

1. Principles on preparation

The interim period report of the Board of Directors is prepared on the basis of Communiqué Series II, No: 14.1 “Principles of Financial Reporting in Capital Markets” dated 13 June 2013.

Company and ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Limited Şirketi “ASELSANNET”, which is a subsidiary of the Company operating in the same sector and whose financial statements are consolidated will be mentioned as “Group” in the interim period report of the Board of Directors.

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.. Its trade register number is 31177. Its 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. Its Internet address: www.aselsan.com.tr

The Company has a branch in Republic of South Africa, Pretoria The contact address of the branch is Building 4, Room 005 CSIR Campus, Meiring Naude Drive, Pretoria Gauteng, 0001, South Africa. Phone: +27 (0) 12 349 2613, Fax: +27 (0) 12 349 2544.

The Company has a branch in the Republic of Macedonia, Skopje. The contact address: Ankarska 29A, 1000 Skopje, Macedonia.

The Company has an office in United Arab Emirates, Abu Dhabi. The contact address is Industrial City of Abu Dhabi 1, Plot 22J1 PO Box: 133627 Abu Dhabi/UAE.

Phone: +971 2 550 8808, Fax: + 971 2 550 8812.

3. Organizational structure of the company

Company’s domestic and foreign organization has been restructured as of 01 September 2014 in accordance with the vision of becoming a global company. Major goals of restructuring are strengthening critical technological skills which the company possesses, reaching targeted new technological skills, increasing ability of research and development (R&D) at a global level, developing human resources and its education, growing company by reaching new markets both domestically and abroad.

Within this scope, the Company has been restructured under five Vice Presidencies that will carry the production and engineering tasks, which are; Communication and Information Technologies (HBT), Microelectronics, Guidance and Electro-Optics (MGEO), Defense Systems Technologies (SST), Radar, Electronic Warfare and Intelligence Systems (REHİS) and Transportation, Security, Energy and Automation Systems (UGES).

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In order for General Management to fulfill planning at strategic level, pursuing and assessing functions in a more efficient way, five different Vice Presidencies have been constituted as Financial Management Vice Presidency, Shared Systems Vice Presidency, R&D and Technology Vice Presidency, Strategy and Business Development Vice Presidency and Human Resources Management Vice Presidency.

Internal Audit Department which is connected to Board of Directors; Strategy Advisory Board and Science and Technology Advisory Board which are connected to General Management have been established.

Company maintains engineering operations in Ankara, METU Teknokent; production and engineering operations in Macunköy, Akyurt and Gölbaşı. General Management is located in Ankara Macunköy. Also, Marine Systems Management of SST Sector Presidency and Product Support Management of UGES Sector Presidency are located in Istanbul.

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

The capital structure as of 30 June 2015 and 31 December 2014 are as follows:

Partners	Share (%)	30 June 2015 (TL)	Share (%)	31 December 2014 (TL)
Turkish Armed Forces Foundation (TAFF)	84,58	422.912.812	84,58	422.912.812
Axa Sigorta A.Ş.	0,12	577.846	0,12	577.846
Quoted in stock exchange	15,30	76.509.342	15,30	76.509.342
Nominal capital	100,00	500.000.000	100,00	500.000.000
Share capital adjustment	-	100.320.592	-	98.620.780
Inflation adjusted capital	-	600.320.592	-	598.620.780

Registered capital ceiling of the Company is TL 1.000.000.000 (TL one billion). The nominal capital of the Company is TL 500.000.000 (TL five hundred 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 (thirty billion two hundred and seventy two million seven hundred and twenty seven thousand two hundred and seventy three) of the shares are Group A shares and 19.727.272.727 (nineteen thousand seven hundred and twenty seven million two hundred and seventy two thousand seven hundred and twenty seven) 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. 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)

M.M.Ş. M.Ü. Z.A. N.A. O. B. ~~H.C.~~ O.E. İ.G. S.N

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The report comprises the events took place during the period 01 January-30 June 2015. The title of the main shareholder in the report is ASELSAN Elektronik Sanayi ve Ticaret A.Ş.

