

**1. Principles on preparation**

The annual report of the Board of Directors is prepared on the basis of Capital Markets Board of Turkey (CMB) Financial Reporting standards and Communiqué Series II, No: 14.1 “Principles of Financial Reporting in Capital Markets” dated 13 June 2013.

**2. Commercial title and trade registry number of the company and contact information pertaining to its headquarters, branches and its website address**

The commercial title of the Company is Aselsan Elektronik Sanayi ve Ticaret A.Ş. and its trade register number is 31177. It’s registered address is Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle / Ankara. Phone: +90 (312) 592 10 00, Fax: +90 (312) 354 13 02. Internet address: [www.aselsan.com.tr](http://www.aselsan.com.tr)

The Company has a branch in the Republic of South Africa, Pretoria with the contact address Building 4, Room 005 CSIR Campus, Meiring Naude Drive, Pretoria Gauteng, 0001, South Africa. Phone: +27 (0) 12 349 26 13, Fax: +27 (0) 12 349 25 44.

The Company has an office in United Arab Emirates, Abu Dhabi with the contact address Industrial City of Abu Dhabi 1, Plot 22J1 PO Box: 133627 Abu Dhabi/UAE. Phone: +971 2 5508808.

**3. Organizational structure of the company**

In connection with the projects which require investment and manufacturing, the Company has been incorporated in four divisions which are Communication and Information Technologies (HBT), Microelectronics, Guidance and Electro-Optics (MGEO), Defense Systems Technologies (SST) and Radar, Electronic Warfare and Intelligence Systems (REHİS). In Ankara, The Company carries on its engineering activities in Teknokent, manufacturing and engineering activities in two respective facilities located in Ankara Macunköy (Headquarters) and Akyurt. In addition, SST Group has directorates in İzmir; Traffic Systems Directorate, in İstanbul; Marine Systems Directorate and Product Support Directorate. There has been no change in the Company’s organizational structure within its activity period.

ASELSAN Elektronik Sanayi ve Ticaret A.Ş. (Company) and its affiliate companies Mikrodalga Elektronik Sistemler A.Ş. (“MİKES”) and AselsanNet Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Ltd. Şti. (“AselsanNet”) are active in the same field as the Company and their financial statements are consolidated by the Company. They will jointly be referred to as the “Group”.

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.

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### 4. The Company's capital and partnership structure with the changes during the accounting period

The capital structure as of 31 December 2013 and 31 December 2012 are as follows:

Partners	Share (%)	31 December 2013 (TL)	Share (%)	31 December 2012 (TL)
Turkish Armed Forces Foundation (TAFF)	84,58	422.912.812	84,58	422.912.812
Other shareholders	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		598.620.780		598.620.780

The nominal capital of the Company is TL 500.000.000 (TL fivehundred million) and is divided into 50.000.000.000 (fifty billion) shares, each having a nominal value of 1 Kuruş (1% of 1 Turkish Lira). 30.272.727.273 (Thirtybillion twohundred and seventytwomillion sevenhundred and twentyseventhousand twohundred and seventythree) of the shares are Group A shares and 19.727.272.727 (nineteenthousand sevenhundred and twentysevenmillion twohundred and seventytwothousand sevenhundred and twentyseven) of the shares are Group B Shares. All shares are in the name of the holder. Group A shares are nominative preferred shares and 6 of the Members of the Board of Directors are elected among the Group A preferred shareholders or among the candidates designated by them. Furthermore, while issuing a new share, the proportion of the Group A nominative shares in the capital is preserved.

No change has occurred in the shareholders' structure and the Company's capital during the period.

### 5. Reporting period, title of the partnership, names, surnames and jurisdiction of the chairman, members and the managing members who served in the board of directors during the period, the term of office of the duties (with commence and end dates)

#### Members of the Board of Directors

Pursuant to the provisions of the Company Articles of Association, the Board of Directors comprise 6 members to be elected among the Group A preferred shareholders or among the candidates designated by them along with the 3 independent members to be elected in scope of the CMB regulations which make 9 members in total. Information regarding the Members of the Board of Directors are as follows:

N.B. E.A. H.S. Z.O. Ş.T. H.C. O.A. M.Ş. M.Ü. C.E

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.**

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<b>Members of the Board of Directors (*)</b>			
<b>Name and Surname</b>	<b>Position</b>	<b>Date of General Assembly for Assignment</b>	<b>End of Term of Office</b>
Necmettin BAYKUL	Chairman/ Managing Member	March 2013	March 2014
Erhan AKPORAY	Vice Chairman/ Managing Member	March 2011	March 2014
Halil SARIASLAN	Independent Member (**)	March 2013	March 2014
Lamia Zeynep ONAY	Independent Member (**)	March 2013	March 2014
Cumhur Sait Şahin TULGA	Independent Member (**)	March 2013	March 2014
Hasan CANPOLAT	Member	BoD decision on 16.05.2013	First General Assembly to be held
Orhan AYDIN	Member	BoD decision on 16.05.2013	First General Assembly to be held
Mustafa Murat ŞEKER	Member	BoD decision on 16.05.2013	First General Assembly to be held
Murat ÜÇÜNCÜ	Member	BoD decision on 16.05.2013	First General Assembly to be held

(\*) There is no executing member in the Board of Directors.

(\*\*) The independence statements of the Independent Members, which comply with the Corporate Governance Principles of Capital Market Board, are exist. Statement of Independence of independent members are attached at the end of Corporate Governance Principles Compliance Report.

The Members of the Board of Directors are entitled with the authorizations stipulated in the Turkish Code of Commerce (TCC) and in article 13 of the Articles of Association of the Company.

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.

### ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2013

There is no authorization granted to the ruling shareholders with regard to the Company Management, members of the board of directors, senior executives and to their spouses and relatives up to second degree and kins by marriage for them to perform acts which would cause conflict of interest with the Company or its affiliates or to compete.

There is not any forbidden operation with the Company which board members perform their own or on behalf of someone. There is no operation regarding prohibition of competition by member of the board.

#### Changes of Members of the Board of Directors During the Period 1 January – 31 December 2013:

During the ordinary General Assembly Meeting held on 29 March 2013, Necmettin BAYKUL, Birol ERDEM, Ahmet ŞENOL, Osman Kapani AKTAŞ and Aykud Alp BERK were elected for 1 year of service, Erhan AKPORAY was decided to continue service for 1 year; Halil SARIASLAN, Lamia Zeynep ONAY ve Cumhur Sait Şahin TULGA were elected as independent members of the Board of Directors for 1 year of service.

The Vice Chairman of Board of Directors Birol ERDEM and members of the Board of Directors Osman Kapani AKTAŞ, Ahmet ŞENOL and Aykud Alp BERK, have resigned as of 15 May 2013. For the vacant positions with the resignations Hasan CANPOLAT, Mustafa Murat ŞEKER, Orhan AYDIN and Murat ÜÇÜNCÜ were elected on the Board of Directors meeting held on 16 May 2013 according to the article 363 of Turkish Commercial Code and it was decided to be submitted to the approval on the upcoming General Assembly.

#### **6. Main factors that affect the performance of the company, significant changes occurred in the environment where company is active, policies implemented by the company with respect to these changes, investment and dividend policy of the company to strengthen its performance**

The Company operates in the field of defense industry. Regarding the uncertainty after the global crisis, the resources allocated for defence expenditures by the countries varies. Since 2008, Turkey has preserved the level of resources it has allocated to defense industry while it has increased the share of domestic procurement.

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.

### ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2013

Given the nature of defence industry, the project lifetime varies between 4-5 years in average. In this context, 2008 global financial crisis and the subsequent fluctuations did not have an adverse effect on the Group. Group takes actions for long-term and has signed contracts worth approximately TL 8,3 Billion (approximately USD 3,7 Billion) as of 31 December 2013. The Group's aims are parallel to designating target regions/countries, focusing on these markets and concentrating on marketing projects, direct sale, joint productions, technology transfer, strategic expansions with international firms for sales to third countries.

The revised dividend distribution policy that has been presented to shareholders' information on the Geneneral Assembly of 2013 regarding 2012 operations is as follows.

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

Following the approval of the General Assembly, the designated profit distribution is made on the determined dates by General Asembly within the legal timelines to the shareholders. There are no privileges in the Company regarding entitlement to the Company's profit. The profits are distributed for all of the shares evenly without considering the acquisition or disposal dates of the shares.

According to the Capital Markets Law and the other legislation as well as the provisions of the articles of association, and as per the resolutions of the general assembly, in the year 2013 TL 78.500.000 (TL 0,157 per TL 1 share, 15,70% gross over capital) and (net TL 66.725.000 per TL 0,13345 - TL 1 share, 13,345% over capital) of the profit for 2012 has been distributed to shareholders as cash dividend.

**7. Financial resources of the company**

The most substantial financial resource of the Company comprises the advance / interim payments taken in scope of the executed agreements and by the profit gained by the main activities.

During 1 January-31 December 2013 period, the cash requirements was met with the existing cash, cash inflows and new loans received in accordance with the decreasing interest rates in the first half of the year. In the scope of Eximbank Loan Program, during 1 January-31 December 2013 period, “Discounted Foreign Currency Loan” was obtained with the following maturities respectively: USD 10 Million with 120 days of maturity, USD 24,5 Million and EUR 17,5 Million with 180 days of maturity, USD 60 Million with 240 days of maturity. In the same period, the entity has obtained USD 25 Million loan with fixed rate of 2,1% for 5 years maturity (21 March 2018) with a grace period of 3 years from Defense Industry Support Fund.

**8. Risk management policies of the Company**

**a. Corporate Risk Management**

The Company’s risk management policy is to develop and implement efficient and productive methods and systems in order to manage (define, rate, monitor, evaluate and form activity plans aimed at minimizing the effects) and anticipate the potential risks which it may be exposed to.

In the Corporate Risk Management studies, “top down” and “bottom up” approaches are applied together and the significant risks which are at a critical level to affect the Company to reach its long term targets are defined and classified under Strategic, Operational, Managerial, Financial and External Factors and are submitted to the Board of Directors and Independent Audit Company with the measures to be taken.

In order to identify the potential risks beforehand and to enable the management of these risks in compliance with the Company’s risk-taking approach, an Early Risk Detection and Management Committee was established in 2012.

In the scope of the operations carried out by the committee, the inventory related to the risks which could prevent the Company to reach its strategic targets were defined and prioritized pursuant to the opinions and proposals of the Company top management. The most significant risk factors defined in this scope are explained below.

### **Single Customer Dependency in Sales**

The main customers of the Company are State Institutions such as Turkish Armed Forces. This brings about the steering of the Company's operations in accordance with the public demands.

The minimization of this risk is anticipated by the Company as the result of the studies carried out pursuant to the targets aimed at increasing export sales and transferring existing knowhow to the private sectors.

### **Cut-Backs in Defense Expense Budgets**

The Company realizes its sales both domestic and abroad in particular to the armed forces and governmental institutions. Defense expenditures in these markets depend on political and economic factors and may vary from year to year. The Governments' substantial cut-backs in the defense budget equipment items shall have a significant impact on the Company's activities and sales.

