

aselsan

ANNUAL REPORT 2007



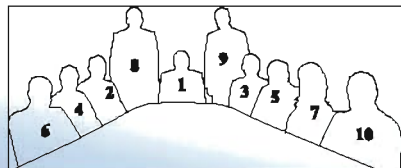
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Board of Directors and Auditors

- | | |
|---------------------|---------------------|
| 1. Chairman | : Mehmet ÇAVDAROĞLU |
| 2. Vice Chairman | : Adem DEMİR |
| 3. Member | : M. İhsan ONGUN |
| 4. Member | : Mehmet BALI |
| 5. Member | : Ahmet ŞENOL |
| 6. Member | : M. Ayhan GERÇEKER |
| 7. Member | : Burcu GÜRAN |
| 8. Auditor | : Melih Sahir BİÇER |
| 9. Auditor | : Mehmet TİMUR |
| 10. General Manager | : Cengiz ERGENEMAN |



The authorities of the Board of Directors and Auditors have been defined in accordance with the Turkish Commercial Code and Articles of Incorporation.



Board of Directors' Report

Dear Shareholders,

2007 has been another successful year for ASELSAN, leaving behind a significant 33-year period. The level of success we have achieved is remarkable both from the technological and the economic viewpoint.

ASELSAN, provides high-tech system solutions globally competitive in terms of price/performance criteria for land, airborne, naval and aerospace applications in the fields of; Military & Professional Communications, Electronic Warfare Systems, Defense and Weapon Systems, Naval Combat Systems, Fire Support Automation Systems, Command-Control Systems, Electro Optic Systems, Navigation and Guidance, Avionic Systems and Traffic Management Systems.

ASELSAN's priority has always been the development of unique solutions to satisfy the requirements of its customers with state-of-the-art solutions. It has always been considered as the most important fact by the management that having a strong infrastructure will lead ASELSAN to the unsurpassable capability to design and develop in-house products and systems.

ASELSAN has achieved a total amount of US\$ 496 million net sales in 2007 of which US\$ 21.5 million achieved from exports while US\$ 478.4 million achieved from domestic sales.

In the year 2007, we have concluded several main contracts regarding significant projects. Within scope of the ATAK Program executed by the Undersecretariat for Defense Industries in 2007 for meeting the attack and tactical reconnaissance helicopter need of Turkish Land Forces, a contract of US\$ 700.000.000 was signed with TAI and Undersecretariat for Defense Industries for the sales of avionic equipments and weapon systems and the integration of the avionic equipment.

A contract of US\$ 21.36 million was signed between Ministry of National Defense and ASELSAN for Supply of New Thermal Weapon Sight within the scope of need of Turkish Armed Forces. ASELSAN is the main supplier for Turkish Armed Forces for thermal weapon sights and night vision equipments.

ASELSAN has participated IDEF-07, International Defense Industry Fair, organized by the Turkish Armed Forces Foundation in 2007. ASELSAN stand out not only with its large participation but also with its products exhibited in the fair where 500 were represented from 49 countries. Our company has executed a large number of contracts during IDEF.

A ceremony took place for deployment of the Electronic Warfare Self-Defense Systems on the helicopters in the inventory of the Turkish Armed Forces. The systems, integrated by ASELSAN, demonstrated on a Skorsky S70A exhibited at ASELSAN's Stand.

During the fair the contract was signed between Undersecretariat for Defense Industries and ASELSAN for Helmet Mounted Command System to be integrated with the ATAK helicopter.

The contract for the use of ASELFLIR-300T Airborne Thermal Imaging and Targeting System on Turkish Unmanned Aircraft was signed between ASELSAN and TAI.

The contract for MILGEM Corvette Systems Project was executed between the Undersecretariat for Defense Industries and ASELSAN-HAVELSAN Partnership.

ASELSAN will develop the Internal/External Communication System, Electronic Warfare Systems, Radars, Electro-Optic Systems, Stabilized Machine Gun, Fire Control Automation Systems, Weapon Systems, Navigation Systems, and Torpedo Defense Systems for MILGEM Corvette.



Stabilized Machine Gun Platform (STAMP) that has been fully designed and developed by ASELSAN is delivered to the Turkish Coast Guard Command.

ASELSAN continues to undertake a large number of projects in the field of Radar and Electronic Warfare (e.g. Air Defense Radar, Electronic Communication Support, Electronic Radar/Communication Attack Systems, Active/Passive Jamming/Blocking Systems, and Active Electronic Protection Systems). ASELSAN has completed the development of the Low Altitude Air Defense Radar in 2007. In 2007, ASELSAN has started the development of the Synthetic Aperture Radar (SAR) to be deployed in Unmanned Aircrafts.

Exporting software defined radio system to Indonesia in 2007, ASELSAN has also continued manufacturing the Frequency Hopping Radios, Software Defined Radios, and Digital Intercommunication Systems for the Uruguay Army.

ASELSAN is going to manufacture Inertial Navigation System, Multi Function Display, Air-to-Ground Radios, and Identification Friend and Foe Systems to be deployed in multi-purpose aircrafts manufactured by Korean Aerospace Industries (KAI).

ASELSAN has delivered the first lot of 18 Stinger Missile Systems to the Royal Netherlands Army.

Dear Shareholders,

A decision was taken for organizing Microwave and System Technologies Division (MST) into two different divisions, namely

Defense Systems Technologies Division (SST) and Radar, Electronic Warfare and Intelligence Systems (REHIS) Division.

ASELSAN aims to strengthen the relations with allied and friendly nations. ASELSAN has completed the reconstruction of an elementary school that was demolished in the last earthquake in Abbotabad/Pakistan which symbolizes our on-going collaboration. Dear Shareholders,

Having the proper pride of undertaking large-scale projects at national and international level, ASELSAN is determined to go forward to take its place among the major defense suppliers of the world.

ASELSAN was ranked #97 in the "Annual Defense News Top 100", the most prestigious defense industry list published by the "Defense News" Magazine.

We, as the Board of Directors, would like to extend our gratitude to all of our customers as well as the members of ASELSAN for their valuable support.

Please find the attached Balance Sheet and Income Statement of our company for 2007, and our proposal for the distribution of dividends submitted for your comments and approvals.

With our respects
Board of Directors



Shareholders

%

TURKISH ARMED FORCES FOUNDATION	84,58
ISTANBUL STOCK EXCHANGE	15,30
OTHER SHAREHOLDERS	0,12
TOTAL	100,00

Participations

%

ABELSAN BAKÜ	100
ABELSANMET	95
MİKEB	72
ROKETBAN	18
ASPIRSAN	1
TÜLOMSAŞ	0,478
HEAŞ	0,051



Macunköy Facilities



Akyurt Facilities



ODTÜ-Teknokent



From the General Manager

Established in 1975; the mission of ASELSAN is to enhance the value of national resources in its fields of operation to preserve peace; by developing genuine products reflecting the edge technologies in order to meet the requirements of the Armed Forces and Public Security Entities. ASELSAN maximizes its efforts to provide the

most favorable solutions in terms of price-time-quality and to expand the export portfolio and thus, to attain the ultimate goal of being one of the major defense establishments of the world.

