

**ASELSAN ELEKTRONİK
SANAYİ VE TİCARET ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES**

INTERIM REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN
1 JANUARY – 30 SEPTEMBER 2016

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REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 01 JANUARY – 30 SEPTEMBER 2016

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 ASELSAN Bakü Şirketi (“ASELSAN Bakü”), Mikroelektronik Ar-Ge Tasarım ve Ticaret Limited Şirketi (“Mikro AR-GE”) 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 in the following notes as “Group” in the report.

ASELSAN Hassas Optik Sanayi ve Ticaret Anonim Şirketi (“ASELSAN Optik”), ASELSAN Bilkent Mikro Nano Teknolojileri Sanayi ve Ticaret Anonim Şirketi (“ASELSAN Bilkent”), IGG ASELSAN Integrated Systems LLC (“IGG ASELSAN”), Kazakhstan ASELSAN Engineering LLP (“ASELSAN Kazakhstan”) and ASELSAN Middle East PSC LTD (“ASELSAN Jordan”) have been consolidated by equity method .

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

Company	Type	Country/City	Address	Telephone/Fax	Web site
ASELSAN Elektronik Sanayi ve Ticaret A.Ş.	Headquarters	Turkey/ Ankara	Mehmet Akif Ersoy Mahallesi 296. Cad. No:16 06370 Yenimahalle/Ankara	Telephone: +90 (312) 592 1000 Fax: +90 (312) 354 1302	www.aselsan.com.tr
ASELSAN South Africa Branch	Branch	Republic of South Africa/ Pretoria	Building 4, Room 005 CSIR Campus, Meiring Naude Drive, Pretoria Gauteng, 0001, South Africa	Telephone :+27 (0) 12 349 2613 Fax: +27 (0) 12 349 2544	--
ASELSAN Macedonia Branch	Branch	Macedonia/Skopje	Ankarska 29A, 1000 Skopje/Macedonia	--	--
BAE Contact Office	Contact Office	BAE/ Abu Dhabi	Industrial City of Abu Dhabi 1, Plot 22J1 PO Box: 133627 Abu Dhabi/UAE	Telephone: +971 2 550 8808 Fax: +971 2 550 8812	--

3. Organizational structure of the company

The Company's organizational structure has been reorganized on 30 May 2016. In accordance with the changes, the Board of Directors Consultants and Board of Directors Planning and Coordination Management has been established and organized under the Board of Directors. Furthermore the Marketing Directorate has been established and organized under the General Directorate.



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).

In order for General Management to fulfill planning at strategic level, pursuing and assessing functions in a more efficient way, four different Vice Presidencies have been constituted as Financial Management Vice Presidency, Corporate Services Vice Presidency, Technology and Strategy Vice Presidency and Human Resources Management Vice Presidency in addition to Marketing Directorate and Legal Affairs .

The Internal Audit Department, Board of Directors Planning and Coordination Management and Board of Directors Consultants has been established under the Board of Directors.

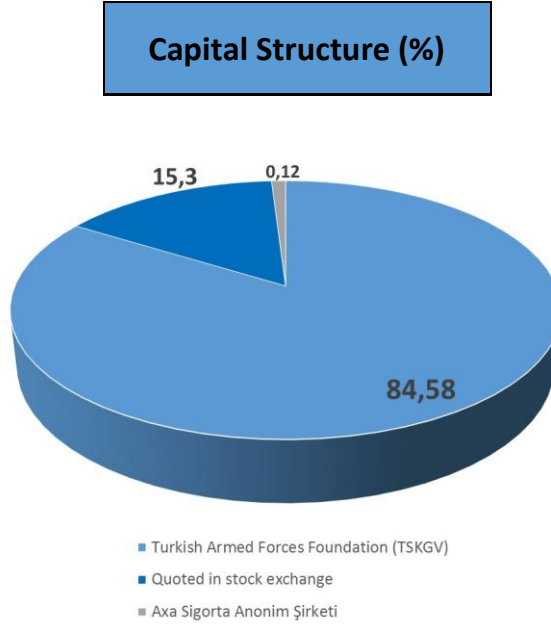
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The Company maintains engineering operations in Ankara, METU Teknokent; production and engineering operations in Macunköy, Akyurt and Gölbaşı. General Management is located in Ankara Macunköy. Also, SST and REHİS Sector Presidency management offices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

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

The capital structure as of 30 September 2016 and 31 December 2015 are as follows:



Partners	Share (%)	30 September 2016 (Thousand TL)	Share (%)	31 December 2016 (Thousand TL)
Turkish Armed Forces Foundation (TSKGV)	84,58	845.826	84,58	422.913
Quoted in stock exchange	15,30	153.019	15,30	76.509
Axa Sigorta A.Ş.	0,12	1.155	0,12	578
Nominal capital	100	1.000.000	100	500.000
Share capital adjustment	-	98.621	-	100.321
Inflation adjusted capital	-	1.098.621	-	600.321

Registered capital ceiling of the Company is TL 1.000.000 Thousand (TL one billion). The nominal capital of the Company is TL 1.000.000 Thousand (TL one billion) and is divided into 100.000.000.000 (one hundred billion) shares, each having a nominal value of 1 kuruş (1% of 1 Turkish Lira).

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60.545.454.546 (sixty billion five hundred and forty five million four hundred and fifty four thousand five hundred and forty six) of the shares are Group A shares and 39.454.545.454 (thirty nine billion four hundred and fifty four million five hundred and forty five thousand four hundred and fifty four) 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. In the accounting year. The operations regarding that the issued capital amounting to TL 500.000 Thousand has increased to TL 1.000.000 Thousand by bonus issue from domestic funding have been completed and the capital increased through bonus issue amounting to TL 1.000.000 Thousand was published in Official Journal No 9080 of 23 May 2016. The transactions with regard to capital contribution have been finalised by performing representative share on 25 May 2016.

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)

The report comprises the events took place during the period 1 January-30 September 2016. 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.

M.M.Ş. M.Ü. Z.A N.A. E.A. T.E. İ.G. M.C.L. S.N.

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Information regarding the Members of the Board of Directors elected during the General Assembly Meeting held on 31 March 2016 are as follows:

MEMBERS OF BOARD OF DIRECTORS			
Name and Surname	Position	Date of General Assembly for Assignment	End of Term of Office
Mustafa Murat ŞEKER	Chairman/ Managing Member	15 May 2013	March 2017
Murat ÜÇÜNCÜ	Vice Chairman/ Managing Member	15 May 2013	March 2017
Ziya AKBAŞ	Independent Member	31 March 2014	March 2017
Nazım ALTINTAŞ	Independent Member	31 March 2015	March 2017
Ercümend ARVAS	Independent Member	31 March 2016	March 2017
Turan EROL	Member	31 March 2016	March 2017
İsmail GÜMÜŞTEKİN	Member	31 March 2015	March 2017
Mehmet Celalettin LEKESİZ	Member	31 March 2016	March 2017
Sedat NAZLIBİLEK	Member	25 June 2014	March 2017

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 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 1 January – 30 September 2016:

During the Ordinary General Assembly Meeting held on 31 March 2016, Mustafa Murat ŞEKER, Murat ÜÇÜNCÜ, İsmail GÜMÜŞTEKİN, Sedat NAZLIBİLEK, Turan EROL and Mehmet Celalettin LEKESİZ were elected as Member of Board of Directors for 1 year of service and Ziya AKBAŞ, Nazım ALTINTAŞ and Ercümend ARVAS 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 pursues its business interests in defense sector. The five countries which have the largest defense sector expenditures during 2015 are the USA, China Saudi Arabia, Russia and the United Kingdom. While resources the USA has allocated to defense has decreased within the last five

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years, resources allocated to defense has increased in China, Russia, Saudi Arabia and as a region Asia-Oceania. As of 2015 Turkey's annual defense expenditure has decreased from USD 17.1 Billion to USD 15.3 Billion due to the effect of foreign exchange rates within the last five years. Despite the decrease in the national defense expenditure, the Company's number of projects have increased by the years.

Due to the industry's nature defense projects are spread over years, furthermore a system project lasts approximately 4 to 5 years from its start to its delivery. As of 30 September 2016 long term plans which have been accordingly signed as contracts spread over years amounts to USD 5,7 Billion. The determination of target regions/countries and focusing on these markets for marketing and direct sales as well as engaging in joint productions, transfer of technology to/from international platform producers and strategic initiatives for sales to 3rd World Countries are concurrent to our sustainable growth objectives. Our structure coincides with our objective to operate in civilian electronic fields which require high technology.

The Company's revised profit distribution policy submitted to shareholders information during the General Board Meeting dated 31 March 2016, has been posted on www.aselsan.com.tr website under Investor Relations/ Corporate Governance/Policies.