In recent years in our country, possible cuts in defense expenses are expected to be financed with other items such as personnel and logistics instead of equipment. Such improvements, as they increase the need for equipments produced with high technology, will bring new opportunities to the Company.

### **Supplier and Subcontractor Risks**

As for the Company which works with various number of local and foreign suppliers and subcontractors, provision of material quality and sustainable supply is essential in terms of operational results.

The probable inter-country political or economic developments constitute a supply risk for the critical materials supplied from abroad. In order to minimize this risk, importance is given to the domestic supply of these critical materials.

### **Compliance with Technological Developments**

An important feature of defense sector is high level technology and continuous progress in the technology utilized. This situation leads changes in demands of the customers with regards to the product, systems, services and etc. Investing in and utilizing new technologies in the products is necessary to increase the Company's power of competition and success. Effective and systematical technology management and timely investment of value added technology is a priority for the profitability and sustainability of the Company. Relations developed with the armed forces and related procurement authorities support the predetermination of the demands. The engineering directorates and "Technology Supreme Board" are compatible with the developments in technologies which shape the future.

**Fixed Price and Fixed Term Contracts**

The products and systems produced by the Company have a complex structure when their technology, high quality and performance requirements, tough working conditions and sales contract stages are considered. This complexity, being a general feature of the sector in which the activities are carried out, is an element to cause the design, development and production cost estimations and contract terms to go above their initial planned status. The deviations (inflation, exchange rate and interest) in the assumptions made during the contract term may change as a result of an increase or decrease in profits for the fixed price contracts.

**Global Economic Slowdown and Financial Crisis**

Recession and crisis in global economy have an adverse impact on the economic activities of the countries and as a result may cause cut-backs in the defense budgets. This situation brings along the risks of decrease or cancellation in local or foreign customer requests, pressure of the customers regarding price and profitability, slowdown of investments with respect to the Company. Another impact of the global crisis is the increase of costs in connection with the vagueness caused by the fluctuation in financial markets. When the economic situation of Turkey is considered, it is anticipated that the possibility of the mentioned risks to be realized in the prospective period shall be low, yet the markets are still monitored very closely.

**b. Financial Risk Management**

In forming the financial risk management model of the Company, “Asset- Liability Management (ALM) Model” has been taken as the basis and foreign exchange risk, interest risk and liquidity risks have been defined as financial risks.

In the balance-sheet financial risk management, exchange risk, interest risk and liquidity risk which shall affect the assets and liabilities of the Company are defined, measured, managed and reported. Therefore, the adverse affects of the changes in financial markets on the Company’s financial performance are minimized. In order to minimize the risks, the derivative financial tools are also utilized.

Off-balance-sheet financial risks arise from the inconsistency of cash inflows and outflows on the basis of currency or the deviation of the cash flow dates. Pursuant to off-balance-sheet financial risk management, financial risk management techniques aimed at protecting the targeted profitability of the projects are used.

Financial risk management is also applied by the Company’s subsidiaries and affiliates pursuant to the policies approved by their own managing bodies.



**(1) Foreign Exchange Risk and Management Policy**

The main principle in foreign exchange management is to minimize the impact of the foreign exchange fluctuations by preventing foreign exchange short or long positions.

To define foreign exchange risks, taking the periodical foreign exchange position into consideration, loss and profits which would arise from upwards or downwards changes are calculated and the possible impacts of the foreign exchange risk incurred are measured. In this scope, the possible changes in foreign currency sensitive assets and liabilities for prospective financial periods are considered and the foreign currency position is estimated. The short foreign exchange position of the Company is monitored in balance sheet and off balance sheet. The Company finances its activities mainly with the advance payments received in foreign currency and the advances taken are subject to revaluation as they are denominated in foreign currency. Although substantial part of the advances taken is used in foreign currency denominated material purchases , monitoring the purchased material in terms of TL as they are recorded in the balance sheet causes the Company to be in short position. Such short position is structural as it is obligatory that the stocks and research and development costs are monitored in terms of TL and derivative tools out of cash portfolio are not used in its management.

During the periods when Turkish Lira devalues, net foreign exchange loss is incurred but the sales revenues and operating margin increase due to the reason that the 78,2% of the Company's backlog is denominated in foreign currency. Therefore, the adverse impact of the net foreign exchange loss is balanced with the increase in the operating margin.

As of 31 December 2013, as per financial statements prepared according to the Turkish General Notification of Accounting System Application (TGNASA), the company has a short position of TL 1.112.855.063 (31 December 2012: 839.601.463 TL). 72% of the related position is USD (31 December 2012: 80%) and 28% of the balance is EURO (31 December 2012: 20%).

The foreign exchange gain and loss noted in the financial statements are mainly comprised of the information indicated in the financial statements prepared in accordance with the TGNASA including the subsidiaries Mikes and AselsanNet which are subject to consolidation.

Foreign Exchange Sensitivity Analysis Table of the Company Prepared According to TGNASA		
As of 31 December 2013		
Profit/Loss		
	Foreign currency gaining value	Foreign currency losing value
<b>In the event USD changes by 10% against TL:</b>		
1- USD Net Assets/Liabilities	(80.691.917)	80.691.917
<b>In the event EURO changes by 10% against TL:</b>		
2- Euro Net Assets/Liabilities	(31.356.086)	31.356.086

### (2) Interest Risk and Management Policy

The interest risk is defined by using the difference between the assets sensitive to interest in a certain term and liabilities sensitive to interest (gap analysis) and such difference is calculated by the help of the maturity ladder of the balance sheet. In the scope of fund management, a sensitivity test is carried out to measure the interest risk of the interest sensitive assets in the portfolio.

As of 31 December 2013, the Company has loan balance obtained from the Defence Industry Support Fund, for the first portion worth USD 40 Million with a grace period of 3 years, with a maturity of 5 years (18 August 2016) and with a fixed interest rate of 2,1% and for the second portion worth USD 25 Million with a grace period of 3 years, with maturity of 5 years (21 March 2018) and with a fixed interest rate of 2,1%, which sum up to USD 65 Million. No interest risks are deemed to exist. In order to finance the export, as of 31 December 2013 the Company has USD 60 Million loan balance obtained from Turkish Eximbank. The loans have a maturity of 240 days and they are indexed to LIBOR. Since LIBOR levels tend to remain low and Türk Eximbank demands 1% additional spread rate in order to Support export, the Company's sensitivity to floating rate loans is kept at minimum.

### (3) Liquidity Risk and Management Policy

Liquidity Risk comprises the risks when the matured liabilities cannot be fulfilled, when the increase in assets cannot be funded and the risks which arise due to the transaction realized in non-liquid markets.

Liquidity risk is managed by considering short term liabilities, assets with high liquidity, anticipated cash flows and balance sheet maturity ladder. In this scope, sufficient level of cash and assets which may be convertible to cash is maintained, attention is paid that the Company finances its activities without using any loans and the resources of funding are varied by keeping the bank credit limits ready for any instant cash requirement. As of 31 December 2013, 58% of the total

resources are comprised by the advance payments taken and when this is considered, the liquidity risk is at low levels as no maturity inconsistencies are experienced in the working capital management.

**(4) Credit Risk and Management Policy**

The substantial part of the Company's present credit balance are comprised by the performance bonds and advance payment guarantees (letter of guarantees) granted to the customers in scope of agreements and which are monitored off balance sheet. Within this scope to manage the credit limits at the banks, risk balances are monitored periodically and necessary transactions are done for the letter of guarantees related to the agreements of which the liabilities are fulfilled to be deducted from the risk.

**(5) Capital Risk Management**

In the capital management of the Company, enabling a debt-equity balance that would minimize the financial risks and costs to the lowest level is taken care of. The objective of the Company is to guarantee a consistent growth by means of the funds gained through its activities while providing its shareholders a regular dividend income and. The Company aims to keep its capital structure in balance by means of dividend payments as cash or in return for shares and issuance of new shares.

**9. Other issues not included in the financial statements but which would be beneficial to the users**

As of 31 December 2013, the Company has a backlog of TL 8,3 Billion (approximately USD 3,7 Billion) and these orders include the period until 2020.

**10. Significant events between 1 January – 31 December 2013 accounting period and the Board of Directors Meeting date when the relevant financial statements shall be negotiated**

- a) An agreement concerning the development of a radar valuing TL 32.975.000,- has been signed between ASELSAN and TÜBİTAK-SAGE. The deliveries within the context of this agreement will be made between 2014 and 2017. This disclosure is made according to the permission of TÜBİTAK-SAGE dated 02.01.2014.
- a) An agreement concerning the supply of Laser Guidance Kits for the need of Turkish Air Force valuing TL 31.000.000,- has been signed between ASELSAN and Ministry of National Defense. This disclosure is made according to the permission of Ministry of National Defense that has arrived to our company on 06.01.2014.
- b) An agreement concerning the supply of Precision Guidance Kits for the need of Turkish Air Force valuing TL 57.891.200,- has been signed between ASELSAN and Ministry of National Defense. This disclosure is made according to the permission of Ministry of National Defense that has arrived to our company on 06.01.2014.

- c) ASELSAN has received an order from a foreign customer concerning electronic warfare systems valuing USD 26.070.132,-. The deliveries within this context will be made in 2014.
- d) An agreement concerning ANKA-S Project/Payload Systems Sub-Contract valuing USD 33.576.675,- has been signed between ASELSAN and TUSAS on 22.01.2014. The deliveries within this context will be made in 2015-2018.
- e) An agreement concerning General Utility Helicopter Program valuing USD 491.468.585,- has been signed between ASELSAN and TUSAS on 21.02.2014. The deliveries within this context will be made in 2018-2025.

**11. Anticipations for the development of the company, significant developments with respect to company activities and financial status, to observe whether past period targets were reached or not, whether the general assembly resolutions were fulfilled or not, and in the event the targets were not reached and the resolutions were not fulfilled, information regarding the grounds and assessments**

On 5 March 2013, the guidance on Group's financial results of 2013 shown below were disclosed to public:

- Consolidated income growth (TL): 15-17%
- EBITDA (Consolidated and adjusted without foreign exchange rate differences): 18-20%
- Consolidated investment expenditure: Approximately TL 150 Million
- Ratio of the consolidated Research and Development (R&D) expenses financed by Company resources to the consolidated sales: 7%

The guidance is based on the year average of USD/TL parity to be 1,85; EUR/TL parity to be 2,33. In 2013, the average USD/TL parity was 1,91 and 2,53 for EUR/TL parity. The growth in consolidated income in line with this increase in exchange rates is 33% in 2013. EBITDA (Consolidated and adjusted) was 20%. Ratio of the consolidated Research and Development (R&D) expenses was 6%.

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The expectations of Group on consolidated financial results for 2014 under normal circumstances are as follows:

- Consolidated income growth (TL): 15-17%
- EBITDA (Consolidated and adjusted without foreign exchange rate differences): 18-20%
- Consolidated investment expenses: Approximately TL 175 Million
- Ratio of the consolidated Research and Development (R&D) expenses financed by Company resources to the consolidated sales: At the level of %6

These expectations are based on the yearly average of USD/TL parity to be 2,20: EUR/TL parity to be 2,95.