Within the frame of our mission, ASELSAN has totally achieved all targeted aims in the year 2007 by serving both Armed Forces and the professional customers with its indigenously developed products and systems.

As with the contracts awarded in 2007; Indonesia, Korea and Uruguay have been included among the countries to which we export. Within the scope of production and engineering activities which are realized in Macunköy, Akyurt facilities and Teknokent premises in Ankara, as well as its investments and participations in various companies, ASELSAN leads the Turkish Defense Industry.

By taking into consideration the vital importance of R&D and technology ownership, ASELSAN has constituted Technology Executive Committee in order to conduct 'technology management' more efficiently. Within this context, collaboration with academic entities has been enhanced in accordance with the principle 'the core of technology of a country is achieved through acquiring diverse technologies'.

Having been in cooperation with Small and Medium-Sized Local Enterprises since its foundation-due to its ever increasing business volume-ASELSAN considers these local enterprises as business partners all through the design, development and production phases in order to respond the rapid changing requirements. In the days ahead, ASELSAN will keep encouraging local enterprises by putting emphasis on performance assessment and competitiveness.

Adopted a primary goal which is to continue to its activities that are integrated to the country's industry structure, ASELSAN will continue to support local industrial formations in forthcoming years. In the year 2007, ASELSAN has settled contracts with 146 local subcontractors; a majority consisted of SMEs, with an exceeding sum of 104 million US\$.

As a consequence of today's security requirements, having a stable and powerful defense industry organization has become inevitable. ASELSAN has deployed its high-tech capabilities and qualified work force to the full extent which is the basic prerequisite of a powerful defense industry.

We, as ASELSAN, have the core intention to facilitate the recognition of the well-grounded Turkish Defense Industry on global scale and continue our effort based on the power vested upon us by our nation in order to increase the contribution to Turkey's overall economy and prosperity as well.

Cengiz ERGENEMAN
General Manager



BOARD OF DIRECTORS



INTERNAL AUDIT

İnci UYSAL



GENERAL MANAGER

Cengiz ERGENEMAN



FINANCE

Ahmet DEMİR



PROCUREMENT

Afşin AKKERMAN



HUMAN RESOURCES AND SUPPORT

Nihat İRKÖRÜCÜ



MARKET DEVELOPMENT

Mustafa ERTÜRK



INFORMATION TECHNOLOGIES

A.Fatih BİLGİ



CONTRACTS

Baran ÖZER



DEFENSE SYSTEMS TECHNOLOGIES

Fuat AKÇAYÖZ



COMMUNICATIONS DIVISION

Faik EKEN



MICROELECTRONICS, GUIDANCE, AND ELECTRO-OPTICS DIVISION

Özcan KAHRAMANGİL



RADAR ELECTRONIC WARFARE AND INTELLIGENCE SYSTEMS

Ergun BORA



ASELSAN IN 2007





ASELSAN in 2007

ASELSAN Communications Division has over 30 years experience in providing secure voice and data communications products, systems, and networks to military, government, and commercial organizations. Communication Division's activities in the year 2007 are summarized below in the four main areas of operations:

Tactical Area Communication Systems

The development of an improved TASMUS (Tactical Area Communication System) system (TASMUS-G) is underway with improved link capacity and strong emphasis on IP data communications. In this context, the development program for the GRC-5218 Band III LOS Radio Link System, operating in the 1.35-2.69 GHz band, having 2/8 Mbps data rate with frequency hopping have progressed to the prototype stage. High Speed IP Crypto and Bulk Encryption equipment development is also underway.

Contract for the Deployable Tactical Communication Command Control System (DTCCCS) project was signed in 2007 which will provide the mobile communication needs of the Turkish Air Force. The system will enable voice, data and image communications and support information services of the fleets allocated to NATO.

A new Secure Voice over IP Telephone System is being developed to achieve a system solution that supports H.323 and SIP Protocols, meets secure voice, video and data communications, this VoIP based secure terminal will work on current Turkish Armed Forces tactical and strategic IP infrastructure.

A new development program has started for a GSM Crypto and Secure GSM Terminal which can be used on GSM and ISDN networks. The development of off-line crypto devices that will be used for secure storage of confidential information and secure electronic mailing applications has been completed.

Tactical Radios

In 2007, the development and production activities of the Software Defined Radio Family covering the HF/VHF/UHF bands for land, naval, and airborne platforms had been continued with significant progress. An important milestone in this program was achieved when the V/UHF tactical SDR radios went into production.

The deliveries of PRC-9651 Multiband-Multimode Hand Held Radios, that are compatible with 9600 Frequency Hopping VHF/FM Tactical Radios, 4000 Series Encrypted VHF-FM Radios, TASMUS Radios (5100 series) and 4300 Series Analog V/UHF-AM Ground-Air Radios were completed according to the contract signed in 2003 with the Turkish MoD.



A new contract was signed in 2007 with the Turkish MoD for the delivery of more PRC-9651 radios in the coming years. The CKD kit deliveries of RT-9600 and its sub-units, which are produced within the licensed production program of PRV/VRC-9600 Frequency Hopping Radios executed with NRTC (National Radio Telecommunication Corporation) in Pakistan, were completed. The contract for PRC-5712 Soldier Radio was signed with MoD, and the first deliveries of radios have been accomplished.

ASELSAN's very first sale to South America region, the deliveries of 9600 Frequency Hopping Radios and 6680 Digital Vehicular Intercommunication System, were accomplished within the context of the contract signed in 2006 to satisfy the needs of Uruguay Army's communicational needs in two different land platforms.

The second contract with Uruguay Army for 9600 Frequency Hopping Radios, 9651 Multiband-Multimode Hand Held Radios, and 6680 Digital Vehicular Intercommunication System was signed in 2007.

Professional Communications and Electronic Systems

Within the JEMUS Radio Network (APCO 25) System, activities in order to provide secure and rapid information for security forces in mobile and base stations by integrating of wired and radio communication have been continued.

JEMUS Radio Network System consists of hand held, vehicular & base station radios, base stations, crypto equipments, switches, software applications, management and control centers. By using radio communication system, security issues such as secure and rapid voice and data communication, identity control, crime and criminal interrogation, finger print and geographic location determination can be performed in an integrated way.

Within the context of JEMUS Radio Network Contract signed in 2006, APCO 25 Digital Radio System that was developed by ASELSAN will be installed in the area of İstanbul, Ankara and Bursa. With the aim of effective usage of frequency resources, the system is designed with the simulcast feature.

The activities, for developing ISSI (Inter RF Sub-System Interface) in JEMUS Radio Network that enables communication between radio systems in different provinces had been continued in 2007.

The communication between different radio systems will become possible when ISSI feature is included in the system.

