:

Strategic decisions of the board of directors aim to manage the Company's risk, growth, and return balance at an appropriate level and conduct a rational and cautious risk management approach with a view to the long-term

interests of the Company. The board administers and represents the Company within these parameters.

As seen on the Company's CRF notification, the board of directors has defined the Company's strategic goals and identified the needs in human and financial resources, and controls management's performance.

The board also oversees that Company activities are managed in compliance with the legislation, articles of association, internal procedures and established policies.

4.2. Principles of Activity of the Board of Directors:

It is considered that the board of directors performs its activities in a transparent, accountable, fair and responsible manner, and no contrary finding has been encountered.

Distribution of tasks between the members of the board of directors is explained in the annual report. In addition, CRF and CGIF templates are included in the content of the decision to be taken by the board of directors regarding the approval of the financial statements and annual reports and the declaration to be made in this context.

The board of directors established various internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the Committees. In this context, the board reviews the effectiveness of risk management and internal control systems at least once a year. The presence, functioning, and effectiveness of internal controls and

internal audit are explained in the annual report.

In article 13 of the Articles of Association titled "Duty and Authorities of the Board of Directors", the powers and responsibilities of the board of directors have been defined.

Besides, the "Board of Directors Working Directive" also describes the duties and authorization of the board of directors. With the article 14 of the articles of association titled "Transfer of the Authorities to the Chief Executive Officer (CEO)", the assignment of the authorization of the board of directors to the CEO is determined. The duties and authorization of the executives are described in the "Duties and Responsibilities Directive" formed within the Company.

The chairman of the board of directors, president and CEO is Prof. Dr. Haluk GÖRGÜN. According to the Communiqué, if the chairman of the board of directors and the general manager are the same person, this must be disclosed on the Public Disclosure Platform together with its justification and it has been observed that this statement has not been provided as of the date of our report.

It has been evaluated that the board of directors plays a leading role in maintaining effective communication between the Company and the shareholders and settling any disputes which may arise. The board works in close coordination with the Corporate Governance Committee and the Investor Relations Department in this context.

There is a directors' liability insurance covering the rating period related to compensation for damages incurred by the Company and third parties due to the executives not performing their duties duly. As recommended in the Communiqué, the policy has been

issued for an amount exceeding 25% of the Company's capital and the related PDP disclosure was made on July 17, 2020.

4.3. Structure of the Board of Directors:

The Company's board of directors consists of nine members. According to the most up-to-date "Company Information Form" disclosed on the Public Disclosure Platform on November 6, 2020, there is only one executive member in the board of directors, and it is deemed positive by us that the absolute majority is elected from non-executive members. Among non-executive members, there are three independent members capable of performing their duties without being under any influence.

CMB criteria are complied with in determining independent candidates. In this concept, the Corporate Governance Committee have prepared a report on the candidates proposed by the board and shareholders, by taking into consideration of whether or not the candidate meets the independency criteria and submitted this assessment as a report to the board for approval. The said Committee report has been seen by us.

Independent candidates for the board of directors have signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There are no female members on the board of directors. The Company has not yet prepared a policy nor set a timetable to reach the Corporate Governance Principles' advisory target of minimum 25% female board membership rate.

4.4. Conduct of the Meetings of the Board of Directors:

Board meetings take place with sufficient frequency. As per the notification made through CGIF, the board of directors held 34 physical meetings in 2019 with a participation rate of 91%.

Conduct of the board of directors meetings is determined in writing in the "ASELSAN Board of Directors Working Directive".

Accordingly, the agenda of the board of directors meetings is formed with the proposals of the members of the board and the Committees and the CEO, it is then evaluated by the chairman, and finalized. The subjects emerged as urgent and which are considered worthwhile to discuss may be added to the agenda during the board of directors meeting.

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 at least 3 working days before the meeting, by the general directorate.

The meeting and decision quorums have been set according to the article 11 of the Articles of Association titled "Quorum of Meeting and Decision Making".

Each board member is entitled to a single vote.

There are no limitations for board members taking on additional duties outside the Company except for the prohibition of transactions subject to restraint of trade. As included in the articles of association of the Company; "The provisions of the TCC, Capital Market Law, regulations of the Capital Markets Board in connection with corporate governance and other relevant legislation are taken into account with respect to the meetings and decision-making quorums of the

Board of Directors as well as with respect to any Board of Directors members assuming duties and positions outside the Company. Any action and resolutions taken by the Board of Directors without complying with the Corporate Governance Principles, which are made mandatory as to be complied by the Capital Markets Board, are invalid and considered as in contrary to the Articles of Association".

4.5. Committees Established Within the Board of Directors:

Corporate Governance, Audit, and Early Detection and Management of Risk Committees are established from within the board of directors in order to fulfil its duties and responsibilities.

Functions of the Committees, their working principles, and members are designated by the board of directors and disclosed on the Company's web site.