The Company's vision is "to become one of the first 50 defence industry companies in the World". 5 year strategic plans are prepared in the context of this vision. All operations are realized consistent with the strategic plan, in order to reach the defined targets. In this respect, qualified labor force, maturized procedures, resources reserved for R&D, infrastructure and organization and technology at World level have been maintained.

The Company has been in the most prestigious list, "Defense News Top 100", which is published by "Defense News" magazine since 7 years and is aimed to increase its ranking in the list.

In order to achieve the sustainable growth:

- The new facility investment continues in line with the plan in the field of Radar and Electronic Warfare in Golbasi, Ankara The facility is expected to become operational in 2014.
- Technology development and conversion investments have continued in Macunkoy facility with the new Printed Circuit Facility with a closed area of 6.587 m2 where production started in 2012.
- The joint ventures, United Arab Emirates and Kazakhstan established in 2011 and joint venture in Jordan established in 2012, have completed most of their investments.
- The quality and technological perspectives of the cooperations formed with the universities have been increased.
- The efforts to form an eco-system with the sub-industry companies and SME's have continued.
- Since the entity is the biggest R&D center of the country, it is strategically important to have matured processes with technological depth and concentration. All Group Directorates have completed the certification process of Capability Maturity Model Integration-L3.
- The company aims to use its knowledge in civil areas other than defence industry. In this context, a cooperation contract was signed for domestic production of numerical tacograph. In addition, an R&D contract was signed for the base stations in the context of 4<sup>th</sup> generation communication technology with local opportunities.

With reference to the decisions taken on General Assembly Meeting held on March 29, 2013;

- The registered capital ceiling has been raised from TL 500.000.000 to TL 1.000.000.000.

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- The profit distribution payments for 2012 period began on 31 May 2013.
- The amendment on 6<sup>th</sup> article regarding the upper limit of registered capital in the Company's Articles of Association's and amendments on articles 1., 3., 4., 5., 9., 11., 12., 13., 14., 15., 16., 17., 18., 19., 21., 23., 24., 25., 26., 27., 28., 29., 30., 31., 32., 33., 34., 35., 36., and 37 in order to comply with Turkish Commercial Code numbered 6102 and Capital Market Law numbered 6362, was registered on 4 April 2013 and announced on 9 April 2013 by the Ordinary General Assembly Meeting Decisions, and copies of the related Trade Registry Gazette was sent to CMB and the Ministry of Customs and Trade.

## **12. Corporate Governance Principles Compliance Report**

The report is provided with Annex-1.

## **13. Research and Development Activities Realized**

The Group, being a leading defense industry establishment developing advanced technology system solutions on land, air, naval and aerospace platforms, has given importance to R&D activities and technological gains and targets to spend approximately 6% of the annual turnover to its R&D activities financed with its own resources.

By monitoring all kinds of technological developments with respect to product/technology systems for land, air, naval and aerospace platforms, the design, development and production of product/technology which includes advanced technology on the basis of not only using the technology but also having a structure to transfer/sell the technology it develops in national and international cooperation environments.

In order to increase the national contribution share in the projects, great effort is being paid for utilizing the existing local technological possibilities. For this purpose, cooperations with universities and some R&D institutions are formed and using of local subcontractors and sub-industry have become significant.

As for the projects carried out within the Group, the R&D discount in compliance with the provisions of the Law on Corporate Tax numbered 5520 and R&D central application pursuant to the Law regarding the support of R&D activities numbered 5746 are being implemented together. For the R&D projects which are not aimed for public, the approval of TEYDEB (Technology and Innovation Support Programs Directorate) is taken and they are supported by this institution. Within the Company, there are 4 R&D centers namely SST, REHİS, MGEO and HBT. MİKES, which is an affiliate subject to consolidation and which also has 1 R&D center. 2.293 people are employed at the Group R&D centers.

The Company also is active in Teknokent facility within Middle East Technical University in scope of the Law numbered 4691 on Technology Development Regions. 163 people are employed within this region.

**14. Amendments to the Articles of Association during the period along with the grounds**

The amendment on 6th article regarding the upper limit of registered capital in the Company's Articles of Association's and amendments on articles 1., 3., 4., 5., 9., 11., 12., 13., 14., 15., 16., 17., 18., 19., 21., 23., 24., 25., 26., 27., 28., 29., 30., 31., 32., 33., 34., 35., 36., and 37 in order to comply with Turkish Commercial Code numbered 6102 and Capital Market Law numbered 6362, was registered in the Trade Registry and noticed in the Turkish Trade Registry Gazette.

The increase of capital ceiling from TL 500.000.000 to TL 1.000.000.000 which is decided with the Board of Directors meeting on 31 October 2012 was approved on the general assembly meeting dated 29 March 2013 and registered and noticed with the general assembly decisions.

Between 1 January - 31 December 2013 period, no extraordinary General Assembly meeting was held.

**15. The kinds of issued capital market instruments and their amounts, if any**

None.

**16. The sector the Company operates in and its position within the sector**

The Company is a leading defense industry institution developing advanced technology system solutions in land, air, naval and aerospace platforms.

The Company being an institution of TAFF is in a position of a technology center in the fields of design, development, manufacturing, system integration, modernization and after sales services of military and civil communication systems, avionic systems, electronic warfare and intelligence systems, radar systems, command and control systems, naval warfare systems, electro-optic systems and products.

The Company has increased its rankings to 74<sup>th</sup> in 2012 from 76<sup>th</sup> in 2011 in the "Defense News Top 100" list. In addition Aselsan has increased its rankings to 85<sup>th</sup> in 2012 in the "SIPRI Top 100" List from 86<sup>th</sup> in 2011 in which the Company is the first Turkish firm that has taken place within 7 consecutive years.

The Company is 46<sup>th</sup> in ISO 500 from-production-to-sale list and 41<sup>st</sup> in the category of privately owned companies in 2012. Also, the Company became 63<sup>rd</sup> of "Fortune 500 Turkey" list where it was 69<sup>th</sup> in 2011 and 33<sup>rd</sup> in "The Companies to Increase their Exports the Most" 76<sup>th</sup> of "Capital 500 Turkey" list in 2012 rankings where it was 79<sup>th</sup> in 2011.

The Company is in the first position in the ranking of Deloitte "Deloitte Technology Fast: 50 Turkey-Big Stars".

The Company became 128<sup>th</sup> in 2012 from 527<sup>th</sup> in 2011 in Turkish Exporters Council's "First 1000 Exporter Firms".

The Company took the first ranking in “R&D 250 Research” in 2012 which is prepared by Turkish Time on the basis of annual R&D expenditures where it was 4<sup>th</sup> in 2011.

The Company became the second in “2013 Defense Industry Awards”, organized by Undersecretary of Defense Industry, based on the financial and performance results.

The company is 37<sup>th</sup> in 2012, Brand-Finance "published by the Turkey's Most Valuable Brands - 100 Company" list. In addition, Company has achieved to take a place in "Turkey 159 Super Brand" ranking published by British-based brand assessment firm Superbrands. The Company took the first ranking in “Electronic Machinery and Technology Sectors-2012 Most Successful Exporters- Other Durable Consumption Goods Category” which is organized by İstanbul Electronic Machinery and Technology Exporters Association.

The Company is 11th in the research of Bloomberg Businessweek Turkey and Realta Consultancy amongst 96 Universities: “Most Anticipated 50 Companies.

The Company took the 3rd ranking in “Engineering and Information Technologies” branch of the analysis of Universum research company “Turkey’s Ideal Employees: 2013” prepared among 7.835 university students for the first 100 companies.

## **17. Progress in investments and degree of incentive utilization if any**

### **Progress in Investments**

Directing the Company resources to profitable fields with high added value where advanced technology is used is anticipated in the first place by considering the global tendencies, technological developments and the actual and prospective requirements of all customers in particular the Turkish Armed Forces. The investments in the Company are realized by considering the technological plans, strategic plans and project requirements. Below are the leading investments in scope of these:

- A new facility investment is being made in the field of Radar and Electronic Warfare in Ankara province, Gölbaşı district. The construction works continue pursuant to the project plan and the activities are planned to be initiated in the second half of the year 2014. Upon the realization of this investment in scope of a structural growth, the product range of engineering, production, test and logistics support services in the field of Radar and Electronic Warfare shall be extended.
- Investments to meet the infrastructure and equipment requirements to be used with the R&D projects within the year are being carried out in compliance with the investment plan prepared pursuant to the efficient resource utilization principle.
- A land investment was made in Temelli organized industrial site in order to facilitate our production operations in progress.



**Degree of incentive utilization if any**

The 1501 Industrial R&D Projects Support Programme has been formed in order to encourage the R&D operations of the companies creating added values at company level and to contribute to the enhancement of the R&D ability of the Turkish industry by this means. Within this scope, applications were filed to The Scientific and Technological Research Council of Turkey (TÜBİTAK) for 95 projects and 84 of the projects found appropriate for the incentive benefited from the allocated incentive amount.

5 new projects within the scope of 1511-Prioritized fields research Technologies development and innovation program were signed in 2013 and started being executed.

The 1007 Public Institutions R&D Project Support Program has been formed in order to meet the requirements of the Public Institutions with R&D or to support the projects aimed at solving their problems. In scope of this support, 5 R&D projects have been completed and 4 R&D projects are still ongoing.

Within the scope of the European Commission 7<sup>th</sup> Cooperation Framework Programs, 2 integration projects were executed and went into effect in 2011 and 1 project which was initiated in 2008 was completed in June 2012 with success. In the “Circulation of the Researchers, Return Grants; Individual Support Private Programme” within the scope of the European Commission 7<sup>th</sup> Cooperation Framework Programmes, incentive applications for 4 projects were accepted and implied in the years 2010 and 2011. The support process of the 3 projects have been initiated as of July 2010 by EUREKA-International Industrial R&D Projects Support Program where market oriented projects for developing products and processes to be commercialized in short term are supported. Within the financial support mechanism for the European Commission nominee and potential nominee countries, namely IPA - Instrument for Pre-accession Assistance, 1 out of 2 border security projects was executed at the end of 2010 and the other was executed in March 2012 and came into effect.

22 projects were executed in the year 2011, 2012, 2013 and came into effect within the SAN-TEZ R&D support programme aimed at supporting the postgraduate and/or doctorate thesis works which shall contribute to increasing the competitiveness in international markets by means of commercializing the scientific studies at the universities and institutionalizing the University – Industry cooperation.

Expenses regarding the foreign market research travels realized with respect to the products and the foreign office expenses are used up by the rate and amount of subsidies implemented within the scope of Governmental Grants for Export.

Within the Decision Regarding the Governmental Grant in Investments, there are 4 Investment Incentive Certificates taken from the Turkish Republic Prime Ministry Undersecretariat for

Treasury General Directorate of Incentives and Implementation. With such incentive certificates, VAT exemption and customs tax exclusion are utilized. VAT exemption is applied in domestic and foreign purchases and customs tax exemption is used in foreign purchases.