Members of the Board of Directors

Pursuant to the provisions of the Company Articles of Association, the Board of Directors comprise of 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 Capital Markets Board of Turkey (CMB) regulations which make 9 members in total.

Information regarding the Members of the Board of Directors elected during the General Assembly Meeting held on 31 March 2015 are as follows:

Members of the Board of Directors			
Name and Surname	Position	Date of General Assembly for Assignment	End of Term of Office
Mustafa Murat ŞEKER (**)	Chairman/ Managing Member	May 2013	March 2016
Murat ÜÇÜNCÜ (**)	Vice Chairman/ Managing Member	May 2013	March 2016
Ziya AKBAŞ (****)	Independent Member (*)	March 2014	March 2016
Nazım ALTINTAŞ	Independent Member (*)	March 2015	March 2016
Oğuz BORAT	Member	March 2015	March 2016
Hasan CANPOLAT (**)	Member	May 2013	March 2016
Oral ERDOĞAN (****)	Independent Member (*)	March 2014	March 2016
İsmail GÜMÜŞTEKİN	Member	March 2015	March 2016
Sedat NAZLIBİLEK (***)	Member	June 2014	March 2016

(*)The independence statements of the Independent Members, which comply with the Corporate Governance Principles of Capital Markets Board, are available.

(**)Took office by the resolution of Board of Directors on 16 May 2013 and reselected at the Ordinary General Assembly Meetings dated 31 March 2014 and 31 March 2015 for a term of 1 year.

(***)Selected by the resolution of Board of Directors on 25 June 2014 and reselected at the Ordinary General Assembly Meeting dated 31 March 2015, for a term of 1 year.

(****)Reselected at the Ordinary General Assembly Meetings on 31 March 2014 and 31 March 2015, for a term of 1 year.

There is no executive member at the Board of Directors.

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.

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 ban on trading for board members with the Company, which they performed on their own or on behalf of someone else. There is no operation regarding the non-compete obligation by the members of the board.

Changes of Members of the Board of Directors during the Period 01 January – 30 June 2015:

During the Ordinary General Assembly Meeting held on 31 March 2015, Hasan CANPOLAT, Murat ÜÇÜNCÜ, Mustafa Murat ŞEKER, Sedat NAZLIBİLEK, Oğuz BORAT and İsmail GÜMÜŞTEKİN were elected as Member of Board of Directors for 1 year of service and Ziya AKBAŞ, Nazım ALTINTAŞ and Oral ERDOĞAN were elected as Independent Member of Board of Directors for 1 year of service.

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. For the last five years, resources which are reserved for defense by the USA has decreased and it is claimed officially that this decrease will continue. Besides, resources reserved for defense in Asia, Middle East and Africa especially in China, Russia, and Saudi Arabia have increased. By the end of 2014, while resources reserved for defense in Turkey for the last five years has increased from USD 17,7 Billion to USD 22,6 Billion, local purchase of equipment has also increased with policies.

Given the nature of defense industry, the project lifetime varies between 4-5 years in average. Within this context, 2008 global financial crisis and the subsequent fluctuations did not have an adverse effect on the Group. Group takes actions for the long-term and has signed contracts worth approximately TL 11,7 Billion (approximately USD 4 Billion) as of 30 June 2015. 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, and strategic expansions with international firms for sales to third countries. Furthermore, the Group's organization so as to operate in the field of civil electronics requiring high technology has showed parallelism with the aims mentioned.

The revised dividend distribution policy that has been presented to shareholders' information on the General Assembly of 2015 regarding 2014 operations is as follows.

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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. There is not any privilege in respect of profit sharing of the Company. The dividends have been paid to all current shares without taking consideration into the date of issue and acquisition.

In the case of a revision in the dividend distribution policy, decision of the Board of Directors and the reason of the revision is announced to the public in accordance with the “CMB” regulations.