Installation and integration of system is planned to be finished at the end of 2009 for all of the Provincial Gendarmerie Commands stated in contract.

The sales of the 4700 APCO Digital Radios to the USA which started at the end of year 2006 continued in 2007 and are expected to be continued increasingly according to the new product developments in the same category.

ASELSAN signed a contract with Pakistan Ministry of Defense for the delivery of SK-2 4700 Digital Encrypted Radio System in June 2007.



ASELSAN Analog Radios has been awarded a new contract by the General Directorate of Turkish National Police. The contract for analog radios was signed in 2007 and the delivery was completed in the same year.

Provincial Security Management System (KGYS) projects have been started with the aims of supporting security services in cities, observation of traffic flow and intensity, interrogation for license plates, determination of violation of traffic rules, rapid and effective precautions for illegal events etc. In this context, IP based communication infrastructure has been set up by ASELSAN to establish Antalya Security Management System authorized by Antalya Provincial Private Administration. Provincial Security Management Systems for other cities also planned to be established.

AselsanNET Ltd. continued its activities in radio sales through vendors and logistic services for professional radios in the year 2007.

Avionic, Satellite and Naval Communication Systems

MXF-484 Airborne Radio deliveries for Peace Eagle Early Warning & Control Aircraft Project to Boeing Integrated Defense Inc. (USA) and for Turkish Coast Guard AB-412 Helicopter Program (Martı-III) to Agusta Westland Company (Italy), have been made in 2007. Also in 2007 MXF-795 Fixed Station Radios were delivered for Turkish Unmanned Aerial Vehicle Program to Turkish Aerospace Industries (TAI). Moreover, exports to Raytheon Company (USA) continued in 2007.

Moreover, contracts for the delivery of MXF-484 Airborne Radios were signed with TAI for Turkish Air Command's C-130 Modernization Project and with Korean Aerospace Industries (KAI) for Turkish Air Command's Basic Trainer Aircraft Project. The final parties of PRC-434A (SMT) Hand-held Radios were delivered to Turkish Ministry of Defense; also PRC-434A (SMT) Hand-held Radio deliveries began to Thales Aerospace Division (France) for Turkish Navy's Marine Patrol and Surveillance Aircraft Project (Meltem-III)

A protocol has been signed with Undersecretariat for Defense Industries of Turkey in order to meet the short term requirements of Turkish Army for Mode S/S Capable Identification Friend or Foe System by a technology transfer. Contracts were signed in the context of ATAK Helicopter and Basic Trainer Aircraft Programs afterwards.

In the scope of X-Band Satellite Communication Project, deliveries and Factory Acceptance Tests of Shipborne Terminals were accomplished.

The system design and material procurement activities have been continued for a portable X-Band Satellite Communication Terminal in the scope of TASMUS-G Project and for Shipborne X- Band Satellite Communication Terminal in the scope of MİLGEM Project.

Within External Communication System Modernization for Fast Patrol Boats Project, the delivery is successfully accomplished. For, Procurement of External Communication Systems of TT80 Class Coast Guard Boats Project, final acceptance tests for the systems are successfully completed and the systems were delivered to Gölcük Shipyard Command.



Pre-design and material procurement activities of the Integrated Communication System for the Turkish Corvette Program (MILGEM) have been executed.

Also, Integrated Communication Systems proposals for the New Type Patrol Boat, Special Force Boats, New Type Submarine, Landing Craft Tank (LCT) Projects were submitted to Undersecretariat for Defense Industries of Turkey. In addition to these, the studies related to the Integrated Communication Systems for the Submarine Rescue Mother Ship (MOSHIP) and Rescue and Towing (R&T) Ship, Landing Platform Dock (LPD) Projects have been carried out.



Microwave And System Technologies Division (MST) offers system solutions covering development, production, integration and integrated logistical support of Electronic Warfare Electronic Support, Electronic Attack and Self Protection Systems, Radar Systems, Weapon Systems, Tactical Command - Control - Communication - Computer - Intelligence - Reconnaissance and Surveillance Systems (C4ISR), Homeland Security and Naval Combat Systems for defense applications and Motorway Traffic Systems in the civil-professional area.

Apart from the ongoing contract based activities of design, development, production, integration and integrated logistic support, MST has realized investments in various high technology assets to support its indigenous R&D activities and to enhance its technological infrastructure.

1. Electronic Support and Electronic Attack Systems

Regarding Electronic Support (ES) and Electronic Attack (EA) activities; Land Platform Radar ES/EA System, Mobile HF Direction Finding and Intelligence System, Stationary V/UHF Direction Finding (DF) System with Remote Control, Naval Platform ES System, RCIED Active Jammer System designing, manufacturing, integration and delivery activities have been carried on.

Stationary ELINT System project was successfully completed and delivered in 2007.

2. Electronic Warfare Self Protection Systems

Design, production, integration/installation and delivery activities of MWS-TU Missile Warning System, HEWS-CMDS Chaff / Flare Dispensing System, SPEWS-II F 16 Electronic Warfare Self Protection System, ASES-235M MELTEM Maritime Patrol Aircraft Electronic Warfare Self Protection System and HEWS Helicopter Electronic Warfare Self Protection System have been

carried on according to the program schedules within the respective contracts.

Platform Infrared Signature Measurement System design and development activities were completed. The system was manufactured and delivered to the customer.

Platform integration activities for the Missile Warning System and ÖZİŞİK Countermeasures Dispensing System were continued; integration, safety of flight and integration test activities for different platforms were completed. Integration activities for the rest of platforms given in the Contract have been continued.

Under the HEWS Contract, sub-contracts were signed by the national companies and universities regarding the design phase of the program and work sharing activities continued by our sub contractors.

In the ATAK Helicopter Program, production and platform integration work was scheduled for the Electronic Warfare Self Protection System.

Evaluation of ASES-235M System platform integration activities in MELTEM-III Program has been launched with the main contractor of the Program.

3. Radar Systems

The acceptance tests of Air Defense Radar (ADR) which can be used stand alone or together with Air Defense Early Warning Command Control System (SKYWATCHER-II) have been started with Turkish Armed Forces after successful completion of design and production activities of the radar.

Development Contract of Synthetic Aperture Radar (SAR) Technologies for Unmanned Air Vehicles, has been signed between ASELSAN, Undersecretariat for Defense Industries and TUBITAK within the scope of TUBITAK 1007 Funding Programs. Muzzle Velocity Radar Systems, which are integrated to FIRTINA



self-propelled weapons, have been delivered to Turkish Land Forces.

An ultra wide band impulse radar design and development proposal has been prepared for the "Through the Wall Radar System Project" in the scope of TUBİTAK 1007 Funding Programs.