Income tax withholding incentive, insurance premium support, stamp tax exemption and R&D discount are utilized within the scope of the Law numbered 5746. Income tax withholding incentive, insurance premium support and stamp tax exemption is utilized by being calculated over the salaries of the R&D personnel and not being paid to the relevant institution and the R&D discount is utilized by means of applying a discount on the corporate tax return.

Within the scope of the Teknokent Law numbered 4691, incentive on withholding income tax, insurance premium support and stamp tax exception is applied. These are utilized by making calculations on R&D and software personnel wages and not being paid to the related institution. The gain obtained with reference to the execution of Technology Development Zones Law numbered 4691 is exempted from the corporate tax of 31 December 2013.

**18. Comments including the qualities of the production units of the company along with the capacity utilization rates and their developments, general capacity utilization rate, developments in the manufacturing of the products and services which are subjects of activity, amounts, quality, circulation and the prices compared with the previous period figures**

The capacity utilization for the period between 1 January- 31 December 2013 was realized at the level of 97%.

Substantial part of the production is realized as order based production. R&D activities are carried out for the products designed to be tailored for the customer requirements and the qualities of the system and products alone with their quantities and prices may be subject to change. Upon the usage of Enterprise Resource Planning (ERP) system, the production processes have been managed more efficiently.

**19. The prices, sales revenues, sales conditions of the products and services which are subjects of activity with their improvements within the year, developments in the yield and productivity parameters and the reasons of the substantial changes in these compared to the previous years**

The Company carries out its operations in the basic fields of: “Communication and Information Technologies”, “Defense System Technologies”, “Radar, Electronic Warfare and Intelligence Systems” and “Microelectronics Guidance and Electro-Optics.”

The Company’s project revenues comprise, according to the relevant sales agreement terms and conditions, order based production, mass production product sales, services, commodities and progress billing sales. Sales terms and conditions are subject to change as for the respective

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agreements.

As for the consolidated amount of the Group realized during the period 1 January-31 December 2013 TL 1.773 Million of this realized as the domestic sales and TL 398 Million as it realized as the foreign sales.

### 20. The basic ratios regarding profitability and liabilities, as calculated on the basis of the financial statements, sales, efficiency, income generation capacity, profitability and liabilities/equity ratios in comparative basis with prior period and information about other matters and future expectations and risks that has been prepared in accordance with Capital Markets Board Communiqué Series:II and No:14.1

<b>BASIC RATIOS / CONSOLIDATED BALANCE SHEET</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Current Ratio (Current Assets/Current Liabilities)	2,19	2,50
Liquidity Ratio (Cash and Cash Equivalents+Financial Investments+Trade Receivables+Other Receivables /Current Liabilities)	1,01	1,18
Equity /Total Liabilities	0,40	0,38
Current Liabilities/Total Liabilities	0,23	0,23
Non-Current Liabilities/Total Liabilities	0,36	0,39

<b>BASIC RATIOS / CONSOLIDATED PROFIT TABLE</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Operating Profit/ Revenue	0,26	0,24
Profit for the Period (Parent Company Shares) / Revenue	0,11	0,19

As of 31 December 2013, based on Group's financial statements prepared in accordance with the Communiqué Series II, No:14.1 "Communiqué on Capital Market Financial Reporting Standards" issued by Capital Market Board, the net sales amount has increased 33% compared to the same period of prior year. The profit for period amounts to TL 238,5 Million, with a decrease of 22%. Equity has increased by 27% compared to December 2012. The liabilities of the Group are mainly consist of the short and long term order advances received. The Group's liquidity ratio is above the acceptable levels.

### 21. Measures planned to be taken to improve the financial structure of the Company

The Group and the Company, as for their annual budgets and implementations for the period 2012 - 2014, have adopted the principles as the basis to take care of savings in all kinds expenditures, to closely follow up the advances and receivables, to pay attention to the proportion of the term and currency in purchasing and sales agreements with the risk status of the domestic/foreign sellers.

N.B. E.A. H.S. Z.O. Ş.T. H.C. O.A. M.Ş. M.Ü. C.E

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USD 40 Million portion of the credit line allocated to the Company with the decision of Defense Industry Executive Committee in order to finance the Gölbaşı investment was used in the third quarter of 2011 while USD 25 Million of the second portion amounting to USD 47 Million was used in March 2013 and USD 22 Million is planned to be used in 2014.

**22. Changes in the top management within the period and the names and surnames of the ones who are on duty**

Changes in the top management within the period 1 January–31 December 2013 and information regarding the ones on duty are given in the below table:

<b>LIST OF UPPER MANAGEMENT IN SERVICE</b>			
<b>No</b>	<b>Name Surname</b>	<b>Duty</b>	<b>Date of Appointment</b>
1	Necmettin BAYKUL	Chairman/Managing Member	29 March 2013
2	Erhan AKPORAY	Vice Chairman / Managing Member	31 March 2011
3	Cumhur Sait Şahin TULGA	Member of the Board of Directors	29 March 2013
4	Lamia Zeynep ONAY	Member of the Board of Directors	29 March 2013
5	Halil SARIASLAN	Member of the Board of Directors	29 March 2013
6	Hasan CANPOLAT	Member of the Board of Directors	16 May 2013
7	Orhan AYDIN	Member of the Board of Directors	16 May 2013
8	Mustafa Murat ŞEKER	Member of the Board of Directors	16 May 2013
9	Murat ÜÇÜNCÜ	Member of the Board of Directors	16 May 2013
10	Cengiz ERGENEMAN	CEO/President	02 January 2006
11	Ahmet DEMİR	CFO/Vice President	01 February 2005
12	Özcan KAHRAMANGİL	Division CEO/Vice President	05 January 2006
13	Faik EKEN	Division CEO/Vice President	21 January 2006
14	Fuat AKÇAYÖZ	Division CEO/Vice President	01 February 2006
15	Ergun BORA	Division CEO/Vice President	01 January 2008

**23. Total amounts of the financial benefits such as attendance fee, remuneration, premium, bonus payments, share profit provided to the managing members and senior executives**

The total amount of the remuneration and similar benefits paid to the senior executives by the Company as for the period 31 December 2013 is TL 4.555.169 (31 December 2012: TL 4.356.770). A monthly payment of net TL 2.200 is made to the Member of the Board of Directors and Managing Members.

**24. Information regarding the allowances granted to the managing members and the senior executives with the travel, accommodation and representation expenses and financial benefits in kind, insurances and total amounts of the similar guarantees**

Information regarding the domestic and foreign allowances, travel, accommodation and representation expenses and financial benefits in kind and total amounts of insurances granted to the senior executives and members of the board of directors of the Company for the year 2012 and 2013 are summarized as follows:

<b>Travel and Entertainment Expenses</b>				
	<b>January-December 2013 (TL)</b>		<b>January-December 2012 (TL)</b>	
	<b>Members of the Board of Directors</b>	<b>Senior Executives</b>	<b>Members of the Board of Directors</b>	<b>Senior Executives</b>
<b>Travel Expenses</b>	65.655	330.015	24.634	280.913
<b>Entertainment Expenses</b>	-	13.554	-	1.663
<b>TOTAL</b>	<b>65.655</b>	<b>343.569</b>	<b>24.634</b>	<b>282.576</b>

<b>Health Insurance Expenses</b>		
	<b>January-December 2013 (TL)</b>	<b>January-December 2012 (TL)</b>
<b>Senior Executives-Members of the Board of Directors</b>	959	1.284
<b>Senior Executives</b>	11.088	11.648 (*)
<b>TOTAL</b>	<b>12.047</b>	<b>12.932</b>

(\*) The expenses of 2012 included the annual health insurance payments made for the audit committee members. However, the aforementioned health insurance expenses exist only for the first three months of 2013, since the audit committee members services have ended as of the regular General Assembly held on 29 March 2013.

**25. Personnel and workers turnover, collective agreement implementations, rights and benefits provided to the personnel and workers**

The Group recruited a total number of 333 people (119 personnel with fixed term contract) as the personnel including fixed-term contracted personnel, disabled and terror-stricken personnel during the period 1 January – 31 December 2013 and the number of people quit for the same period is 200 (28 personnel with fixed-term contracted).

The rights and benefits provided to the personnel by the Company are bonus payments, meal allowances, marriage benefits, maternity benefits, death allowances, transportation, private health insurance, childcare and kindergarten benefits.

The average number of personnel employed by the Group as of 31 December 2013 is 5.343 (The average number of personnel employed by the Group as of 31 December 2012: 5.088).

There is no collective bargaining agreement in the Company.

**26. Information regarding the donations realized within the year and social responsibility**

There is no donation made by the Group between the period 1 January- 31 December 2013.

In May 2013, Republic of Turkey Ministry of Health, Public Health Agency of Turkey Institution had given the Company a plaquet named “Baby Friendly Workplace” because of fulfilling the criteria for the promotion of breastfeeding. In addition, a tree has been planted for each personnel recruited since the beginning of 2013 and it is planned to continue.

**27. The Existence of Organizations outside the Center**

- Branch in Republic of South Africa; Pretoria
- Office in United Arab Emirates; Abu Dhabi

**28. Information regarding the shares of the companies subject to consolidation in the parent company**

There is no cross ownership relation between the companies subject to consolidation (MİKES and AselsanNet) and the Company.

**29. As for the preparation process of the consolidated financial statements; comments with respect to the principal factors of the internal audit, internal control and risk management systems of the Group and opinion of the managing body**

The controls are carried out by the Internal Audit and Assessment Board (IAAB), Audit Committee and members of the Board of Auditors within the parent company in order to minimize the substantial error risk on the financial statements of the Group. IAAB and Audit Committee carry out their duties independent from each other but within the direction of common objectives and targets by subject to maintain an internal control system which provides required controls in matters such as the reliability of the financial reporting system, the efficiency of the activities in order to eliminate the operational risks and compliance with the law. Furthermore, the efficiency and sufficiency of the internal control are supported with the directives in effect.

In order to determine the potential risks which may affect the Company and to govern them, the Committee for Early Determination and Management of Risks operates. The committee meets on a periodical basis and reports in every two months to the Board of Directors. The report is also shared with the independent audit firm.

**30. Direct and indirect affiliates of the Company and information regarding the share ratios**

Aselsan is the 96,37% owner of the Mikes and 100% owner of the AselsanNet and these companies are consolidated in financial tables.

The affiliated partnerships, subsidiaries subject to joint management and affiliates of the Group recorded as financial investments with their participation ratios and amounts are as follows:

Company Name	Share (%)	31 December 2013 (TL)
Aselsan Baku	100	3.059.234
Roketsan A.Ş.	14,897	5.141.213
Mikroelektronik Ar-Ge Tasarım ve Ticaret Ltd. Şti.	85	624.714
Aspilsan A.Ş.	1	147.462
Havaalanı İşletme ve Havacılık End. A.Ş.	0,051	86.953
Kazakhstan Aselsan Engineering LLP	49	388.023
IGG Aselsan Integrated Systems LLC	49	42.837
Aselsan Middle East PSC LTD	49	3.233.774
<b>TOTAL</b>		<b>12.724.210</b>

The above mentioned investments of the shares valuing TL 12.724.210 are ready to be sold and which do not have quoted market value and of which the realistic value cannot be reliably estimated due to the reason that the estimated value ranges are wide and that the probabilities related to the estimated values cannot be measured reliably and which are not traded in the stock exchange.