At the Ordinary General Assembly Meeting made in 31 March 2016; from the remaining distributable profit obtained after subtracting taxes statutory obligation from Company's operating profit in 2015,

- In accordance with Article 519/(1) of the Turkish Commercial Code, General Legal Reserves amounting to TL 4.520.958,43 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 42.000.000 (Kurus 8,4 per share of TL 1 and 8,4 % on the basis of the capital) (net profit TL 35.700.000 – Kurus 7,14 per share of TL 1 and 7,14 % 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 1.700.000 is going to be allocated,
- It has been decided that the remaining profit is going to be allocated as Excess Reserves, and distribution of the dividends to the shareholders are decreed in three equal installments on the dates of 10 June 2016, 26 September 2016 and 1 December 2016.

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.

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During 1 January-30 September 2016 period, the cash requirements were met with the available cash inflow, cash inflows from other operating and use of Türk Eximbank export discounted foreign currency loan because of low cost. Within the scope of the Eximbank Loan Program, during 1 January-30 September 2016 period, “Discounted Foreign Currency Loan” was used with the following maturities respectively: USD 100,4 Million with 240 days of maturity. As of 30 September 2016, the credit balance borrowed from Türk Eximbank has been amounted to USD 90,4 Million.

Furthermore, DISF Loan obtained from Defense Industry Support Fund (DISF) in accordance with Defense Industry Execution Committee’s Decision Risk is USD 54,3 Million as of 30 September 2016.

The loan amounting to TL 54,6 Million obtained from commercial banks has been paid and the company has no loan used from commercial banks as of 30 September 2016.

8. Risk management policies of the company

The Company’s Board of Directors operates in a transparent, accountable, impartial and responsible manner. The President and Vice President are elected from the Board of Directors members furthermore Board of Directors Committee Presidents and committee members are elected as well.

a. Corporate Risk Management

Company's Corporate Risk Management Policy; aims to have the appropriate risk reaction against uncertainties threatening the corporate existence of the Company and protect the Company's corporate identity, its employees, shareholders and parties' interests. Risk management has been an integrated part of corporate management. Information produced within the context of risk management activities is integrated into decision mechanisms.

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 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.

The risks which have been defined and prioritized in accordance with the opinion and suggestion and in the scope of the operations carried out by the committee companywide are explained below.

Difficulty to Increase Customer Variety and Number

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

Efforts to increase export sales and transferring the existing know-how to the private sector, is expected to minimize this risk.

Insufficiency In the Number of Qualified Subcontractor and Supplier

Providing the sustainability of the quality of material and supply for the company which collaborates a large number of domestic and foreign suppliers and subcontractors has been capital of importance.

Furthermore, the issue of possessing the substructure of powerful subordinate industry has been placed emphasis with the purpose of mitigation of the risk arised from inability to achieve intended technical comptence, expertise and performance. Within this framework, the number of subcontractors collaborated has been increased.

Changes In The Global Economy and Decrease In The Defense Expenses

Changes in the global economy have an impact on the economic activities of the countries and as a result may cause changes in their defense budgets. This situation brings along the risks of the demands of domestic or foreign customers lower from the expected level and also may have an impact on operational and functional indicators.

The current and potential economic developments, the economic and politic condition of particularly the countries which have collaborated and exported and the effect of these on the company have been followed and the projection regarding global development have been planned.

When the economic situation of Turkey is considered, strategies and financial precaution to minimize current and possible economic developments' negative effects and financial precautions have been evaluated constantly, and applied.

b. Financial Risk Management

The financial risk in the financial risk management model of the Company have been identified as foreign exchange risk, interest risk, liquidity risk, credit risk and capital risk

Within the scope of the financial risk management, exchange risk, interest risk, liquidity risk, credit risk and capital 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. Furthermore, financial risk management techniques have put to use

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in order that the return on the project is not affected from the inconsistency of cash inflows and outflows on the basis of currency which was formed within the projects and the deviation of the planned cash flow dates.

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

i. 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 agreements signed between the company and the clients are heavily outside of the functional currency which is Turkish Lira. In the agreements, in order to do business, it is possible to take out advances during different periods of the agreements and these advances may be currencies outside of the functional currency. Within the framework of TAS 21 the effects of changes in foreign exchange rates standard, all advances taken outside of the functional currency are subject to valuation. Throughout the duration of the agreements, it is unavoidable to have changes in the exchange rates. As a result of these exchange rates, there could be exchange rate difference profits/losses due to delivery on a foreign currency type agreement, advance appropriation or collection.

ii. Interest Risk and Management Policy

The interest risk is analyzed by calculating the difference between the assets sensitive to interest in a certain term and liabilities sensitive to interest. 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 30 September 2016, the balance of credit obtained from the Defence Industry Support Fund has been amounted to USD 54,3 Million. It is assessed that the relevant credit have not posed the interest risk.