4. Command Control and Military Computer Systems

Development, manufacturing and field tests for the Air Defense Early Warning and Command Control System (SKYWATCHER), based on the contract signed with the Turkish MoD in 2004, have been successfully completed and the system has been delivered to the Land Forces. Regarding to the contract signed in 2005, the development and manufacturing activities for the Air Defense Early Warning Command Control System (SKYWATCHER-D) for the Navy have been carried out. Considering the local and foreign market opportunities, as regards to the tactical command control system needs in the area of maneuvering and battlefield support, activities for determining the requirements and system design of a "Battlefield Management System" have been initiated. As a result of these activities, a prototype system has been exhibited in IDEF 2007 Fair. Business development activities have been carried out for SKYWATCHER and Battlefield Management System. Various types and models of military computers and peripheral units have been manufactured for direct sale and/or for use in our system products such as Pedestal Mounted Air Defense System, VOLKAN Tank Fire Control System, FIRTINA Self Propelled Howitzer Fire Control System, SKYWATCHER, etc. Local and international marketing and sales activities have been carried out for new type military computers.

5. Fire Support Systems

Production activities for the Fire Control System developed for FIRTINA Howitzer have been continued and deliveries have been accomplished.

Field trials of the Tactical Fire Direction System (TAKS) have been executed and improvement studies have been performed based on the results.

Field tests of the ADOP-2000 Fire Support Systems, currently in trial use within certain units of the Land Forces, have been performed. To serve a basis for the decisions to disseminate the use of these systems further improvements have been performed on system components based on the results of field tests. Local and international marketing activities for the Tactical Fire Direction Command Control Systems, Tracked/Self-Propelled Howitzer Fire Control Systems as well as Tactical Fire Direction and Fire Control Systems for Multi-Launch Rocket Systems have been performed. Within this context, contracts were signed for the supply of additional FIRTINA Howitzer Fire Control Systems and upgrading of the fire direction and communication software of KASIRGA MLRS. In response to Australian Government's LAND 17 acquisition program, joint proposal preparation studies with Samsung Techwin (South Korea) and Raytheon (Australia) have been performed for the procurement of Fire Control Systems for Samsung K9 Howitzer.

6. Air Defense Systems

Delivery of Pedestal Mounted Stinger Systems, manufactured under the existing contract, for the use of Turkish Armed Forces, has been accomplished.

In accordance with the contract signed in September 2005, for the supply of Stinger Weapon Platforms to The Royal Netherlands Army, live firings with the pre-series system have been successfully executed and series production has started.

Within the context of Air Defense Programs being handled by the Undersecretariat for Defense Industries (SSM), feasibility studies for the Pedestal Mounted Air Defense Gun System and Short Range Air Defense Missile System have been prepared and submitted to SSM. As for the Medium and Long Range Air Defense Missile System programs, meetings with system



manufacturers regarding local contribution have been executed and RFI responses have been prepared accordingly and submitted to SSM.

International marketing and sales activities have been performed regarding the Pedestal Mounted Air Defense Missile Systems.

7. Weapon Modernization and Unmanned Systems

Production and delivery of VOLKAN Fire Control Systems developed for Leopard-1 Tanks have been performed in accordance with the existing contract signed with SSM. Within the context of the contract signed with SSM in 2006, detailed design phase studies have commenced, regarding the development of 76 mm Gun Fire Control System, for use in MILGEM Program of the Turkish Navy.

Production of Stabilized Machine Gun Platform (STAMP), developed for use on naval and land platforms has been accomplished in accordance with the contract signed in June 2006. The system has been integrated on a Coast Guard boat and tests have been completed with success. Development of a 25/30 mm Stabilized Gun System has been initialized.

A conceptual prototype of Unmanned Ground Vehicle has been developed and exhibited in IDEF 2007 Fair.

International marketing activities for VOLKAN Fire Control System and Stabilized Gun Systems have been performed.

8. Homeland Security

Within the "Security" thematic area of the 7th Framework Program of the European Commission, ASELSAN has participated in a consortium, in provision of a proposal for the development of a Border Surveillance System. The proposal of the consortium has been found eligible for funding and the contract negotiations are expected to be finalized within the first half of 2008. In this program, ASELSAN will be responsible for the system design and development of the command control subsystem.

ASELSAN, in partnership with HAVELSAN, SDT and Middle East Technical University (METU), has provided a proposal for the "Image Analysis and Automatic Target Identification System" which has been announced for bidding as a research and development program to be funded by TUBITAK (The Scientific and Technological Research Council of Turkey). The proposal has been found eligible and a contract is expected to be signed within 2008.

9. Naval Systems

In the naval surface systems field, ASELSAN-HAVELSAN team has signed a contract with Undersecretariat for Defense Industries on May 2007 comprising; development, production, procurement and integration onboard the prototype ship of command and control, communication, radar, electro-optics, sonar, weapons, electronic warfare systems and torpedo counter measure system within the MILGEM Corvette Construction project.

International marketing activities has been performed for ASELSAN Modular Integrated Combat Systems (AMICOS) comprising integration of ASELSAN's Naval Systems Products, such as 12,7 mm or 25 mm Stabilized Gun Systems (STAMP & STOP), Electronic Support Measurement Systems, Electro-optic Director, Command Control Systems on small and medium size naval platforms by means of integration units.

Integrated Combat Systems Solutions for Landing Platform Dock (LPD), Landing Platform Craft (LCT) and Underwater Assault Team Boats have been prepared and offered to the procurement authority or the main contractor candidate shipyards for the projects conducted by the Undersecretariat for Defense Industries. Solutions are composed of ASELSAN's Electro-optics equipments, Navigation Systems, 12.7 & 25 mm Stabilized Gun Systems, Radar, Fire Control Systems, Military Computers, EW Systems and Internal and External Communication Systems depending upon the platform size and customer requirements.

In the field of Underwater and Sonar Systems, combat system



solution has been prepared with main contractor candidate shipyards for New Type of Submarine Project conducted by the Undersecretariat for Defense Industries.

ASELSAN products to be used in the project are; X-Band Satellite terminal, Electronic Support Measurement system and Platform Data Distribution Systems.

Activities initiated to develop and produce advanced technologies products Acoustic Systems, such as sonar and torpedo counter measure systems, have been accelerated by investments in 2007 including utilizing the capabilities of universities and research institutes by transferring ASELSAN's capabilities of Signal and Video Processing, Radar, Jamming and Direction Finding technologies, industrial experience and Resource & Development funding opportunities.

Preparations have been continued for production of MİLGEM Sonar. Planning for development and production of Torpedo Counter Measure Systems to be used for following MİLGEM Corvettes has been carried out as a self founded project.

Torpedo Counter Measure Systems for the Submarines Project solution have been prepared and proposed to the Ministry of Defense, for deception and/or jamming of long range torpedoes launched against submarines from either surface ships or submarines having active, passive and combined homing modes.