**31. Information regarding the Company's own shares acquired by itself**

No such event has occurred within the activity period.

**32. Comments with respect to the private audit and governmental audit realized within the activity period**

"Risk Analysis Investigations" for the year 2010 was performed by tax inspection board of Finance Ministry and "Import and Export Transactions" investigation for the period between 2011-2013 was performed by Ministry of Customs and Trade in Company's affiliate Mikes.

No private or governmental audit was realized at Aselsan and AselsanNet.

**33. Information regarding the lawsuits filed against the Company which would have an impact on the financial status and activities of the Group and their probable outcomes**

The lawsuits and execution proceedings filed by or against the Group as of 31 December 2013 are summarized below:

	Description	31 December 2013 (TL)
a)	Ongoing lawsuits filed by the Group	3.757.739
b)	Execution proceedings carried on by the Group	5.048.050
c)	All types of ongoing lawsuits filed against the Group	445.573
d)	Lawsuits finalized in favor of the Group within the period	1.019.456
e)	Lawsuits finalized against the Group within the period	430.231

**34. Comments with respect to the administrative and judicial sanctions applied to the Company and the managing members due to the acts contrary to the legislation provisions**

No penalties with substantial amounts were paid by the Group within the activity period.

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

No such event occurred within the period.



**36. If it is an affiliate company, whether any counter performance was realized for each legal transaction according to the known status and conditions at the time the legal transaction mentioned in article 33 was realized or at the time the measures were taken or avoided to be taken and whether the company incurred losses due to the taken or avoided measure and if the company incurred losses to observe whether this was equalized or not**

No such event occurred within the activity period.

**37. The determination and management assessment with respect to the Company's unpaid capital or whether the Company is deeply in debt**

No such event occurred within the activity period.

**38. The status of owning directly or indirectly five, ten, twenty, twenty five, thirty three, fifty, sixty seven or one hundred percent of the shares representing the capital of an equity company or in the event that the proportions go below these percentages and ground for this**

No such event occurred within the activity period.

**39. Related Party Transactions**

Detailed table is disclosed in Note 4 under Consolidated Financial Statements of 31 December 2013.

**ANNEX-1 Corporate Governance Principles Compliance Report**

**1. STATEMENT FOR COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES**

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

ASELSAN, adopting the corporate governance understanding as a principle, was rated with a grade of 87,73 (8,77) as the result of the Corporate Rating Studies realized by SAHA Corporate Governance and Credit Rating Services Inc (SAHA) in 2012 and therefore was included in the Borsa Istanbul Corporate Governance Index. As a result of the efforts carried out through 2013 in order to improve the compliance with corporate governance principles to the maximum level; according to the report of SAHA which was published on 13.12.2013, ASELSAN's corporate governance rating grade was updated to 9,07 out of 10 points.

Corporate governance rating grade shows to what extent the companies comply with the corporate governance principles set out by the CMB and the Company's compliance level with the principles is defined with a methodology measuring under the main titles Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors.

ASELSAN, being considered as a relatively closed Company by the capital market participants due to the defense sector which it is active in, increased its grade on Public Disclosure and Transparency to 99,19, which was 93,47 in 2012. The importance given to provide timely and accurate information to the investors and stakeholders by ASELSAN with respect to transparency and public disclosure shall continue as it is.

<b>Main Titles</b>	<b>Weight</b>	<b>Score (%)</b>
Shareholders	0,25	80,90
Public Disclosure and Transparency	0,25	99,19
Stakeholders	0,15	94,85
Board of Directors	0,35	89,87
<b>Total</b>	<b>1,00</b>	<b>90,71</b>
<b>Company Score</b>	<b>9,07</b>	

ASELSAN Corporate Governance Ranking Report published by SAHA can be accessed at the company website: [www.aselsan.com](http://www.aselsan.com)

SAHA, has revised the 2013 corporate governance ratings of all its customers on 03.03.2014, regarding the resolution of Capital Market Board's meeting numbered 4/105 held on 01.02.2014. Our company's corporate governance rating grades announced on 13.12.2013 have been updated for every subtitle within the context of the CMB's regulations without making any change for the weights used in scoring.

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As per the new methodology, in case the company fulfills all the compulsory requirements of a principle, the maximum rate it can achieve shall be 85 over 100, and according to the additional good corporate governance practices regarding the related principles, the rate shall be converged to the maximum rating, 100. Within this context, ASELSAN's corporate governance rating grades are updated as given below.

<b>Main Titles</b>	<b>Weight</b>	<b>Score(%)</b>
Shareholders	0,25	82,70
Public Disclosure And Transparency	0,25	85,30
Stakeholders	0,15	94,80
Board of Directors	0,35	84,34
<b>Total</b>	<b>1,00</b>	<b>85,74</b>
<b>Company Score</b>	<b>8,57</b>	

The compliance with all the compulsory principles of Corporate Governance Principles was achieved. The titles regarding the arbitrary principles where compliance has not been achieved yet are given below and are explained in detail through the Compliance Report.

- Non-existence of a judgement in the Articles of Association; declaring that shareholders may individually demand the investigation of certain incidents from the General Assembly even if it is not on the meeting agenda, under the condition that the right to ask for information and investigation has been used before and if the appliance of shareholders rights is necessary,
- Non-existence of an article in the Articles of Association regarding the General Assembly meetings to be held as open to public including media and shareholders without the right to speak,
- No recognition of minority rights to those who own less than twentieth of the capital indicated in the Articles of Association,
- Non-existence of models supporting the participation of stakeholders, mainly the company personnel to the management of the company without interfering with the company's operations.

Corporate Governance Committee will carry on the necessary efforts in order to achieve full compliance with Corporate Governance Principles.

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

Erhan AKPORAY  
Vice Chairman of Board of Directors  
Member of Corporate Governance Committee

Hasan CANPOLAT  
Member of Board of Directors  
Member of Corporate Governance Committee

Orhan AYDIN  
Member of Board of Directors  
Member of Corporate Governance Committee

Mustafa Murat ŞEKER  
Member of Board of Directors  
Member of Corporate Governance Committee

Murat ÜÇÜNCÜ  
Member of Board of Directors  
Member of Corporate Governance Committee

N.B.

E.A.

H.S.

Z.O.

Ş.T.

H.C.

O.A.

M.Ş.

M.Ü.

C.E

**PART I -SHAREHOLDERS**

**2. Relations with Shareholders Department**

The information regarding Investor Relations and Subsidiaries Department responsible for the relations with shareholders is given below.

Ahmet DEMİR	Chief Financial Officer / Vice President
Aykan ÜRETEN	Finance Director
Pınar ÇELEBİ	Manager of Investor Relations and Subsidiaries Department
Bâni Betül GÖKÇE	Investor Relations and Subsidiaries Department/Senior Expert
Başak YÜCEKAYALI	Investor Relations and Subsidiaries Department/Expert

Contact information

Phone: (312) 592 12 33 - 42 - 45 - 70

e-mail: ortaklar\_servisi@aselsan.com.tr

Main operations carried out by Investor Relations Department during 2013 are as follows:

- Maintenance of exercise of partnership rights of shareholders, updated and safe records regarding shareholders,
- Coordination of public disclosure of material events,
- Answering the written inquiries of shareholders regarding the company excluding the information considered as private and trade secret not disclosed to public,
- Ensurance of execution of General Assembly meeting in compliance with the regulation in force, Articles of Association and other company regulations, records being kept regarding the ballots and the results being reported to shareholders,
- Monitoring of every issue regarding the public disclosure including the regulations and company policies on information,
- Execution of tasks assigned by Corporate Governance Board,
- Operation of transactions regarding capital increase, profit distribution, amendments on Articles of Association and works of Corporate Governance Principles,
- Coordination of updating the list of people who have access to insider information; informing those people in purpose of protecting the insider information and obeying the privacy rules until financial and operational results are disclosed to public,
- Coordination of preparation and publishment of Sustainability Report.

The information and explanations which may affect the exercise of shareholders rights are provided in the company website.

**3. Exercising of Information Acquisition Rights of the Shareholders**

Investor Relations Department has taken care of every written and verbal inquiry of all shareholders, particularly of Turkish Armed Forces Foundation, in 2013 with most accurate and fastest way. It is paid attention to respond to all the information demands of shareholders with complete and comprehensible responses.

Investor Relations Department has been using the English website [www.aselsan.com](http://www.aselsan.com) and Turkish website [www.aselsan.com.tr](http://www.aselsan.com.tr) actively in order to inform the ASELSAN's investors on a timely and accurate basis and has been updating the information given on the web constantly. Full compliance of both Turkish and English chapters on "Investor Relations" on the website with the regulations was achieved.

Within the context of regulations of Capital Market Board, in 2013;

- General Assembly documents were published on the website in Turkish and English within legal deadlines,
- General Assembly minutes and participants list were published on the website in Turkish and English,
- 2012 Annual Report was uploaded to the website in Turkish and English.
- The investor presentations which are updated every 3 months were published on the website in Turkish and English,
- Disclosures of material events made in 2013 were published on the website in Turkish and English and the announcements began to be published on the website in Turkish and English simultaneously after March 2013,
- "Analyst Coverage" page was updated,
- Corrections were made on "Capital Increases" page,
- The missing content in "Dividend Info" page was completed,
- "Compensation Policy" was added to "Policies" page,
- "Investor Presentations" page was published,
- ASELSAN Sustainability Report was published on the website in Turkish and English.

Due to the reason that a regulation is present within the Turkish Code of Commerce (TCC) numbered 6102 according to which the shareholders will be able to request from the General Assembly the assignment of a private auditor for the inspection and disclosure of the financial status of the shareholders and due to the reason that the law and the relevant legislation are considered for the issues not present in the Articles of Association of the Company, there is no respective provision with regard to this issue in the Articles of Association. There was no request of any shareholders with respect to the assignment of a private auditor in 2013.

#### **4. General Assembly Meetings**

The agenda and invitation related to the 38<sup>th</sup> Ordinary General Assembly Meeting dated 29.03.2012 with regard to 2012 operations realized at the Company headquarters were duly announced comprising all the necessary information in the Turkish Trade Registry Gazette dated 07.03.2013 along with five daily newspapers in Turkey. Furthermore the invitation was sent to the main shareholders and the shareholders attended to the previous meeting by post two weeks before the General Assembly. The General Assembly was held with the attendance of 106 shareholders, 19 physically, 87 electronically representing 45.015.835.266 shares (450.158.352,66 nominal) of 50.000.000.000 total shares. Media members did not participate in the General Assembly Meeting which was held for the first time simultaneously both physically and electronically.

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.

### ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2013

In scope of the Communiqué related to the Determination and Implementation of the Corporate Governance Principles of the CMB, Serial: IV, No:56, three weeks before the Ordinary General Assembly on date 07.03.2013, the Ordinary General Assembly Meeting agenda, place, time, copy of the power of attorney, total number of shares as of 07.03.2013 and the voting rights, the number of shares representing the privileged shares and their voting rights, the reasons for the changes by the election of the members of Board of Directors, which is present in the agenda, the decision of the Board of Directors related to the amendment to the Articles of Association, the old and new versions of the Articles of Association with the approvals of the CMB and the Ministry of Customs and Trade, the list of independent members of the Board of Directors, the proposal of the Board of Directors with respect to the 2012 year profit distribution, the CV's of the independent members of the Board of Directors and their statements of independence were published on our Company website. The annual report was made available for the review of the shareholders at the headquarters 15 days before the General Assembly and handed to the shareholders to participate in the General Assembly and to the ones who made requests.

For the facilitation of physical attendance to General Assembly Meeting in 2013, transportation from central spots to our Company head office was provided for our shareholders, and our shareholders who attended the General Assembly had a site visit.

In the Ordinary General Assembly Meeting in 2013, the shareholders were informed regarding the presence of managing members, all the Board of Directors members and auditors at the meeting. No proposals were set forth by the shareholders during the meeting regarding the agenda. The shareholders exercised their rights to ask questions regarding the topics in the agenda and the answers to the questions took place in the General Assembly Meeting minutes. The minutes of the General Assembly Meeting held in 2013 can be reached from the website of the Company.

In connection with article 1.3.7 of the Communiqué No:56 Serial: IV, a topic was added to the agenda of the Ordinary General Assembly in 2013 and in this scope information was provided to the Board of Directors stating that there was no authorization granted to the ruling shareholders with regard to the Company Management, Members of the Board of Directors, senior executives and to their spouses and relatives up to second degree and kins by marriage for them to perform acts which would cause conflict of interest with the Company or its subsidiaries, or to compete.

No Extraordinary General Assembly Meeting was held during the year 2013.

The shareholders were informed regarding the amount of donations and aids made in 2012 and the beneficiaries with a separate agenda item. The policy regarding the donations and aids formed in 2013 was submitted to the shareholders in the general assembly meeting in the agenda; a decision was made regarding the upper limit of donations and aids to be made in 2013 and the donation and aid limit was designated as 5 of thousandth (TL 146.000) of net income of consolidated financial statements prepared according to CMB regulations to be valid until general assembly meeting of the Company and group companies that will be held in 2014.

**5. Right to Vote and Minority Rights**

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

The regulations regarding the voting of the shareholders through their representatives are followed by; in the event of a legal representation, it is certified and the open proxy rule is applied. In the General Assembly in 2013, the amendment to the Articles of Association regarding the Electronic General Assembly was approved.

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

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

**6. Dividend Rights**

There is no privilege with respect to the participation in the profit gained by the Company. The profit distribution policy was revised in 2013 and was submitted to General Assembly meeting. The profit distribution policy published on our website is given below.

“The dividend amounts which shall be calculated considering the sustainable growth rate, market values and cash flows, the company equity, with the relevant legislation and the provisions of the articles of association over the distributable profit amount calculated taking the period profit as the basis which is shown on the financial statements of our Company prepared pursuant to the existing legal regulations (after the compulsory legal reserves are reserved and the taxes, funds and financial liabilities and losses of the previous year, if any, are deducted and the donations are added), The profit distribution proposal which shall be prepared by the Board of Directors in order for the shares which shall be issued by means of adding the cash or the dividend on the capital on the date(s) determined pursuant to the regulations of the Capital Markets Board to be distributed in cash in the defined amounts or as bonus shares or bonus shares in defined amounts, shall be submitted to the approval of the General Assembly. Following the approval of the General Assembly, the determined profit share distribution amounts are distributed to the shareholders within the legal periods on the date determined by the General Assembly.

There is no privilege to participate to the profit of our Company. The profit shares are distributed equally regardless of all the existing shares and their issue and acquiring dates.”



As per the decision taken in the General Assembly pursuant to the provisions of the Articles of Association and to the Capital Market Law and other legal regulations in 2013 and within the legal periods, out of the profit gained from 2012 operations, the gross amount of TL 78.500.000 (TL 0,157 per TL 1 of share, gross 15,7% over the capital) (net TL 66.725.000– TL 0,13345 per TL 1 of share, net 13,345% over the capital) was distributed to our shareholders as cash dividend.

**7. Transfer of Shares**

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 “Group A shares shall not be sold or transferred without the consent of the Board of Directors; in the event that these shares are transferred or sold to third parties partially or completely without the consent of the Board of Directors, the Board of Directors is entitled to abstain from recording this sale in the records without stating a reason”. However, in 2013, the amendment of the related Article 6<sup>th</sup> in the following respect “Group A shares shall not be sold or transferred without the consent of the Board of Directors because of the Company’s operations in security and defence industry; 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” will be submitted to the shareholders’ approval in General Assembly meeting for which the permissions were attained from Capital Markets Board and Ministry of Customs and Trade.

**PART II - PUBLIC DISCLOSURE AND TRANSPARENCY**

**8. Disclosure Policy**

The Disclosure Policy of our company was revised in accordance with the Communiqué on Material Events numbered II-15.1 and will be submitted to the shareholders' information in the General Assembly meeting in 2014. The Disclosure Policy of our company is published in the Annual Report of 2013.

In our Disclosure Policy;

- Carrying the relations with capital market participators and following the capital market regulations,
- Exercise of shareholders' right and meeting the information demands of investors and shareholders,
- Regulations related to General Assembly Meetings,
- Information flow including the website

and the coordination of related matters are indicated.

Board of Directors is responsible from forming the Disclosure Policy, its follow-up, evaluation and development. Corporate Governance Committee informs and proposes to Board of Directors on issues regarding Disclosure Policy.

Any question or explanation can be made regarding ASELSAN by:

- Chairman and Members of Board of Directors
- CEO
- Vice CEO

either verbally or in written form. Personnel other than indicated here are not authorized to answer any written or verbal inquiry demand received from capital market participators. Received information demands are forwarded to Investors Relations and Subsidiaries Department.

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

Investor Relations Department personnel have been assigned to pursue and monitor all kinds of issues related to public disclosure. Capital market participators such as investors and financial analysts are directed to this department. Meetings with the capital markets participants are seen as a significant part of developing investor relations for our Company. However, no new information is provided in these meetings but only already disclosed information is updated and ASELSAN does not disclose any insider information which shall affect the value of ASELSAN shares and the decision of the investors and which have not yet been disclosed to the public. The reports and presentations shared with a certain group of investors are also published on the website along with a material event disclosure. In compliance with the transparency principle, accounting policies and activity results are also disclosed to the public in a realistic manner.

Pursuant to the CMB regulations, 43 material event disclosures were made within 2013 via Public Disclosure Platform. These are made available on our website as well. There were no additional explanation requests by the CMB or by Borsa Istanbul within the year.

During 2014, the disclosures regarding financial statements –except notes- will be declared in English simultaneously with the Turkish version in Public Disclosure Platform. Explanations in English will be prepared in summary in accordance with the Turkish explanation in a precise, direct and comprehensible manner.

Pursuant to the Disclosure Policy of our Company, prospective expectations are also disclosed to the public. Within this context, our expectations for the 2013 consolidated financial results were disclosed on 05.03.2013 and the management evaluation regarding the realization of our expectations are included in article 9 of the Board of Directors Annual Report.

**Disclosure of the “People who have Access to Insider Information” to the Public**

The list of people who have access to insider information which has been prepared in accordance with CMB regulations since 2004 was reviewed in accordance with the Communiqué on Material Events dated 23.01.2014 numbered II-15.1 and it has been followed by being loaded to the system of Central Registry Agency.

**9. Company Website and its Content**

In order to inform our shareholders in a timely and accurate manner within the context of public disclosure and transparency; the website of the Company at the address [www.aselsan.com.tr](http://www.aselsan.com.tr) in Turkish and [www.aselsan.com](http://www.aselsan.com) in English is actively used and the information published on the web are updated regularly. In 2013, full compliance acquired to related regulations and judgements under “Investor Relations” section in both the Turkish and English versions of our Company’s website.

The section “Investor Relations” is included on our website also comprising the issues listed in article 2.2 of the Communiqué Regarding Determination and Implementation of Corporate Governance Principles issued by the CMB, Serial: IV, No: 56 which also includes the judgements noted in 2.1.1. numbered governance principle of Corporate Governance Communiqué numbered II-17.1 issued on 03.01.2014.

Under “Investor Relations” section;

1. Corporate Governance
  - 1.1 Shareholder Structure
  - 1.2 Board of Directors
  - 1.3 Board Committees
  - 1.4 Articles of Association
  - 1.5 Company Profile
  - 1.6 Policies
  - 1.7 Ethical Principles
  - 1.8 General Assembly Meeting
  - 1.9 Compliance with Corporate Governance Principles
  - 1.10 Corporate Governance Rating
2. Stock Info
  - 2.1 Stock ID
  - 2.2 Non-Deposit Shares
  - 2.3 Capital Increases
  - 2.4 Dividend Info
  - 2.5 Analyst Coverage
  - 2.6 Registration Statement and Public Offering Circular
3. Annual Reports
4. Financial Data
  - 4.1 Financial Reports
  - 4.2 Financial Highlights
  - 4.3 Investor Presentations
5. BIST Disclosures
6. Frequently Asked Questions
7. Contact

chapters exist. Necessary records and information are included under these titles. The information given on the Turkish website under “Investor Relations” section is included entirely on the English website.

## **10. Annual Report**

The Board of Directors prepare the annual report in detail regarding the Company activities and which enable the public to reach complete and accurate information that can be comprehensive. The 2013 annual report of our Company was prepared as per the Turkish Code of Commerce numbered 6102, the Regulation Regarding the Determination of the Minimum Content of the Annual Reports of Companies issued by the Ministry of Customs and Trade, the Communiqué Regarding the Principles Related to Financial Reporting in the Capital Market and the Communiqué Regarding the Determination and Implementation of the Corporate Governance Principles, both issued by the Capital Markets Board.

### **PART III - STAKEHOLDERS**

#### **11. Informing the Stakeholders**

The information requests of stakeholders are keenly handled and attention is paid in responding these accurately and in an understandable manner. Our employees are informed with a personnel hand book and informing presentations over the intranet. As for our suppliers, strategic cooperation and certified suppliers policy is followed and our suppliers are informed via internet or e-platforms and face to face meetings are held through visits. The studies are being carried on in order to establish “ASELSAN Suppliers Portal” in order to enrich the content, efficiency and quality of our communication with the suppliers. While web-based electronic purchase platform is already used in the internet, the platform will be upgraded to a more comprehensive content. In the suppliers’ portal, it is targeted for the suppliers to reach and govern the information regarding them.

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

Our core principle related to customer satisfaction is to deliver products/services meeting the expectations and requirements of the customers. For this purpose, requirements are defined in an accurate and complete manner and products tailored for these requirements are designed and produced and the logistics support is provided accordingly. Customer satisfaction evaluations are open to access of every director within the context of Management Reports and the results and tendencies of customers are evaluated on a yearly basis by the upper management.