Company has a USD 90,4 Million credit balance from Türk Eximbank as of 30 September 2016; which contains USD 70 Million and TL 60 Million. The interest rate of the loans is fixed during the maturity of 240 days. The Company does not have loans with variable interest rates therefore interest risk is considered to be low.

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iii. 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 September 2016, 55% of the short-term and long-term liabilities 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.

iv. 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.

v. 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.

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

- As of 30 September 2016, the Company has a backlog of USD 5,7 Billion and these orders include the period until 2025.
- No Extraordinary General Assembly was held during the period 1 January and 30 September 2016.

10. Significant events between 1 January – 30 September 2016 accounting period and the Board of Directors Meeting date when the relevant financial statements shall be negotiated

- The amount of contracts signed after the balance date by the Group approximately USD 63 Million.

- "ASELSAN Research Center", organized under the Technology and Strategy Management Vice Presidency, was approved by the Ministry of Science, Industry and Technology as an R&D Center on October 26th 2016. Thus, in addition to the existing 5 R&D Centers within the Sector Presidencies, it became the 6th R&D Center of the Company. In the ASELSAN Research Center, research projects are carried out in the field of Data Analysis, Compressed Detection, Deep Learning, Signal and Image Processing, Medical Imaging and Biotechnology which are determined among the key technologies of the future in line with the Company's technological development strategy.

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

Expectations of Group under normal circumstances regarding Group's consolidated financial results of 2016 shown below were disclosed to public:

Year 2016 Financial Goals	Ratio/ Amount
Consolidated income growth (TL)	16-20 %
EBITDA Consolidated and adjusted without foreign exchange rate differences	18-20 %
Consolidated investment (property, plant and equipment and intangible assets) expenditure	Approximately TL 340 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 3,12 and EURO/TL parity to be 3,37.

The Company has been in the most prestigious list since 2006, "Defense News Top 100", which is published by "Defense News" magazine and is aimed to increase its ranking in the list.

In order to achieve the sustainable growth:

- Our operations to establish an association company with TAQNIA DST in Saudi Arabia is ongoing.
- Gölbaşı Facility investment has been substantially completed. As of the end of September, the level of machinery-equipment investment is summarized below:
 - The USD 72,6 Million worth of machinery and equipment have been acquired.

- Orders worth USD 3,3 Million have been ordered to provide the remaining machinery and equipment.
- Approximately USD 11,1 Million worth of machinery and equipment will be ordered.
- The construction of the R&D Building located at the Cumhuriyet University Technopark has been completed. Optic production plant in Sivas Organized Industrial Site has been completed in end of the February 2016 and the plant has commenced the mass production in 1 March 2016. The official launch of the plant was practiced in 28 May 2016 and the production activities has been progress with three shifts.
- 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 Thousand and establishment was registered officially on 11 November 2014. The construction of facility was completed in January 2016. Works relating to obtain investmet materials are continuing. The facility is planned to start production during the fourth quarter of 2016.
- 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 Research and Development activities and technological gains and targets to spend approximately 6% of the annual turnover to its Research and Development 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.

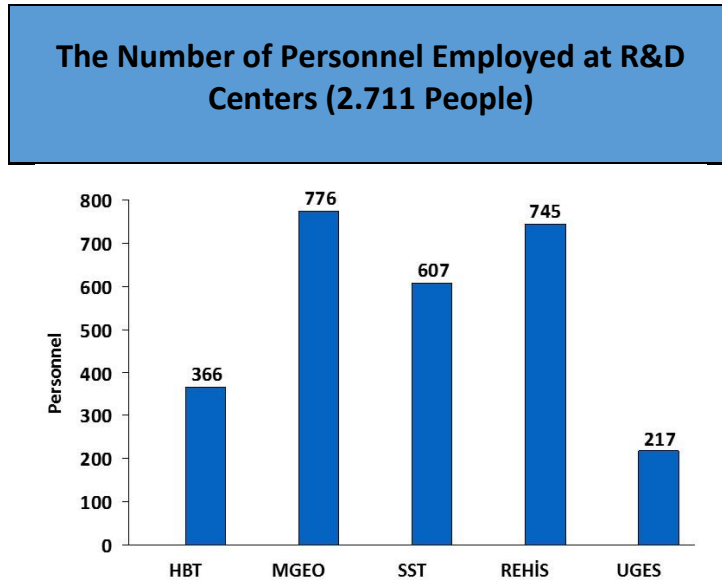
In order to increase the national contribution share in the projects, great effort is being paid for utilizing the existing local technological possibilities. For this purpose, cooperation with universities