10. Traffic Systems

In 2007, ASELSAN has maintained its leader position in Turkey in the field of Intelligent Transport Systems. Throughout 2007, new Electronic Toll Collection and Card Based Toll Collection lanes have been implemented in both Southern Highways and the rest of the highway network under contracts with the Turkish General Directorate of Highways. With the addition of new lanes automatic tolling has been extended to the entire toll highway network and the number of automatic tolling subscribers has approached to 2 million subscribers.

A new contract has been signed with Istanbul Ferry Lines for the implementation of a Cash/Card Based Ferry Toll Collection

System across two piers. With the completion of this project, our toll collection systems shall be used for the first time in a ferry tolling application. Within the context of this project a novel length-based automatic vehicle classification system has been developed.

Within the scope of ongoing contracts with the Turkish General Directorate of Highways work for Traffic Management Systems has been continued. These projects include wide band fiber optic communication, traffic measurement, travel time estimation, weather stations, incident detection, variable message signs and control center. Implementations in both Southern Highways and greater Istanbul metropolitan area are completed to a large extend. It is expected that ASELSAN's new Traffic Management Systems shall provide a safer and more effective use of Turkish highways.

In 2007, a significant effort has been allocated for the toll collection project in the Sultanate of Oman as our first export in this field. In order to increase exports in traffic systems area, marketing activity has been conducted in countries including Algeria, India, Egypt, Macedonia, Iran, Thailand, Bangladesh, Russia, and Chile.

Based on our expertise in highway traffic systems new products such as video based incident detection, red light and speed violation enforcement systems have been developed for Urban Traffic Management applications. Marketing activities and efforts for developing new solutions for Urban Traffic Management has been continued in 2007.



Microelectronics, Guidance and Electro-Optics (MGEO) Division, located at Akyurt facility, is working on critical technologies of 21st century; namely Thermal Sighting Systems, Laser Systems, Guidance Systems, Inertial Navigation Systems, Avionic Systems, Image Intensifier Night Vision Systems and Hybrid Microelectronics fields; product, system design and production, as well as integration of these systems to land, air and naval platforms through an efficient project management. MGEO Division is performing all these activities by use of modern and automated design and production tools, and also accomplishing logistic support, repair and maintenance services of its products after sales.

Research, development and production activities for Thermal Sighting and Fire Control Systems regarding Main Battle Tank Programs were performed in a broad spectrum through 2006. In this regard, serial production of EAGLEEYE Fire Control Sighting System, the gunner periscope in the Modernization of Leopard 1A1A4 Tanks Program, and installation of it to the Leopard 1A1A4 tanks have been continued.

Ground Test Stage of 2.75" Laser Guided Rocket Project had been completed in March 2007. Flight Test Stage had been completed and Technical Support for Qualification Stage was initiated in August 2007.

Contract for the first phase of "Light Commercial Helicopter Avionic Systems Manufacturing and Integration" project consisting of preliminary system design was signed between İstanbul Technical University and ASELSAN in December 2007.

ATS-T Fire Control Sighting System, developed for thermal sighting system integration to Pakistan Land Forces Command T-59 and T-69 tanks tender, was integrated to the tank and live firing tests were done with other firms.

The development phase activities are being continued for Laser Warning Receiver (LWR) project, a subsystem of Helicopter Electronic Warfare Suit (HEWS). Several System Design Reviews were held in 2007 according to the project plan.

Regarding Sea Hawk II project, Purchasing Order of Sikorsky Aircraft Corporation was received and accepted.

To be integrated on the Turkish Main Battle Tank, an indigenous Tank Fire Control System's design and development activities continued, and the project is in last stage of Critical Design Phase. For the integration of Fire Control System and other Aselsan sub systems to the Main Battle Tank, a contract will be signed with the Main Integrator and the negotiations are at the last stage.

Regarding the contract signed in December 2006 between ASELSAN and HAVELSAN, the delivery of avionic equipments of HELSIM Project's, carried out by SSM, has begun.

Regarding the Meltem-III Project of Undersecretariat for Defense Industries (SSM), ASELSAN has completed the delivery in the scope of the contract signed with Thales (main contractor) for the supply of ASEFLIR-200 Thermal Sight system and LN-100GT avionic equipment.

Regarding Martı-III Project, consisting of the procurement of several AB-412 Helicopters of SSM, delivery of the initial ship-sets has been completed.

For the need of Turkish Naval Forces, Thermal Sighting System is being developed for D7 Radars in scope of HERİKKS-D Project. The deliveries will be completed in the beginning of 2008.

Regarding the international procurement program for Trainer Aircraft initiated by SSM, contracts were signed between ASELSAN and KAI in November 2007. Contracts consist of procurement of CHDD-268 Multifunction Display, and LN-100G Inertial Navigation Systems & Avionics Integration Activities. The Contracts are expected to become effective in December 2007.

Regarding the requirements of Turkish Air Force, SSM has signed a contract with main contractor TAI for the modernization of C-130 Platforms. Regarding this program, ASELSAN and TAI signed a contract on November 2007, for the procurement of LN-260 Inertial Navigation System and CHDD-268 Multi Functional Displays, and deliveries will be done between 2008 and 2010.



To supply the demands of Turkish Armed Forces, an advanced ground laser target designator and target locator (ENGEREK) was developed.

RF-4E reconnaissance fighter aircrafts' navigation and communication subsystems modernization activities continued to be performed per contract signed with Air Force Logistics Command on 2004. Delivery phase of the program and SAS/HIS SIL Acceptance Tests have been started.

In November 2006, another contract was signed and become effective with Turkish Air Force Air Logistics Command to modernize F-4E fighter aircrafts' navigation and communication subsystems. PDR phase has been completed and design activities are continuing.

Thermal Weapon Sight was delivered to both local and international customers.

By following the developments in thermal sighting technology, an 8-12 micrometer operating band New Python and Boa Thermal Weapon Sight were developed. Contracts are signed with Turkish Gendarmerie and Turkish Land Forces for being delivered after the end of year 2007.

In 2007, several contracts have been signed with Turkish Gendarmerie for the supply of Falconeye E/O Sensor system. The deliveries started in 2007 and will continue in 2008.

Studies of bringing in thermal sights to BTR-80 Armored Vehicle's machine guns were continued in 2007 and one vehicle got ready for trials. Modifications will be made in direction of the comments half of the vehicles will be installed with thermal sighting systems in 2008.

Regarding the contract signed between Ministry of Defense and ASELSAN in December 2005, acceptance tests have been started for AS-532 Cougar and UH-1H/AB-205 helicopters modernization program.

Regarding ASELPD Project, System Requirements Review and the first Project Management Reviews were conducted on April 2007. Preliminary design stage was completed on August 2007 and Preliminary Design Review meeting was held on September 2007.

LIOD Systems Modernization Project of Rüzgar and Yıldız class fast patrol boats in Turkish Navy Inventory are completed successfully.

Integration of ASIR Thermal Camera to STIR F/C radars of Yavuz Class frigates in Turkish Navy Inventory Project is completed successfully.