All members of the Audit Committee and the chairmen of the other Committees are elected among the independent board members. The chief executive officer/general manager is not on the Committees. All members of the Committees are non-executive board members.

With the exception of the independent members of the board of directors, the principle that a board member should not be assigned to more than one committee is not fully complied with, and the non-independent member, Mr. Salih Kul has been appointed to both Corporate Governance and Early Detection and Management of Risk Committees.

All necessary resource and support needed to fulfil the tasks of the committees are provided by the board of directors. Committees can invite any

manager as they deem necessary to their meetings and obtain their views.

The frequency of Committee meetings is found sufficient. According to the CGIF notification, Corporate Governance and the Audit Committees met four times each in 2019 and the Early Detection and Management of Risk Committee held six meetings. It is considered that the reports filed by the Committees to the board of directors regarding their activities are sufficient in terms of quantity.

Based on the general opinion we have obtained from the Committee meeting minutes submitted to us, as well as the Committee working principles disclosed to the public;

The Corporate Governance Committee is established in order to determine whether or not corporate governance principles are being fully implemented by the Company, if implementation of some of the principles are not possible, the reason thereof, and assess any conflict of interests arising as a result of imperfect implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the Investor Relations Department.

In accordance with the Communiqué, Head of Investor Relations Department Ms. Pınar ÇELEBİ is a member of the Corporate Governance Committee.

The Audit Committee;

- Supervises the operation and efficiency of the Company's accounting system, public disclosure of financial information, external audit and internal audit systems,
- Determines the methods and criteria to be applied on reviewing complaints that are received by the Company

regarding Company accounting, internal and external independent audit systems, within the framework of the principle of confidentiality and finalizes them,

- Following taking the opinion of responsible managers of the Company and the external auditor, notifies the board in writing on whether the annual and interim statements disclosed to the public is in accordance with the Company's accounting principles, true and accurate,
- Immediately notifies the board in writing on findings related to their duties and responsibilities and the related assessment and recommendations.

It is considered that Audit Committee members possess the qualifications mentioned in the Communiqué.

The annual report contains information on working principles of the Audit Committee, number of written notices given to the board of directors in the fiscal year and the meeting results. In 2019 the Committee held 4 meetings and submitted 7 reports to the board of directors on activities conducted.

The nomination and election process of the external audit firm, taking into account its competence and independence, starts with a proposal from the Audit Committee to the board and ends with the board's choice being presented and approved at the general assembly meeting. We have seen the assessment submitted to the board of directors by the Audit Committee regarding the Company's selection of an external audit firm in 2020.

The Early Detection and Management of Risk Committee reviews risk management systems at least once a

year. It achieves early identification of risks that may jeopardize the Company's existence and continued development, implements the necessary measures identified with the associated risks and conducts studies to manage such risks.

In accordance with the Communiqué, the Corporate Governance Committee carries out the duties of the Nomination and Remuneration Committees, since they are not established.

Although the activities of the Corporate Governance Committee regarding the determination of independent candidates is taken into consideration, sufficient documentation for determining the level of effectiveness in the following areas has not been seen, and need to be monitored further.

- The degree of efficiency and functionality of the Committee, particularly with regard to its reviews on the structure and efficiency of the board of directors. Also, whether the Committee submits its recommendations to the board members on changes that can be realized on these matters,
- Whether the Committee ensures that a system with regards to the principles and practices regarding career planning and rewarding of the board members is implemented,
- By taking into account the degree of achievement of the criteria, whether the Committee makes proposals to the board on remuneration of the board members and senior executives.

4.6. Remuneration of the Board of Directors and Managers with Administrative Responsibility:

The principles of remuneration of board members and senior executives have been documented in writing and submitted to the shareholders as a separate item in the general assembly meeting.

A remuneration policy prepared for this purpose can be found on the corporate web site. The fact that the stock options or performance-based payments are not included in the remuneration package of the independent board members is evaluated positively by us.

As disclosed through the CRF notification, the Company does not lend any funds or extend any credits to a member of the board or to senior executives, or grant any personal loans through a third party, or extend any guarantees.

There have been no cases where the executives used confidential and non-public Company information in favour of themselves or others. There are no executives who accepted a gift or favour directly or indirectly related to the Company's affairs, and provided unfair advantage.

There is an insurance policy on compensation for losses incurred by the Company, and third parties, as a result of not performing the executives' duties duly.

Orientation process for newly appointed managers is determined in writing in the Company's internal regulations.

Rating Definitions

Rating	Definition
9 - 10	The company performs very good in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated. Deserved to be included in the BIST Corporate Governance Index on the highest level.
7 - 8	The company performs good in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated. Deserved to be included in the BIST Corporate Governance Index.
6	The company performs fair in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Deserved to be included in the BIST Corporate Governance Index and management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
4 - 5	The company performs weakly as a result of poor corporate governance policies and practices. The company has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The company performs very weakly and its corporate governance policies and practices are overall very poor. The company shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.

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This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the degree of sensitivity of a company to its assembly and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

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