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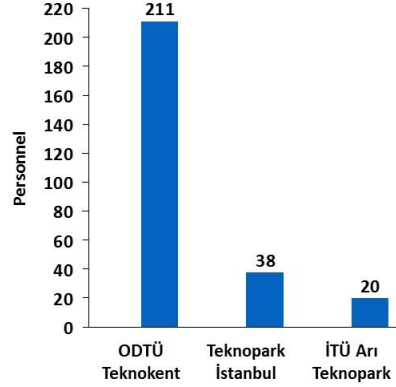
and some Research and Development institutions are formed and using of local subcontractors and sub-industry have become significant.

As for the projects carried out within the Group, the Research and Development discount in compliance with the provisions of the Law on Corporate Tax numbered 5520 and Research and Development central application pursuant to the Law regarding the support of Research and Development activities numbered 5746 are being implemented together. For the Research and Development 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 Research and Development 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). 2.711 people are employed at the Group Research and Development centers.



The Group also have activities in Teknokent facility within Middle East Technical University, in İstanbul Technology Development Area Teknopark and in ITU Arı Teknopark in scope of the Law numbered 4691 on Technology Development Regions. 269 people are employed within this region.

**The Number of Personnel Employed at Technopark
(269 People)**



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

Company's master agreement's "company's authorized capital" in the scope of capital increase within fiscal period article 6 has been changed and registered at 17 May 2016 and announced in Turkish Trade Registry Gazette no 9080 at 23 May 2016 .

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

Within the fiscal year, with regard to the Company's registered upper limit capital of TL 1.000.000 Thousand, transactions to increase the Company's capital to TL 1.000.000 Thousand through the 100% increase of TL 500.000 Thousand issued capital has been realized via internal resources and accordingly registered on 17 May 2016 and published in the Turkish Trade Registry Gazette No 9080 dated 23 May 2016. The rights entitled to registered shares issued during the above mentioned capital increase transaction have been completed on 25 May 2016 finalizing the capital increase transaction.

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 TSKGV 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	Prior
International Ranking				
Defense News Dergisi	Defense News Top 100	2016	58	62
SIPRI	SIPRI Top 100	2015	73	66
European Commission	World R&D Expense Top 2500 Company	2015	1.178	1.169
Mentor Graphics	PCB Technology Leadership Awards (TLA)-2015 - Printed Wiring Board Technology The category of Defence, Aviation and Space	2016	2	--
League of American Communication Professionals	Annual Report – World Ranking	2015	11	--
	Annual Report- The Category of the World Defence Industry and Aerospace	2015	1	--
National Ranking				
Istanbul Chamber of Industry	İCI 500 Top Industry Companies	2016	23	33
	İCI 500 - Private Companies	2016	21	30
Fortune Magazine	The Top 500 Companies	2016	54	51
Capital Magazine	The Top 500 Private Companies	2016	65	66
TEA (Turkey Exporters' Assembly)	Top 1000 Exporters	2016	101	107
Turkish Time Journey	Study of Research and Development Top 100	2015	1	1
TPI (Turkish Patent Institute)	Top 30 Local Application Owner Who Make Most Patent Application	2015	18	-
Istanbul International Inventions Fair (ISIF-16)	Digital Tacograph	2016	2 Gold	-
	ATLAS Vehicular Radio	2016	Silver	-
	MRG Device Multi Channel Transmitter System	2016	Bronze	-
Brand Finance	Most Valuable Firms (100 Brands)	2016	46	47
Superbrands	Most Valuable Firms (134 Brands)	2015	No ranking	
Bloomberg Businessweek	Top 50 Firms (Between Universities)	2016	9	8
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 / R&D Centers Performance Index / Defence Industry Sector	2016	1	1
TTGV (Technology Development Foundation of Turkey)	Dr. Akın ÇAKMAKCI Academic Thesis Studies Applied in Industry	2016	1	-
CDP (Carbon Disclosure Project)	Firms Which Have Well Management of Climate Changes and Highest Greenhouse Gas Emission Performans (Turkey)	2015	6	15
TESİD	Innovativeness and Creativeness Awards, Innovative Product Awards Between Big Firms	2016	No ranking	
CIO Journal	CIO Awards	2015	No ranking	

* "Related period" has been the year which has been explained.