Our products are designed and produced in accordance with the military, civil and international standards. Starting with the design phase, these quality standards are fulfilled throughout the life-cycle of our high-end technology products and strict tests and controls are applied in every stage of production starting at the material procurement stage in order to guarantee that all products are produced in the same quality. Our products and services have been certified by internationally accepted standards such as AS9100, ISO 9001, AQAP and CMMI. The conformity of our products and services are approved every year with the audits performed.

To minimize quality problems, the suppliers are subject to commercial, technical and qualitative evaluations in order to assure that, materials and software or related services are supplied from reliable suppliers. The result of the evaluation is submitted to the suppliers and qualified ones are chosen to work with. Within this context, in 2013 orders, half of which were domestic orders, were given to 3.700 suppliers.

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

ASELSAN Magazine published every 4 months provides information regarding the activities, technical issues and up-to-date social events. Hardcopies of ASELSAN Magazine is delivered to the end users of ASELSAN products, shareholders who participated to the General Assembly Meeting, company employees and other related parties and uploaded to the website right after it is published.

The Compensation Policy can be accessed from our company's website under Corporate Governance title.

The members of the Board of Directors and the executives do not perform any activities that may cause shareholders to incur losses or may diminish the Company assets.

It is resolved that the actions to be taken with regard to the article of Corporate Governance Principles "The company builds the necessary mechanisms through which the stakeholders may inform the corporate governance committee or audit committee about the transactions of the company which are in contradiction with the related regulation and are ethically inappropriate." shall be coordinated by the Audit Committee and the studies regarding this issue are carried on.

## **12. Participation of Stakeholders in the Management**

In the Articles of Association, there are no provisions regulating the participation of the stakeholders in the management. However, their participation to management shall be supported provided that it does not corrupt the Company activities.

The corporate governance structure of the Company gives the opportunity to all stakeholders including the employees and representatives to convey their worries with regard to transactions which are inappropriate in terms of legality and ethics.

The Company employees have the opportunity to convey their expectations and requests through the representatives. The Company employees are informed about their financial and social rights over the intranet. Besides, there is an Employee Representative Agency in the Company where 40 representatives are present and which is formed by the Company personnel to enable the contact between the Company personnel and the management.

The periodical meetings held with the employee representatives are the platforms where employers and employees exchange their wishes, requests and opinions regarding the implementations. The meeting minutes formed as the result of these meetings are announced to all personnel through the employee representatives page on the intranet. The presidency of the employee representative is performed by Yasin Zengin and the coordinator role is carried out by Mert Kovuk. The duties and authorizations of the Employee Representative Agency is to convey the wishes, proposals and problems of the group personnel represented and to share the received opinions with the group personnel and to pay efforts to provide an open and efficient communication between the personnel and the management.

In addition, since the beginning of 2013, parallel to the mission, vision, aims and sustainable success strategy of ASELSAN, idea management system was put into force which promotes innovation, constant improvement and efficiency. The ideas chosen to be realized by ASELSAN Idea Evaluation Committee are awarded.

### **13. Human Resources Policy**

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

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

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

Among the company personnel, there are 2 leaders, 1 chief, 10 personnel representing the engineers, 21 personnel representing the technicians, 2 personnel representing the bureau personnel and 4 personnel representing the workers, which make up a total of 40 personnel representatives.

There were no complaints related to discrimination from the employees in 2013. Performance and rewarding policies are announced to all of our employees through Company directives.

### **14. Ethical Rules and Social Responsibility**

The ethical rules of our Company have been written and were published on our website. Furthermore, in order to integrate and develop the ethical rules with the implementations, an Ethical Committee was established to meet the evaluation, direction, consulting and recommendation requirements and create shared knowledge.

“Ethical Principles and Behaviour Rules” document is announced to all ASELSAN 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 on this document, the changes are made known to all the personnel and training programs about these changes are organized if seen necessary.

Ethical Committee comprises of nine members and the secretariat is handled by Human Resources Manager. Other members are the representatives indicated by divisions; the Law Department and Procurement Department charged by the CEO. If there are no changes in the organization, the Ethical Committee members serve at least for five years.

Ethical Committee meets 4 times a year unless an application or disobedience is present. CEO or any member of the committee can call a meeting. Beyond intervening in applications and

disobedience, Ethical Committee represents reason and conscience of ASELSAN and works to increase the awareness in ASELSAN family. When there is an application, required research conclusions and necessary documents are forwarded to Ethical Committee. Committee Chairman presents these to the CEO and a parallel investigation is carried out. At the end of this investigation, necessary steps are taken in accordance with relative law and ASELSAN regulations. The applications and disobedience is reported periodically in Board of Directors meeting.

Audit Committee is responsible for establishing the mechanism where the complaints regarding the unethical behaviours and acts against the regulations are evaluated, concluded and operated confidentially. The Committee is expected to complete its studies on this matter during 2014.

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

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

Our company has supported the competition “New Ideas New Jobs” organized by METU and METU Teknokent in 2013 in Defence Industry category.

## **PART IV – BOARD OF DIRECTORS**

### **15. Structure and Formation of Board of Directors**

3 members of 9 members of Board of Directors are independent members. The duties of Nomination Committee are executed by Corporate Governance Committee. In 2012 General Assembly Meeting, Independent Members of Board of Directors elected for 1 year of service were nominees for 2013 membership. The report on evaluation of list of Independent Members of Board of Directors prepared by Corporate Governance Committee on 05.03.2013 was presented to Board of Directors on the same date and the CV's and independence declarations of 3 nominees were announced on our website to public on 05.03.2013. As a result of the voting at the General Assembly Meeting on 29.03.2013, 3 nominees were elected as Independent Members of Board of Directors. There is a female member among Independent Members of Board of Directors. There were no cases to eliminate the independency of the Independent Members of the Board of Directors in 2013.



**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.****ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD  
BETWEEN 1 JANUARY – 31 DECEMBER 2013**

The CVs of the Members of the Board of Directors are included in the 2013 annual report and the information with respect to their duty terms is provided in the below table.

<b>Name Surname</b>	<b>Duty</b>	<b>Election Date</b>	<b>Termination Date</b>	<b>Responsibilities other than the Company</b>
Necmettin BAYKUL	Chairman / Managing Member	March 2013	March 2014	-
Erhan AKPORAY	Vice Chairman / Managing Member	March 2011	March 2014	-
Halil SARIASLAN	Independent Member	March 2013	March 2014	Başkent University International Trade Department Chairman
Lamia Zeynep ONAY	Independent Member	March 2013	March 2014	METU Business Administration Department Lecturer
Cumhur Sait Şahin TULGA	Independent Member	March 2013	March 2014	Mentoro Ltd. Şti. Founding Partner, Director
Hasan CANPOLAT	Member	BoD Decision on 16.05.2013	First General Assembly Meeting	Consultant to Ministry of National Defence
Mustafa Murat ŞEKER	Member	BoD Decision on 16.05.2013	First General Assembly Meeting	Head of Department in Undersecretariat for Defence Industries

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.**ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD  
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Orhan AYDIN	Member	16.05.2013	First General Assembly Meeting	Chairman of Board of Directors in; OSTİM Org. Industry Region, OSTİM Industrial Invest. And Management LTD, OSTİM Middle East Industry and Commerce Centre R&D Educ. And Support Inst., OSTİM Small Industry Cite Cooperative Building House, Kızılcahamam Aksaya Investment Const. Management LTD and OSTİM Finance and Business Centre Construction Real Estate Electronic Production LTD.; Ankara Development Agency Member of Board of Directors, Aydın Insurance LTD Partnet and Manager, Ankara Chamber of Industry Discipline Committe Member
Murat ÜÇÜNCÜ	Member	16.05.2013	First General Assembly Meeting	

N.B. E.A. H.S. Z.O. Ş.T. H.C. O.A. M.Ş. M.Ü. C.E

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD  
BETWEEN 1 JANUARY – 31 DECEMBER 2013

Cengiz ERGENEMAN	CEO	January 2006	IGG ASELSAN Integrated Sys. LLC Board of Directors Vice Chairman, SASAD Board of Directors Chairman
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In article 13 on the Articles of Association titled “Duties and Authorization of the Board of Directors”, the duties and authorization of the Board of Directors have been defined and the amendment to the Articles of Association with regard to the compliance of these with the corporate governance principles was approved in 2013 General Assembly Meeting. 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 “Assignment of the Authorization to the CEO”, the assignment of the authorization of the Board of Directors to the CEO has been set out. The duties and authorization of the executives are described in the “Duties and Responsibilities Directive” formed within the Company.

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

- There are no members of Board of Directors carrying out an executive duty.
- The statements of independence of the Independent Members of the Board of Directors have been provided at the end of the Compliance Report.
- The Members of the Board of Directors fulfill their duties without any interest or benefit and pursuant; to the liabilities and authorizations undertaken by the Board of Directors and to the regulations of the Turkish Code of Commerce and Capital Markets Board.
- Members of the Board of Directors are liable not to enter into any commercial treatments directly or indirectly with the Company that coincides with the Company objectives, on their behalf or on behalf of others without the consent of the General Assembly.

### 16. Principles of Activity of Board of Directors

Board of Directors carries out its duties and responsibilities determined with reference to Turkish Commercial Code, Capital Market Law and Articles of Association. In this context, the basis of duties and operations are indicated in details in ASELSAN Board of Directors Operation Directives.

The agenda of the Board of Directors meetings is formed with the proposals of the Members of the Board of Directors and the committees and the CEO, it is afterwards evaluated by the Board of Directors Chairman and finalized. The subjects emerged as urgent and which are

N.B. E.A. H.S. Z.O. Ş.T. H.C. O.A. M.Ş. M.Ü. C.E

considered worthwhile to discuss may be added to the agenda during the Board of Directors meeting.

As per article 10 of the Articles of Association, the Board of Directors assemble when required and at least once a month. The number of Board of Directors Meetings in 2013 was 41 (27 decision in 41 meeting are interim decisions). All of the Members of the Board of Directors attended 20 meetings.

The place, date, time and agenda of the next meeting is decided at the Board of Directors Meetings. Documents pertaining to the meeting agenda are sent to the members of Board of Directors at least 3 work days before the meeting by the General Management.

The Members of the Board of Directors attend the meetings and fulfill their duties as per their authorization and responsibilities. The members who do not attend the meetings submit their excuses.

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

During recording the meeting resolutions to the Board of Directors Resolution Book, the Board of Directors Reporter acts as per the articles 64, 65 and 390 of Turkish Code of Commerce regulated with respect to the liability to keep books, the method of keeping books and the decisions of the Board of Directors, respectively.

According to this, the reporter enables, the date and number of the decision, names and surnames of the attendants, the names and surnames of the members of Board of Directors who did not attend the meeting and their excuses, if any, the agenda of the meeting, proposals and negotiations regarding the agenda, the decision, dissenting opinions, if any, and the signatures of the attendants to be recorded in the book.

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

the general assembly since they were not approved by the Independent Members of the Board of Directors.

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

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

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

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

Boards of Directors have made the annual evaluation of the committees composed under its structure and the evaluation report is available in 2013 Annual Report.