At the Ordinary General Assembly Meeting made in 31 March 2015; from the remaining distributable profit obtained after subtracting taxes statutory obligation from Company’s operating profit in 2014,

- In accordance with Article 519/(1) of the Turkish Commercial Code, General Legal Reserves amounting to TL 9.229.919,15 is going to be allocated,
- Net distributable profit to the shareholders for the period, calculated in the framework of the profit distribution regulations and decisions of the Capital Markets Board is proposed as:
Gross profit, TL 65.000.000 (TL 0,13 per share of TL 1 and 13% on the basis of the capital) (net profit TL 55.250.000 – TL 0,1105 per share of TL 1 and 11,05% on the basis of the capital) as in the form of cash,
- In accordance with Article 519/(2) of the Turkish Commercial Code, General Legal Reserves amounting to TL 4.000.000 is going to be allocated,
- The remaining profit is going to be allocated as Extraordinary Legal Reserves, and distribution of the dividends to the shareholders are planned to be distributed as of 29 May 2015.

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 01 January-30 June 2015 period, the cash requirements was met with the existing cash, cash inflows and use of Türk Eximbank export discounted foreign currency loan because of low cost. In scope of the Eximbank Loan Program, during 01 January-30 June 2015 period, “Discounted Foreign Currency Loan” was obtained with the following maturities respectively: USD 90 Million with 240 days of maturity.

Furthermore, USD 8 Million which is the first piece, second principal repayment of credit of USD 87 Million used in order to finance the Gölbaşı investment by the decision of Defense Industry Execution Committee, was made in March, 2015 and USD 1.9 Million second principal payment of USD 25 Million credit took out as corporation loan was paid at April 2015.

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 along 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 Detection and Management of Risk Committee who are members of Board of Directors 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.

Difficulty in Increasing Customer Variety and Number

The main customers of the Company are State Institutions, especially 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.

Cutting down defense expenses, except the percentage which is reserved for equipment for a country, can be regarded as an indicator of transformation to a more modern army with more improved equipment. These kinds of developments can provide new opportunities to Company attendantly since they increase demand to equipment which are produced advanced technology.

Supplier and Subcontractor Risks

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. Difficulties have been experienced in settlement of suppliers and subcontractors at defense industry in Turkey until recently. Emphasis is put on having a strong structure of supporting industry in order to minimize risk arising from suppliers and subcontractors which cannot reach intended technical sufficiency, specialty and performance.

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 effects 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 interim 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 Turkish Lira "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 R&D costs are monitored in terms of TL.

During the periods when TL devalues, net foreign exchange loss is incurred but the sales revenues and operating margin increase due to the reason that the 87% 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 30 June 2015, as per financial statements prepared according to the Turkish General Notification of Accounting System Application (TGNASA), the Company has a short position of TL 1.662.415.631 (31 December 2014: TL 1.312.097.756).

91% of the related position is USD (31 December 2014: 80%) and 9 % of the balance is EURO (31 December 2014: 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 subsidiary ASELSANNET which are subject to consolidation.

Foreign Exchange Sensitivity Analysis Table of the Company Prepared According to TGNASA		
As of 30 June 2015		
Profit/Loss		
	Foreign currency gaining value	Foreign currency losing value
In the event USD changes by 10% against TL:		
1- USD Net Assets/Liabilities	(152.450.308)	152.450.308
In the event EURO changes by 10% against TL:		
2- EURO Net Assets/Liabilities	(15.374.012)	15.374.012

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.

Company used total amount of USD 112 Million credit from Defense Industry Support Fund by means of USD 25 Million with 3,5 % fixed interest rate in 4 September 2009 and USD 40 Million in 18 August 2011, USD 25 Million in 21 March 2013 and USD 22 Million in 31 July 2014 with 2,1 % fixed interest rate credit balance.

As of the date 30 June 2015, total credit from Defense Industry Support Fund has been amount to USD 92,2 Million. There is no interest risk due to since the credits have fixed interest. The total revolving credit used has amounted to USD 54,6 Million.

Company has USD 90 Million credit balance from Türk Eximbank by 30 June. 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 0,75 % additional spread rate for 240 days 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 commercial bank

credit limits ready for any instant cash requirement. As of 30 June 2015, 51% 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. 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

- a) As of 30 June 2015, the Company has a backlog of TL 11.7 Billion (approximately USD 4 Billion) and these orders include the period until 2025.
- b) No Extraordinary General Assembly was held during the period 01 January and 30 June 2015.