Within the scope of Modernization of G Class Frigates, production activities are in its last stage and integration of systems to the Frigates will start soon in order to have Thermal Sight and Passive Target Tracking capabilities for the radars.

Regarding Half-Life Modernization of Yavuz Class Frigates Project, detailed design activities are continuing to bring Seaguard-TMK Systems in electro-optical tracking capability.

Several contracts were signed in scope of Land Navigation and Pointing Systems: a contract was signed with Roketsan A.Ş for the integration of 122 mm Sakarya Multi Barrel Rocket Launcher, another contract was signed with M.K.E.K for the integration of 155 mm Panther Towed Howitzers, and a contract was signed with MoD for the integration of 155 mm Storm Self Propelled Howitzer. Delivery and integration studies of these products continue.

Regarding the Integration of ASEFLIR-300T and LN100G into TİHA (Turkish UAV) Systems Project, which became effective on February 2006, delivery of the several LN 100G INS/GPS Systems and Non-Flyable ASEFLIR-300T System were performed. Currently, ASEFLIR-300T Qualification Tests activities have been continuing.

The contract of ASEFLIR-300T Airborne Thermal Sight System and ASEFLIR-300T Day Camera (EO) for the Turkish Indigenous MALE UAV Project has been signed between TAI and ASELSAN on May 2007 and approved by Undersecretariat for Defense Industries (SSM) on October 2007. The efforts have been maintained with TAI regarding the development of Mission Computer and Ground Control Station for the Turkish Indigenous MALE UAV Project.



In the scope of TÜBİTAK funded R&D Projects, couple projects are in progress for the development of infra-red imaging and navigation measurement system technologies in cooperation with universities. Meanwhile similar projects' contract negotiation are being pursued.

Avionics and Weapon System Integration and development of Turkish Unique Mission Computer Project (ARGE 2004) has been completed on September 2007 upon successful completion of Flight and Live Anti-Tank Missile Firing Tests.

In May 2007, AVCI "Helmet Integrated Cueing System" contract was signed with SSM. Under this contract, four AVCI Systems will be indigenously designed, manufactured and integrated to Attack Helicopters.

The development efforts on Infrared imaging systems, stabilized fire control sighting systems and target tracking algorithms carried out up to now, provide the necessary design infrastructure for developing infrared imaging seekers for various missile applications. In this respect, studies to satisfy the "Imaging Infra-Red Seeker Technology Demonstration Prototype" requirements for various missile systems and smart munitions have been initiated and a contract has been signed.

Regarding the Undersecretariat for Defense Industries'(SSM) ATAK Project which consists of the procurement of Attack, Reconnaissance/Surveillance Helicopters, ASELSAN signed a contract of 700.000.000,-USD with TAI and SSM for being supplier and integrator of avionic equipment and weapon systems. Within the scope of Half-Life Modernization of Yavuz Class Frigates, Preliminary Design Stage for modernization of the INS of the SRS Systems with the Aselsan product LN-270 Inertial Navigation System has been completed and Detailed Design Stage is initiated in July 2007.

A contract has been signed between Ministry of Defense and ASELSAN in November 2007 regarding renewal of main and auxiliary gyro systems of Turkish Navy for various naval platforms. A contract for the Supply and Integration of Electronics/Weapon Systems of the Turkish Coast Guard Search and Rescue Ships has been signed between ASELSAN and RMK Marine.

SSM had initiated Turna Program for the procurement of mid-size Reconnaissance/Surveillance Helicopters to meet the

requirement of Turkish Gendarmerie General Command in 2005. ASELSAN submitted price proposals for avionics equipment and avionics integration activities to candidate helicopter manufacturers following the business development activities in 2007.

SSM had initiated Turkish Armed Forces Helicopter Program for the procurement of Utility, CSAR and Firefighting Helicopters to meet the requirement of Turkish Land Forces Command, Turkish Air Force Command, Turkish Naval Forces Command and Directorate General of Forestry in 2005. ASELSAN submitted price proposals for avionics equipment and avionics integration activities to candidate helicopter manufacturers following the business development activities in 2006. Business development activities have continued in 2007. Regarding the Turkish Defense Industry Executive Committee decision in December 2006, SSM and ASELSAN have initiated contract discussions and negotiations for the avionic modernization of Turkish Gendarmerie General Command helicopters. The contract is expected to be signed and become effective in January 2008.

Regarding the requirements of Turkish Air Force, Undersecretariat for Defense Industries has signed a contract with Main Contractor TAI for the modernization of T-38 Platforms. Regarding this program, ASELSAN submitted its proposal for supply of CHDD-268 Multi Functional Displays in 2007. Contract is planned to be signed at the beginning of 2008, after finalization of negotiations of the contract.

Regarding JSF program, ASELSAN continue the business development activities with JSF main manufacturers and SSM for the main field of activities given as:

- EOTSS (Electro-Optical Thermal Sight System)
- Helmet Mounted Display
- EO-DAS (Electro-Optical Distributed Aperture System)
- Radio Systems
- Radar Systems

In 2007, ASELSAN submitted its proposal to Lockheed Martin for the manufacturing of EOTS optics for which the result is expected to be asserted in 2008.

Under Unmanned Aerial Vehicle (UAV) / F - 16 / RF - 4E Podded Reconnaissance EO/IR Sensors and Podded Reconnaissance



SAR/GMTI Sensors Supply Project, Request For Proposal (RFP) has been published to ASELSAN, who was announced as the prime contractor of the program. The RFP which was prepared accordingly was submitted to the local subcontractors who may have workshare in the program and foreign sensor producers by ASELSAN. The proposals of the Bidders were received on January 2007. Technical Volumes of the proposals were evaluated with the proposal evaluation committee which is consisting of TUAF, SSM and ASELSAN representatives. Site visits to the companies have been performed by the evaluation committee to see the operational capabilities of the systems and maturity level of their productions. ASELSAN conducted meetings with each Bidder regarding the workshare and contracts discussions and has evaluated Statement of Work and Contracts volumes of the proposals. ASELSAN is planning to prepare and submit ASELSAN's proposals to SSM by the end of 2007.

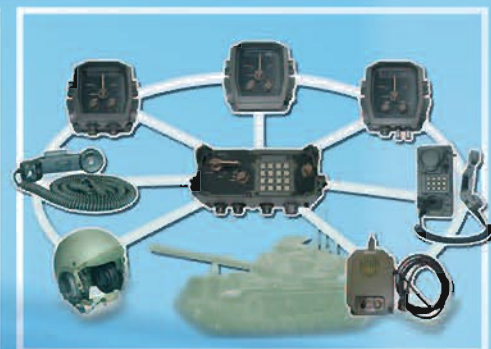
In the scope of YUNUS-AFSUDES / Aksaz and Foça Bases underwater/abovewater surveillance and detection systems project for which the tender was opened by SSM for the need of Naval Forces Command, Aselsan (with its two proposals including sonar producers Rafael/Israel and Kongsberg/Norway for the sonar) and Havelsan are selected among six companies at the final stage. The tender results are announced in December 2007, and Defense Industry Executive Committee (SSİK) has requested Aselsan and SSM to start contract negotiations. Aselsan will continue negotiations with its proposal including Kongsberg/Norway as sonar producer.