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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 research and development project have been sustained in compliance with the investment scheme in accordance with the policy of efficient use of resource.

Degree of incentive utilization

Income tax withholding incentive, insurance premium support, stamp tax exemption and Research and Development discount are utilized within the scope of the Law numbered 5746. In accordance to the Law regarding the Incentive of Research and Development Activities numbered 6676 published on Official Gazettes numbered 29636 on 26 February 2016 and The Law Regarding the Amendments on Delegated Legislation, the content of the law and incentives has been broadened and additional exceptions has been given. Income tax withholding incentive, insurance premium support and stamp tax exemption is utilized by being calculated over the salaries of the Research and Development personnel and not being paid to the relevant institution and the Research and Development 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 Research and Development 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 2023.

Between the period 1 January-30 September 2016 because of having Research and Development centers, TL 60.019 Thousand within the scope of income tax withholding incentive, promotion of insurance premium, stamp duty exception; as a result of being active at ODTÜ Teknokent, İstanbul Technology Development Area Technopark and ITU Arı Technopark TL 8.771 Thousand incentives have been used.

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Within the scope of the Research and Development Law No 5746 and Teknokent Law No 4691, TL 46.524 Thousand Corporate Tax advantage has been gained as of 1 January-30 September 2016 period.

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

The 1501 Industrial Research and Development Projects Support Programme has been formed in order to encourage the Research and Development operations of the companies creating added values at company level and to contribute to the enhancement of the Research and Development ability of the Turkish industry by this means. ASELSAN and Mikro AR-GE have benefited from incentives amounting to TL 6.510 Thousand within the scope of TÜBİTAK TEYDEB projects which are current at 2016.

Projects within the scope of 1511-Prioritized fields' research technologies development and innovation programme came into force as of 2013. ASELSAN and Mikro AR-GE have been benefited from TL 963 Thousand incentive at 2016.

The support process of the projects have been initiated as of July 2010 by 1509 EUREKA-International Industrial Research and Development Projects Support Program where market oriented projects for developing products and processes to be commercialized in short term are supported and ASELSAN and Mikro AR-GE have been benefited from incentive amount of TL 88 Thousand was used at 2016.

The project of TAGEM in within the framework The Ministry of Food, Agriculture and Livestock Research and Development Incentive Program of have been launched in 2016 and the incentives amounting to TL 198 Thousand has been used in last nine-month period.

Within the scope of SAN-TEZ Research and Development 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, 18 Projects are ongoing

The 1007 Public Institutions Research and Development Project Support Program has been formed in order to meet the requirements of the Public Institutions with Research and Development or to support the projects aimed at solving their problems. In scope of this support 7 Research and Development projects are still ongoing.

Within the scope of the European Commission 7th Cooperation Framework Programs, 6 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

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Private Programme” within the scope of the European Commission 7th Cooperation Framework Programmes, 4 projects have gone into effect in the years 2010 and 2011.

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 Under secretariat 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.

The Source of Incentives	Type of Advantage	Company	The Amount 30 September 2016 (Thousand TL)
Research and Development Promotion Law numbered 5746	Income tax withholding, Insurance Premium, Stamp Tax	ASELSAN	60.019
Teknopark Law numbered 4691	Income tax withholding, Insurance Premium, Stamp Tax	ASELSAN, Mikro R&D	8.771
Research and Development Promotion Law numbered 5746 and Teknopark Law numbered 4691	Corporate Income Tax	ASELSAN, Mikro R&D	46.524
Support Programme (TÜBİTAK 1501,1511,1509)	Monetary Support	ASELSAN, Mikro R&D	7.561
TAGEM	Monetary Support	ASELSAN	198
Total			123.073

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 1 January - 30 September 2016 was realized at the level of 102%. Substantial part of the production is realized as order based production. Research and Development activities are carried out for the products designed to be tailored for the customer requirements and the qualities of the system and products along with their quantities and prices may be subject to change. Upon the usage of Enterprise Resource Planning System (ERPS), the production processes have been managed more efficiently.