10. Significant events between 01 January – 30 June 2015 accounting period and the Board of Directors Meeting date when the relevant financial statements shall be negotiated

- a) An agreement regarding the Preventive Electronic Warfare Systems for the need of the Ministry of Interior Affairs, has been signed between Company and Undersecretariat for Defense Industries, valuing USD 7.875.000 (VAT not included). Within this context, the deliveries of Preventive Warfare Systems, which shall be developed and produced by the Company, will be made in 2016.
- b) An agreement regarding the Pakistan Navy Fleet Tanker Project for the need of the Pakistan Navy Forces, has been signed between the Company and Savunma Teknolojileri Mühendislik ve Ticaret A.Ş. (STM), valuing EURO 4.685.000. Within this context, the deliveries of Stabilized Gun System (STOP) and Communication Switch System (MAS), which shall be developed and produced by the Company, will be made in 2016.
- c) An agreement regarding the Tactical Area Communications System (TASMUS) for the need of the Turkish Armed Forces, has been signed between the Company and Ministry of National Defense, valuing USD 186.000.000.

- d) An agreement regarding the supply and integration of combat-electronic systems to the Landing Platform Dock (LPD) which will be built for Turkish Navy Forces, has been signed between the Business Partnership established by the Company and HAVELSAN A.Ş. and SEDEF Gemi İnşaatı A.Ş. on 29 July 2015. Within this context; the Company share values EURO 127.252.000 and the deliveries will be made in 2020-2021.
- e) A subcontractor agreement consisting of avionics system integration and avionics equipment supply for the civil and military helicopters at light utility class to be developed regarding the Turkish Light Utility Helicopter Program Agreement, has been signed between the Company and TUSAŞ-Türk Havacılık ve Uzay Sanayii A.Ş., valuing USD 68.000.000.
- f) An agreement regarding the Maintenance and Repair Service of System/Devices/Materials supplied from the Company and System/Devices/Materials which are production of the Company, has been signed between the Company and Turkish Naval Forces valuing TL 25.000.000.
- g) In accordance with the article 4.2.8 of Capital Markets Board Corporate Governance Communiqué dated 03 January 2014; Executive Liability Insurance Policy was extended with a validity period of 1 year starting from 17 July 2015, with the total liability amount of USD 50.000.000 which corresponds to more than %25 of the paid-in-capital of the Company.
- h) An agreement concerning the sales of SARP Remote Controlled Gun System, valuing USD 11.900.000 has been signed between the Company and a foreign customer on 13 August 2015.

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 06 March 2015, the guidance on Group's financial results of 2015 shown below were disclosed to public:

- Consolidated income growth (TL): 16-20%
- EBITDA (Consolidated and adjusted without foreign exchange rate differences): 18-20%
- Consolidated investment expenditure: Approximately TL 120 Million
- Ratio of the consolidated R&D expenses financed by Company resources to the consolidated sales: 6%

These expectations are based on the yearly average of USD/TL parity to be 2,42: EURO/TL parity to be 3,01.

The vision of the Company has been national institution performing a service in field of technology which has been able to be sensitive to the environment and human, to protect the sustainable growth with the help of creating values in the global market, to be favored by means of its competitive power and to be placed reliance as a strategic partner. 5 year strategic plans are prepared in the context of

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this vision. All operations are realized consistent with the strategic plan, in order to reach the defined targets. In this respect, qualified labor force, matured 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:

- 80 % of the investment regarding machinery/equipment belonging to new campus in the field of Radar and Electronic Warfare in Gölbaşı, Ankara was completed and the completion rate has been expected to reach 85% at the end of 2015. Also, the major part of construction was completed and it is planned to be completely finished in 2015.
- The nominal capital of "ASELSAN Hassas Optik Sanayi ve Ticaret A.Ş." which was established in March 2014 with TL 100.000 capital, 50% of which belong to the Company and the remaining to Sivas Optik Malzemeleri Sanayi ve Ticaret A.Ş. was risen to TL 13.000.000. The construction of its facility has been progress and it is planned to come into operation in the last quarter of 2015. Following the construction of the facility, ultraviolet, visible, close infrared line sensitive optical instruments which are normally designed by ASELSAN and produced abroad will be produced in Sivas facility.
- ASELSAN Bilkent Micro Nanotechnology Industry and Trade Inc. titled company, which belongs 50% to ASELSAN and 50% to İhsan Doğramacı Bilkent University, was established with the purpose of producing every kind of semiconductor and micro and nano dimensional instruments including similar materials. Capital of the company is TL 18.000.000 and establishment was registered officially on 11 November 2014. The construction of facility has been ongoing by acting in accordance with the plan and is expected to be completed in November 2015.
- The quality and technological perspectives of the cooperation formed with the universities have been increased.
- The efforts to form an eco-system with the sub-industry companies and SME’s have continued.
- Company will operate in civil electronic areas which demand high technology.
- Inorganic expansion will be also evaluated as well as organic expansion.