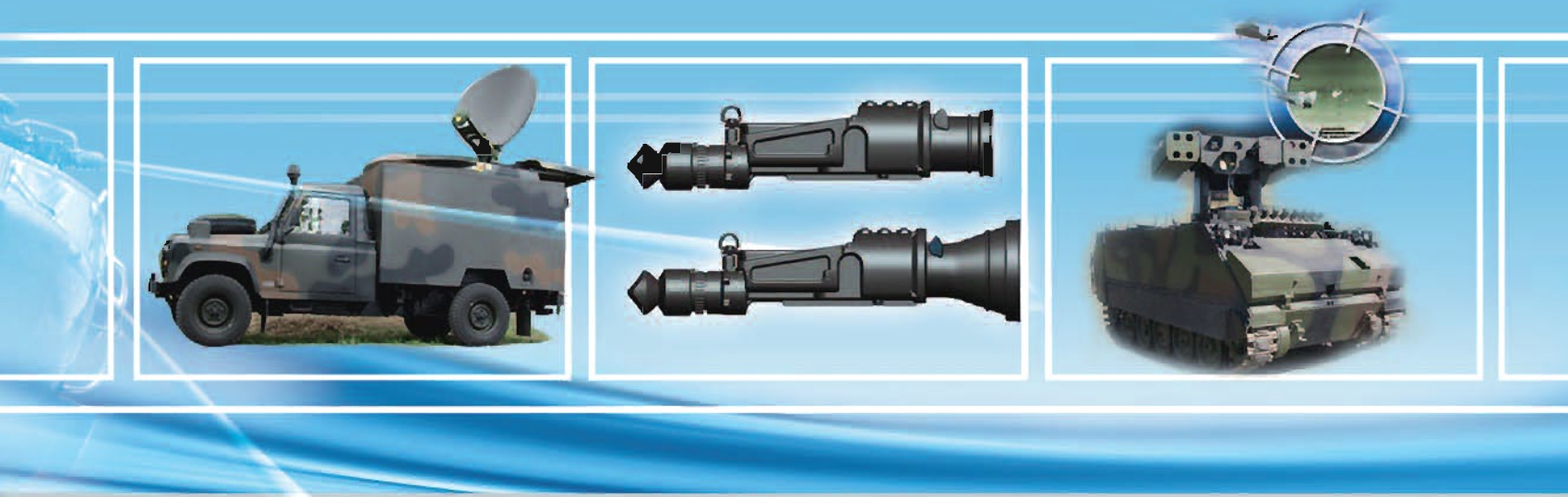
Dearsan Shipyard, the winner of the tender opened by SSM for acquisition of Several New Type Patrol Boats for the need of Naval Forces Command, has signed a contract with SSM. Cooperation studies with Havelsan for the Integration of Electronic and Weapon Systems are being continued and a proposal is submitted to Havelsan for the systems and activities which are in Aselsan's responsibility.

Following projects' deliveries were accomplished in 2007.

- Image Intensified Night Vision Devices
- 2.75" Laser Guided Rocket Project
- Land Thermal Imaging Systems
- Meltem-III
- RF-4E Modernization Project
- F-4E Modernization Project
- M60 Tank Modernization Project
- Helsing
- Meltem-II
- Rapier Program
- Helimod-II
- LIOD Systems Modernization Project
- Land Inertial Navigation Systems
- Yavuz Class Frigate Modernization Project (STIR)
- Pedestal Mounted Stinger Project
- TIHA (Turkish UAV)-TAL Systems Project
- ARGE-2004
- Yarasa Program
- Fire Control System Development and Production Project for Leopard-1 Tanks (EAGLEEYE Thermal Sighting System)
- Delivery of LN-100 regarding Tübitak-Sage Contract
- Maintenance - Repair and Spare Parts Sales

The continuous improvement efforts of the processes for the quality management systems have been continued with the object of compliance with AQAP 160: "Unified NATO Quality Requirements throughout Life Cycles for Software", AS 9100: "Avionics Quality Management System" in 2008 and "Integrated Capability Maturity Model (CMMI) Level 3" in 2009.





FINANCIAL STATEMENTS FOR 2007

A central globe showing the Americas, surrounded by three concentric orbits of binary code (0s and 1s) in a light blue color. The entire graphic is set against a solid blue background.

aselsan

FINANCIAL STATEMENTS FOR 2007

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ASELSAN ELECTRONIC INDUSTRIES INC. AND ITS SUBSIDIARY AUDITED BALANCE SHEET (YTL)

The Financial Statements have been prepared in accordance with Communiqué: XI No: 25

ASSETS	NOTE	CURRENT PERIOD 31.12.2007			PREVIOUS PERIOD 31.12.2006		
Current			888.109.914			895.530.467	
Cash and Cash Equivalents	4	151.717.993			316.224.638		
Marketable Securities - net	5	7.101.919			19.172.484		
Trade Receivables - net	7	72.286.568			54.106.043		
Financial Lease Receivables - net	8	0			0		
Due From Related Parties - net	9	5.242.961			8.050.029		
Other Receivables - net	10	10.795.700			11.656.696		
Biological Assets - net	11	0			0		
Inventories - net	12	554.500.217			417.814.294		
Receivables From Ongoing Construction Contracts - net	13	10.334.788			19.879.010		
Deferred Tax Assets	14	9.956.972			3.152.081		
Other Current Assets	15	66.172.796			45.475.192		
Non- Current Assets			494.233.572			461.793.995	
Trade Receivables - net	7	268.398			555.452		
Financial Lease Receivables - net	8	0			0		
Due From Related Parties - net	9	18.999.182			10.668.824		
Other Receivables - net	10	0			0		
Financial Assets - net	16	9.945.201			9.470.201		
Positive/ (Negative) Goodwill - net	17	(272.335)			(303.081)		
Investment Properties - net	18	0			0		
Property, Plant and Equipment - net	19	211.023.811			198.854.941		
Intangible Assets - net	20	212.603.976			194.457.267		
Deferred Tax Assets	14	12.633.101			7.276.496		
Other Non-Current Assets	15	29.032.238			40.813.895		
TOTAL ASSETS				1.382.343.486			1.357.324.462

ASELSAN ELECTRONIC INDUSTRIES INC. AND ITS SUBSIDIARY AUDITED BALANCE SHEET (YTL)

The Financial Statements have been prepared in accordance with Communiqué: XI No: 25