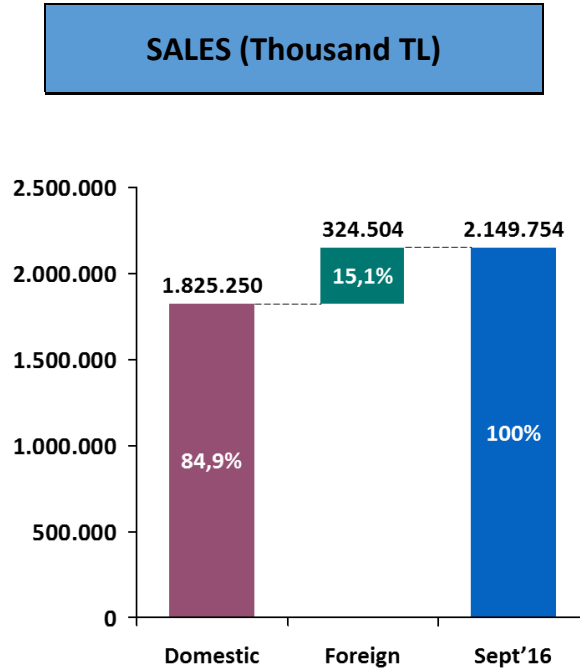
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19. The prices, sales revenues, sales conditions of the products and services which are subjects of activity with their improvements within the year, developments in the yield and productivity parameters and the reasons of the substantial changes in 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’s realized net sales during the period 1 January-30 September 2016; TL 1.825.250 Thousand of this realized as domestic sales and TL 324.504 Thousand of it realized as 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

As of 30 September 2016, the 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 Markets Board, gross margin increased by 3 basis points compared to the same period of the prior year. Operating profit margin and EBITDA margin has increased by 2 basis points compared to the same period of the prior year. In addition, net profit margin has been at a level of 18% and increased by 10 basis points compared to the last year. While profit capital ratio increased 3 basis points, Average Net Working Capital/Annualized Net Sales is around 52%.

BASIC RATIOS / CONSOLIDATED FINANCIAL STATEMENT	30 September 2016	31 December 2015
Current Ratio	2,6	2,0
Liquidity Ratio	1,4	1,1
Short Term Current Liabilities / Total Financial Liabilities	75%	74%
Total Financial Liabilities / Total Assets	6%	10%
BASIC RATIOS / CONSOLIDATED BALANCE SHEET	30 September 2016	30 September 2015
Gross Profit Margin	25%	22%
Operating Profit Margin (EBIT)	15%	13%
EBITDA Margin	19%	17%
Net Profit Margin	18%	8%
Return On Equity	14%	11%
Average Net Working Capital / Annualized Net Sales	52%	52%
Average Net Working Capital / EBITDA	4,67	6,07

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 2016-2018, 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.

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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–30 September 2016 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	15 May 2013
2	Murat ÜÇÜNCÜ	Vice Chairman/Managing Member	15 May 2013
3	Ziya AKBAŞ	Member of the Board of Directors	31 March 2014
4	Nazım ALTINTAŞ	Member of the Board of Directors	31 March 2015
5	Ercümend ARVAS	Member of the Board of Directors	31 March 2016
6	Turan EROL	Member of the Board of Directors	31 March 2016
7	İsmail GÜMÜŞTEKİN	Member of the Board of Directors	31 March 2015
8	Mehmet Celalettin LEKESİZ	Member of the Board of Directors	31 March 2016
9	Sedat NAZLIBİLEK	Member of the Board of Directors	25 June 2014
10	Faik EKEN	CEO/President	24 July 2014
11	Okan TURAN	CFO/Vice President (Financial Management)	4 January 2016
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	Hüseyin YAVUZ	Division CEO/Vice President (Human Resource Management)	1 September 2014
20	Abdülkadir GÖKTAŞ	Internal Audit President	1 September 2014

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 September 2016 is TL 6.526 Thousand.

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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 September 2016 is TL 887 Thousand.

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

The Group recruited a total number of 293 people (60 with fixed term contract) as the personnel including fixed-term contracted personnel, disabled and terror-stricken personnel during the period 1 January – 30 September 2016 and the number of people quit for the same period is 253 (27 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 30 September 2016 is 5.581.

There is no collective bargaining agreement in the Company.