12. Corporate Governance Principles Compliance Report

The Report will be disclosed with the year-end annual report.

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, cooperation 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 5 R&D centers namely Defense System Technologies (SST), Radar Electronic Warfare and Intelligence Systems (REHİS), Microelectronics, Guidance and Electro-optics (MGEO), Communication and Information Technologies (HBT) and Transportation, Security, Energy & Automation Systems Business Sector (UGES). 2.473 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. 183 people are employed within this region.

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

None.

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, avionics systems, electronic warfare and intelligence systems, radar systems, command and control systems, naval warfare systems, electro-optic systems and products.

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Ranking of Company international, country-wide, sectorial rating systems is showed at table below:

Corporation	Research/Study	Related Period*	Ranking	
			Current	Previous
International Ratings				
Defense News Journal	Defense News Top 100	2015	62	67
SIPRI	SIPRI Top 100	2014	65	87
European Commission	World R&D Expense The First 2500 Company	2014	1.169	-
National Ratings				
İstanbul Chamber of Industry	İCI 500 Biggest Industry Companies	2015	33	35
	İCI 500 - Private Companies	2015	30	31
Fortune Journal	The Biggest 500 Companies	2015	51	51
Capital Journal	The Biggest 500 Private Companies	2014	66	65
TEA (Turkish Exporters' Assembly)	The First 1000 Exporter Companies	2015	107	107
Turkish Time Journal	R&D Top 100 Research	2014	1	1
Brand Finance	The Most Valuable Brands (100 Brands)	2015	47	38
Superbrands	The Most Valuable Brands (134 Brands)	2015	No raking.	
Bloomberg Businessweek	Most Popular 50 Companies (Intercollegiate)	2015	8	9
Universum	Ideal Employers (Engineering and Information Technologies- 100 Companies)	2015	1	1
Ministry of Science, Industry and Technology	Top of the Private Sector R&D Centers	2014	1	-
World Newspaper and DHL Express	Incentive Awards Stars of Exporters –Award of Exporter of the Year			

* "Related period" is the period when last explanation has been made.

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.

In current period, the investments, which will meet the need of substructure and equipment in order to be used R&D project have been sustained in compliance with the investment scheme in accordance with the policy of efficient use of resource.

Degree of incentive utilization

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. It has benefited from incentives amounting to TL 2,7 Million within the scope of TÜBİTAK TEYDEB projects which are current at 2015.

8 new projects within the scope of 1511-Prioritized fields research Technologies development and innovation program were signed in 2013-2014 and started being executed and benefited from TL 558 thousand incentive amount in the first half of 2015.

The support process have been initiated as of July 2010 by 1509 EUREKA-International Industrial R&D Projects Support Program where market oriented projects for developing products and processes to be commercialized in short term and an incentive amount of TL 461 thousand was used in the first half of 2015.

20 projects have been in progress 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.

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 are still ongoing.

Within the scope of the European Commission 7th Cooperation Framework Programs, 5 integration projects were executed and went into effect 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 7th Cooperation Framework Programmes, 3 projects have gone into effect in the years 2010 and 2011.

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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 5 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. Aforesaid law is valid until the date of 31 December 2023.

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.

Because of being an R&D center as of 01 January-30 June 2015, TL 24 Million (31 December 2014: TL 18 Million) within the scope of income tax withholding incentive, promotion of insurance premium, stamp duty exception; as a result of being active at ODTÜ Teknokent, TL 3 Million (30 June 2014: TL 2,4 Million) incentives are used.