#### **AUDIT COMMITTEE**

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

The main duties of the Audit Committee that were set out in the “ASELSAN Audit Committee Work Directives” regulating the working principles of Audit Committee are as follows:

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

Meetings were held by Audit Committee on dates 05.03.2013, 16.05.2013, 22.08.2013 and 11.11.2013 regarding the financial statements with the participation of the relevant independent audit company in 2013.

In order to maintain the efficiency of internal audit, attention was paid to strengthen the cooperation with Internal Audit and Assessment Board (IAAB) and to the supervision of internal audit activities, direct and continuous communication was established between Audit Committee and IAAB. A dimension of this communication; Audit Committee-IAAB coordination meetings, were held four times on dates 27.02.2013, 15.05.2013, 17.09.2013 and 12.12.2013. Audit Committee was informed about the IAAB activities in these meetings.

The Committee was active in two main topics in 2013:

**i. Independent Audit Activities and Works Regarding the Audited Financial Statements:**

“Communiqué on Financial Reporting in Capital Markets” Serial: II, 14.1 regulated the preparation of financial reports and their basis, principles of presentation to the relevant parties. December 2012 and March 2013 financials were prepared in accordance with the communiqué numbered Serial: XI, No:29 while June 2013 and September 2013 financials and annual report was prepared according to the communiqué numbered Serial: II, 14,1, and submitted to Board of Directors by Audit Committee and presented to the public via Public Disclosure Platform.

As a result of the evaluation of independent audit firm for 2014, the decision making of DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. to give the service was handled by Procurement Department and the purchasing decision was submitted for approval on Board of Directors meeting in 2014 January to be discussed in 31 March 2014 General Assembly Meeting.

**ii. Internal Audit and Assessment Committee Activities:**

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

**CORPORATE GOVERNANCE COMMITTEE**

Committee Members (2013 January - May)

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

Committee Members (2013 May - December)

Cumhur Sait Şahin TULGA	Chairman/Independent Member of the Board of Directors
Erhan AKPORAY	Member/Vice Chairman of the Board of Directors
Hasan CANPOLAT	Member/Member of the Board of Directors
Orhan AYDIN	Member/Member of the Board of Directors

N.B. E.A. H.S. Z.O. Ş.T. H.C. O.A. M.Ş. M.Ü. C.E

Mustafa Murat ŞEKER	Member/Member of the Board of Directors
Murat ÜÇÜNCÜ	Member/Member of the Board of Directors

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

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

The Corporate Governance Committee assembled four times within the activity year 2013 on dates 29.01.2013, 05.05.2013, 22.08.2013 and 28.11.2013. The meeting minutes of the Committee may be reached on our website. The committee was active in three respective tasks in 2013:

**i. Operations of Investor Relation Department:**

Until December 2013, the responsibilities and duties of investor relations were carried out by Investor Relations and Subsidiaries Unit under Treasury and Fund Department; since December 1<sup>st</sup> of 2013, Investor Relations has been structured as a separate Department. The representative of this department have attended the meetings of corporate governance committee and informed the committee on the operations periodically.

The duty of monitoring the operations of Investor Relations Department was given to Corporate Governance Committee with reference to the Communiqué. The applications for amendment in Articles of Association, organization of General Assembly meeting for 2013, concluding the record of physical stakes and payments made to Central Registry Agency, material events disclosure with reference to Capital Markets Board declarations, analyst and investors meetings and the update of “Investor Relations” section of our website performed by Investor Relations in 2013 were reviewed.

**ii. Corporate Governance Rating:**

The evaluation of corporate governance rating performed by SAHA Corporate Governance and Ranking Services LTD on 13.12.2012 were concluded during the last quarter of 2013. According to the review, the score of 13.12.2013 8,77 out of 10 was revised as 9,07 out of 10. The scores are respectively as follows; for shareholders 80,90, for Public Disclosure and Transparency 99,19, for Stakeholders 94,85 and for Board of Directors, 89,87 out of 100. In this context, our share remained in the same index since 14.12.2012. The report can be accessed on our website.

**iii. Election of Independent Board Members**

As given by Corporate Governance Principles, the responsibility of evaluating and reporting the nominations and their independency status is given to the Nomination Committee, in companies where this committee is not formed because of the structure of the Board of Directors, the responsibility is given to Corporate Governance Committee. Within this context, the evaluation of nominations which were made until the end of February 2013 was carried on by the Committee and the resulting nominee list was presented at the Board of Directors meeting on 05.03.2013. The list was proposed to shareholders' voting on General Assembly Meeting on 29.03.2013 and as a result Cumhur Sait Şahin TULGA, Lamia Zeynep ONAY and Halil SARIASLAN were elected as independent members to serve for 1 year.

**EARLY DETECTION AND MANAGEMENT OF RISK COMMITTEE**

“Early Detection and Management of Risk Committee”, which was established with the resolution of ASELSAN Board of Directors on 10.04.2012, 720/1 executes its operations within the framework of regulation ASY-01-066.

The member number of the committee which was working with 3 Board of Directors members and 2 consultant members until May 2013, was increased to 6 with 767/1.c. numbered ASELSAN Board of Directors resolution. The members are listed below:

**Committee Members (2013 January - May)**

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

**Committee Members (2013 May - December)**

Lamia Zeynep ONAY	Chairman / Independent Member of the Board of Directors
Erhan AKPORAY	Member / Member of the Board of Directors
Hasan CANPOLAT	Member / Member of the Board of Directors
Murat ÜÇÜNCÜ	Member / Member of the Board of Directors
Mustafa Murat ŞEKER	Member / Member of the Board of Directors
Orhan AYDIN	Member / Member of the Board of Directors

In order to support the Corporate Risk Governance System development operated by the committee, Chief Financial Officer and Strategic Management Director were involved in the committee as consultants. In addition, the secretary duties are operated by Strategic Management Directorate.

The committee continues its studies in determining the risks which may prevent ASELSAN from reaching its goals; governing these risks in accordance with the company's risk handling profile, its reporting; consideration through decision mechanisms and establishment of internal control. In this respect, in 2013, the committee held 8 meetings on 10.01.2013, 24.01.2013 20.03.2014, 18.04.2013, 12.06.2013, 30.07.2013, 24.10.2013 and 25.12.2013. Committee's works are summarized below.



- i. “ASELSAN Risk Map” and “ASELSAN Risk Inventory Report” were completed in January 2013 and submitted to Board of Directors’ information and approval.
- ii. ”2012 Evaluation Report” was prepared and submitted to Board of Directors’ information on February 2013.
- iii. As a result of legal obligations, the risks to be placed in the annual report were indicated and the evaluations of risks were included in “ASELSAN Annual Report”.
- iv. “Corporate Risk Evaluation Report” was completed and has been submitted to Board of Directors with a 2 months period since April 2013. Within the context of the operations followed with the report;
  - Important risks beared by ASELSAN were identified and risk classification, explanation, rating, strategy, owner, present operations and relevant indicators were included in the report.
  - In order to follow the risk developments, for adoptable risks, the utilization of indicators was embraced. In this respect, relevant indicators were evaluated, alternative indicators were investigated and necessary indicators were selected with detailed explanations. The surveillance of risks began with the determination of responsible people about relevant data.
  - Warning benchmarks for risk indicators were determined and it was targeted to draw the attention of Board of Directors to the risks which go beyond the benchmark at the end of the report.
  - In the meetings held by the committee, present developments regarding the risks began to be evaluated. In order to increase the operation of Corporate Risk Governance System and reducing present risks to minimum, Committee suggestions and proposals are shared with related departments.

#### **18. Risk Management and Internal Audit Mechanism**

Internal audit operations and corporate governance are facilitated via risk management and development of efficiency of internal audit procedures in ASELSAN.

The most important role of internal audit operations is assuring the Audit Committee and Board of Directors that the risks are being managed effectively. Annual audit plan and work programs are prepared on a risk basis and audit results are reported periodically to Audit Committee. Harmonization with legal and firm regulations, the status of application of ethical principles and risk riddling off is evaluated by internal audit department.

#### **19. Strategic Objectives of the Company**

The Board of Directors is the top level body to make strategic decisions and to execute and represent. As per the Articles of Association of the Company, the Board of Directors is responsible to determine the strategic plans and control their implementations.

Strategic governance process is a part of Corporate Governance and is managed by Strategic Governance Committee formed by the members of Board of Directors and Strategic Management Director. Reaching ASELSAN’s long term goals and sustaining success can be achieved through environment friendly strategies.

ASELSAN's vision is to become one of the biggest 50 defence industry companies. In this respect, perspective plans looking beyond 10 years, 5 year plans updated every year and 3 year budget plans are prepared. With this methodology, short and middle term targets are specified by considering long term goals. The operations to be carried out for these targets are executed by Company Divisions and performance evaluations are made based on Balanced Scorecard.

## **20. Financial Rights**

Monthly remunerations provided to our Members of the Board of Directors are determined by the General Assembly and no other benefits are granted apart from the monthly remuneration. Pursuant to the resolution taken at the 38th Ordinary General Assembly held on 29.03.2013, the Members of the Board of Directors are paid TL 2.200 per month. As for the determination of the financial rights of the board members, no reward system is applied to reflect the Company performance and which is based on the performance of the Members of the Board of Directors.

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

The remuneration principles for the Board of Directors and the Senior Managers of the Company have been formed and the shareholders were provided with this information at the Ordinary General Assembly Meeting held in 2012 and it was announced to the public through our website. As an obligation of the Corporate Governance Communiqué numbered II-17.1 published in 2014, the remuneration policy was reviewed and it will be submitted to the information of shareholders during General Assembly Meeting of 2014 where 2013 operations will be discussed.

**Statement of Independence**

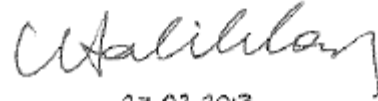
To the Board of Directors of ASELSAN Elektronik Sanayi ve Ticaret A.Ş.;

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

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

Sincerely yours,

Prof. Dr. Halil SARIASLAN



27.02.2013

**Statement of Independence**

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

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

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

Sincerely yours,

Assoc. Prof. Dr. Lamia Zeynep ONAY



27.02.2013

**Statement of Independence**

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

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

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

Sincerely yours,

Cumhur Sait Şahin TULGA



27.02.2013

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.**

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD  
BETWEEN 1 JANUARY – 31 DECEMBER 2013

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Necmettin BAYKUL  
Chairman of Board of Directors

Erhan AKPORAY  
Vice Chairman of Board of Directors

Halil SARIASLAN  
Member of Board of Directors

Lamia Zeynep ONAY  
Member of Board of Directors

Cumhur Sait Şahin TULGA  
Member of Board of Directors

Hasan CANPOLAT  
Member of Board of Directors

Orhan AYDIN  
Member of Board of Directors

Mustafa Murat ŞEKER  
Member of Board of Directors

Murat ÜÇÜNCÜ  
Member of Board of Directors

Cengiz ERGENEMAN  
Chief Executive Officer

N.B. E.A. H.S. Z.O. Ş.T. H.C. O.A. M.Ş. M.Ü. C.E