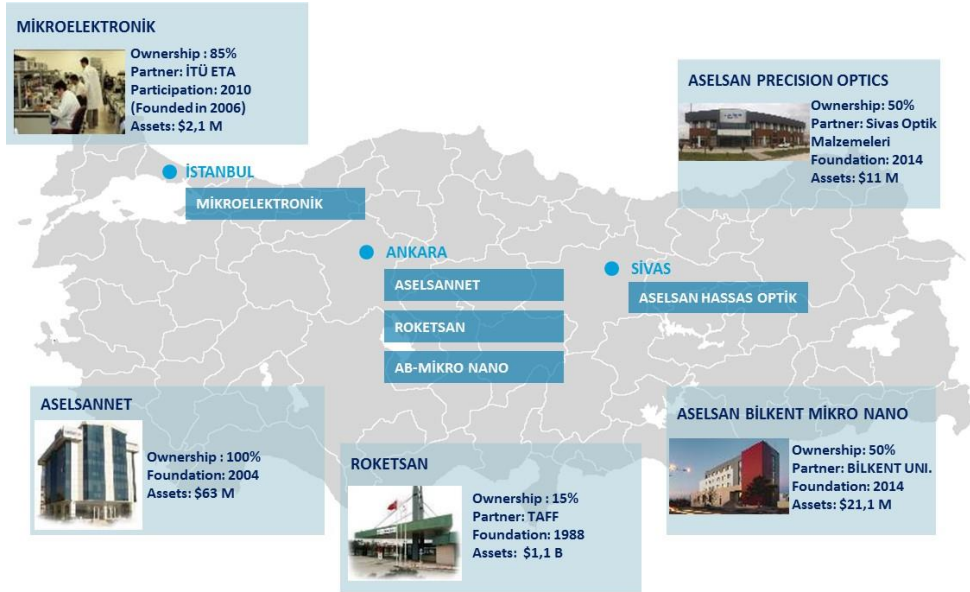
26. Information regarding the donations realized within the year and social responsibility

The Company has donated TL 37 Thousand for the purchase of twenty wheel chairs in Afghanistan during the period of 1 January – 30 September 2016.

27. The existence of organizations outside the center

- The Republic of Turkey, Sivas, ASELSAN-Optics Joint Venture
- The Republic of Turkey, ASELSAN-Bilkent Joint Venture
- Jordan, Amman, ASELSAN-Jordan Joint Venture
- Kazakhstan, Astana, ASELSAN-Kazakhstan Joint Venture
- United Arab Emirates; Abu Dhabi, IGG ASELSAN Joint Venture
- Republic of South Africa; Pretoria Branch
- Republic of Macedonia; Skopje Branch
- United Arab Emirates; Abu Dhabi Office

• **Domestic Associates and Subsidiaries**



• **Foreign Associates and Subsidiaries**



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 full consolidation (ASELSANNET, ASELSAN BAKU and Mikro AR-GE), equity pick-up method consolidation (ASELSAN Bilkent, ASELSAN Optik, IGG ASELSAN, ASELSAN Kazakhstan ve ASELSAN Jordan) 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 owns a 100% of ASELSANNET and ASELSAN Bakü and 85% of Mikro AR-GE, and these companies have been consolidated in financial statements.

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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	Share (%)	30 September 2016 (Thousand TL)
ROKETSAN-Roket Sanayi ve Ticaret A. Ş.	14,897	433.354
ASELSAN Kazakhstan	49	24.455
ASELSAN Bilkent	50	8.633
ASELSAN Jordan	49	8.585
ASELSAN Optik	50	6.517
ASPİLSAN Askeri Pil Sanayi ve Ticaret A. Ş.	1	147
IGG ASELSAN	49	--
TOTAL		481.691

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

There has not been such an event within the activity period.

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

There has not been such the private and governmental audit within the activity period.

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 September 2016 are summarized below:

Description	30 September 2016 (Thousand TL)
Ongoing lawsuits filed by the Group	2.758
Execution proceedings carried on by the Group	5.131
Lawsuits proceedings carried against the Group within the period	3.275
Lawsuits finalized in favor of the Group within the period	2.781

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

There has not been such an event within the activity 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

There has not been any material event that affects the Company's financial statements 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

There has not been such an event 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

There has not been such an event within the activity period.

39. Related party transactions

Detailed table is disclosed in Note 3 in condensed Consolidated Financial Statements as of 30 September 2016.

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**SIGNATURE SECTION OF ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
BETWEEN 1 JANUARY – 30 SEPTEMBER 2016**

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

Ercümend ARVAS
Member of the Board of
Directors

Turan EROL
Member of the Board of
Directors

İsmail GÜMÜŞTEKİN
Member of the Board of
Directors

M.Celalettin LEKESİZ
Member of the Board of
Directors

Sedat NAZLIBİLEK
Member of the Board of
Directors