TL 6,7 Million advantage of Corporate Tax was gained from achieved earnings within the scope of law of 5746 R&D and 4691 Teknokent by the date of 01 January-30 June 2015. (30 June 2014: TL 22 Million)

At periods when Group's R&D expenses, which is subject of R&D discount, is higher than the principal amount of R&D discount which is indicated at corporate tax return, Corporate Tax ratio 20% of distinction amount is evaluated as deferred tax income at financial tables.

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 01 January- 30 June 2015 was realized at the level of 99%.

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”, “Microelectronics Guidance and Electro-Optics” and “Transportation, Security, Energy and Automation”.

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 agreements.

As for the consolidated amount of the Group realized during the period 01 January-30 June 2015 TL 1.076 Million of this realized as the domestic sales and TL 197 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

BASIC RATIOS / CONSOLIDATED BALANCE SHEET	30 June 2015	31 December 2014
Current Ratio (Current Assets/Current Liabilities)	1,87	1,89
Liquidity Ratio (Cash and Cash Equivalents+Financial Investments+Trade Receivables+Other Receivables /Current Liabilities)	0,90	0,93
Equity /Total Liabilities	0,42	0,45
Current Liabilities/Total Liabilities	0,24	0,24
Non-Current Liabilities/Total Liabilities	0,34	0,31
BASIC RATIOS / CONSOLIDATED PROFIT TABLE	30 June 2015	31 December 2014
Operating Profit/ Revenue	0,26	0,24
Profit for the Period (Parent Company Shares) / Revenue	0,04	0,18

The liabilities of the Group are mainly consist of the short and long term order advances received.

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 2015-2017, 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.

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 01 January–30 June 2015 and information regarding the ones on duty are given in the below table:

LIST OF UPPER MANAGEMENT IN SERVICE			
No	Name Surname	Duty	Date of Appointment
1	Mustafa Murat ŞEKER (*)	Chairman/Managing Member	31 March 2015
2	Murat ÜÇÜNCÜ (*)	Vice Chairman / Managing Member	31 March 2015
3	Ziya AKBAŞ (**)	Member of the Board of Directors	31 March 2015
4	Nazım ALTINTAŞ	Member of the Board of Directors	31 March 2015
5	Oğuz BORAT	Member of the Board of Directors	31 March 2015
6	Hasan CANPOLAT (*)	Member of the Board of Directors	31 March 2015
7	Oral ERDOĞAN (**)	Member of the Board of Directors	31 March 2015
8	İsmail GÜMÜŞTEKİN	Member of the Board of Directors	31 March 2015
9	Sedat NAZLIBİLEK	Member of the Board of Directors	31 March 2015

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10	Faik EKEN	CEO/President	24 July 2014
11	Levent AKKOYUNLU	CFO/Vice President	1 September 2014
12	Yavuz BAYIZ	Division CEO/Vice President (Communication & Information Technologies Business Sector)	1 September 2014
13	Baki ŞENSOY	Division CEO/Vice President (Microelectronics, Guidance & Electro- Optics Business Sector)	1 September 2014
14	Oğuz ŞENER	Division CEO/Vice President(Radar & Electronic Warfare Systems Business Sector)	1 September 2014
15	Mustafa KAVAL	Division CEO/Vice President(Defense Systems Technologies Business Sector)	1 September 2014
16	Yavuz Suat BENGÜR	Division CEO/Vice President(Transportation, Security, Energy & Automation Systems Business Sector)	1 September 2014
17	Hezarfen ORUÇ	Division CEO/Vice President(Support Services)	1 September 2014
18	İsmet ATALAR	Division CEO/Vice President(R&D and Technology Management)	1 September 2014
19	Özcan KAHRAMANGİL	Division CEO (Strategy and Business Development)	1 September 2014
20	Hüseyin YAVUZ	Division CEO (Human Resources Management)	1 September 2014
21	Abdülkadir GÖKTAŞ	Internal Audit President	1 September 2014

(*)Period of service of aforementioned Members of Board of Directors before last General Assembly Meeting is a year and 10 months.

(**)Period of service of aforementioned Members of Board of Directors before last General Assembly Meeting is one year.

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 30 June 2015 is TL 3.153.938 (30 June 2014: TL 2.895.555). A monthly

payment of net TL 3.000 is made to the Member of the Board of Directors and Managing Members on 31 March 2015. (30 June 2014: TL 3.000)

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

Total amount of 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 Group for the period ended by 30 June 2015 is TL 343.144 (30 June 2014: TL 290.725)

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

The Group recruited a total number of 537 people (124 personnel with fixed term contract) as the personnel including fixed-term contracted personnel, disabled and terror-stricken personnel during the period 01 January – 30 June 2015 and the number of people quit for the same period is 155 (44 personnel with fixed-term contracted).

The part of the personnel who quit the job or be recruited indicated in the paragraph above was arisen from the merger with Mikrodalga Elektronik Sistemler Sanayi ve Ticaret A.Ş.(MİKES). In consequence of the merger with MİKES, the number of MİKES's employees who started working at the Company is 367, while 34 of MİKES's employees has resigned.

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 30 June 2015 is 5.283 (The average number of personnel employed by the Group as of 31 December 2014: 5.335).

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 periods 01 January- 30 June 2015.

27. The existence of organizations outside the center

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

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 (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 Presidency (IAP), 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. IAP and Audit Committee carry out their duties independent from each other but within the guidance of common objectives and targets, with the aim of maintaining 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 100% owner of the ASELSANNET and this company is 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 (%)	30 June 2014 (TL)
ROKETSAN-Roket Sanayi ve Ticaret A. Ş.	14,897	313.581.850
Kazakhstan ASELSAN Engineering LLP	49	34.505.430
ASELSAN Bilkent Mikro Nano Teknolojileri Sanayi ve Ticaret A. Ş.	50	4.500.000
ASELSAN Middle East PSC LTD	49	3.233.773
ASELSAN Hassas Optik Sanayi ve Ticaret A. Ş.	50	3.275.000
ASELSAN Bakü Şirketi	100	3.059.234
Mikroelektronik Ar-Ge Tasarım ve Ticaret Ltd. Şti.	85	624.714
ASPILSAN Askeri Pil Sanayi ve Ticaret A. Ş.	1	147.462
İGG ASELSAN Integrated Systems LLC	49	42.837
TOTAL		362.970.300

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About MİKES, which was subsidiaries consolidated in financial tables; it was applied to CMB in an attempt to receive permission for the merger of ASELSAN and MİKES by acquisition via facilitated procedure in November 2014. After completing the necessary legal actions following the permission by CMB on 30 December 2014, the merger of ASELSAN and MİKES was registered in Ankara Register of Commerce as of 20 January 2015 and announced in Turkey Commercial Registry Gazette on 23 January 2015.

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

"The investigation of "Value Added Tax Refund Operations" for the year 2011 performed by Ministry of Finance Tax Inspection Board has been in progress during the first 6 months period in 2015.

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 30 June 2015 are summarized below:

	Description	30 June 2015 (TL)
a)	Ongoing lawsuits filed by the Group	6.067.712
b)	Execution proceedings carried on by the Group	3.025.213
c)	All types of ongoing lawsuits filed against the Group	1.438.359
d)	Lawsuits finalized in favor of the Group within the period	51.250
e)	Lawsuits finalized against the Group within the period	2.201.508

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 favor 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 favor 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 35 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 3 under Condensed Consolidated Financial Statements of 30 June 2015.

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**SIGNATURE SECTION OF ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
BETWEEN 01 JANUARY – 30 JUNE 2015**

Mustafa Murat ŞEKER
Chairman of the Board of
Directors

Murat ÜÇÜNCÜ
Vice Chairman of the Board of
Directors

Ziya AKBAŞ
Member of the Board of
Directors

Nazım ALTINTAŞ
Member of the Board of
Directors

Oğuz BORAT
Member of the Board of
Directors

Hasan CANPOLAT
Member of the Board of
Directors
(Not Attended)

Oral ERDOĞAN
Member of the Board of
Directors

İsmail GÜMÜŞTEKİN
Member of the Board of
Directors

Sedat NAZLIBİLEK
Member of the Board of
Directors