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE	CURRENT PERIOD 31.12.2007		PREVIOUS PERIOD 31.12.2006	
Current Liabilities			365.153.367		411.186.761
Financial Liabilities - net	6	6.794.126		3.688.833	
Short Term Portions of Long Term Borrowings - net	6	0		0	
Finance Lease Payables - net	8	17.998		91.943	
Other Financial Liabilities - net	6	378.962		97.358	
Trade Payables - net	7	29.566.203		31.832.649	
Due To Related Parties - net	9	3.989.373		4.255.340	
Advances Received	21	276.974.449		290.228.876	
Ongoing Construction Progress Payments - net	13	0		41.465.632	
Provisions	23	21.606.885		17.205.983	
Deferred Tax Liabilities	14	8.353.431		393.142	
Other Liabilities - net	10	17.471.940		21.927.005	
Non- Current Liabilities			513.049.468		521.104.098
Financial Liabilities - net	6	0		0	
Finance Lease Payables - net	8	23.641		0	
Other Financial Liabilities - net	6	1.585.860		1.028.182	
Trade Payables - net	7	1.138.469		247.122	
Due To Related Parties - net	9	10.001.061		999.545	
Advances Received	21	445.450.632		468.134.799	
Provisions	23	46.564.880		37.089.809	
Deferred Tax Liabilities	14	8.284.925		13.604.641	
Other Liabilities - net	10	0		0	
MINORITY INTERESTS	24		4.172.915		2.914.210
SHAREHOLDERS' EQUITY			499.967.736		422.119.393
Capital	25	29.403.000		29.403.000	
Treasury Shares	25	0		0	
Capital Reserves	26	198.791.065		198.791.065	
Premium in Excess of Par		0		0	
Profit From Invalidation of Shares		0		0	
Revaluation Fund		0		0	
Revaluation Fund on Financial Assets		0		0	
Inflation Adjustment of Shareholders' Equity Items		198.791.065		198.791.065	
Profit Reserves	27	139.835.088		85.500.393	
Legal Reserves		9.418.488		7.213.263	
Statutory Reserves		0		0	
Extraordinary Reserves		130.416.600		78.287.130	
Special Reserves		0		0	
Gain on Sale of Immobile and Equity Participations' Shares which will be Transferred to Capital		0		0	
Currency Translation Reserve		0		0	
Net Profit for the Period		100.187.250		76.805.366	
Retained Earnings	28	31.751.333		31.619.569	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			1.382.343.486		1.357.324.462

ASELSAN ELECTRONIC INDUSTRIES INC. AND ITS SUBSIDIARY AUDITED INCOME STATEMENT (YTL)

The Financial Statements have been prepared in accordance with Communiqué: XI No: 25

	NOTE	CURRENT PERIOD 01.01 - 31.12.2007	PREVIOUS PERIOD 01.01 - 31.12.2006
OPERATING INCOME			
Net Sales	36	668.539.720	513.117.591
Cost of Sales (-)	36	(447.996.043)	(319.933.969)
GROSS PROFIT		220.543.677	193.183.622
Operating Expenses (-)	37	(111.201.383)	(104.073.496)
OPERATING PROFIT		109.342.294	89.110.126
Profit and Income from Other Operations	38	39.047.908	41.748.344
Loss and Expense from Other Operations (-)	38	(39.419.949)	(33.252.244)
Financial Expenses (-)	39	(5.982.290)	(2.770.176)
PPOFIT BEFORE MONETARY GAIN / LOSS AND TAX		102.987.963	94.836.050
Net Monetary Profit/ Loss	40	0	0
(Loss) / Profit of Minority Shares	24	(1.242.389)	418.393
PROFIT BEFORE TAXATION		101.745.574	95.254.443
Taxation	41	(1.558.324)	(18.449.077)
NET PROFIT FOR THE PERIOD		100.187.250	76.805.366
EARNINGS PER SHARE	42	3,41	2,61

ASELSAN ELECTRONIC INDUSTRIES INC. AND ITS SUBSIDIARY AUDITED SHAREHOLDERS' EQUITY MOVEMENT TABLE (YTL)

The Financial Statements have been prepared in accordance with Communiqué: XI No: 25

	Capital Reserves						Profit Reserves						Net Profit for the Period	Total Shareholders' Equity	
	Capital	Premium in Excess of Par	Profit From Invalidation of Shares	Revaluation Fund	Revaluation Fund on Financial Assets	Inflation Adjustment of Shareholders' Equity Items	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Special Reserves	Gain on Sale of Immobile and Equity Participations' Shares which will be Transferred to Capital	Currency Transition Reserve			Retained Earnings
Balance as of 01 January 2006	29,403,000	0	0	0	0	198,791,065	4,714,008	0	35,638,533	0	0	0	12,507,681	90,722,439	371,776,726
Increase in capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer to reserves	0	0	0	0	0	0	2,499,255	0	42,648,597	0	0	0	0	(45,147,852)	0
Transfer to retained earnings (loss)	0	0	0	0	0	0	0	0	0	0	0	0	19,111,888	(19,111,888)	0
Dividends paid	0	0	0	0	0	0	0	0	0	0	0	0	0	(26,462,699)	(26,462,699)
Net profit for the period	0	0	0	0	0	0	0	0	0	0	0	0	0	76,805,366	76,805,366
Balance as of 31 December 2006	29,403,000	0	0	0	0	198,791,065	7,213,263	0	78,287,130	0	0	0	31,619,569	76,805,366	422,119,393
Effect of prior period adjustments (Note 2)	0	0	0	0	0	0	0	0	0	0	0	0	1,183,493	0	1,183,493
Increase in capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer to reserves	0	0	0	0	0	0	2,205,225	0	52,129,470	0	0	0	0	(54,334,695)	0
Transfer to retained earnings (loss)	0	0	0	0	0	0	0	0	0	0	0	0	(1,051,729)	1,051,729	0
Dividends paid	0	0	0	0	0	0	0	0	0	0	0	0	0	(23,522,400)	(23,522,400)
Net profit for the period	0	0	0	0	0	0	0	0	0	0	0	0	0	100,187,250	100,187,250
Balance as of 31 December 2007	29,403,000	0	0	0	0	198,791,065	9,418,488	0	130,416,600	0	0	0	31,751,333	100,187,250	499,967,736

**ASELSAN ELECTRONIC INDUSTRIES INC. AND ITS SUBSIDIARY AUDITED
CASH FLOW STATEMENT (YTL)**

The Financial Statements have been prepared in accordance with Communiqué: XI No: 25

	NOTE	CURRENT PERIOD 31.12.2007	PREVIOUS PERIOD 31.12.2006
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		100.187.250	76.805.366
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation expenses		53.191.489	65.148.415
Provision for employment termination benefits		8.733.975	(624.035)
Other provisions		3.886.122	4.266.180
Tax provision		1.558.324	18.449.077
Amortization of negative goodwill		(30.746)	(30.746)
Interest expense		4.787.976	2.770.177
Minority interest		1.258.705	(418.393)
Cash flow generated from operations before changes in working capital		173.573.095	166.366.041
Changes in working capital	43	(233.162.558)	(31.127.666)
Net cash provided from (used by) operations		(59.589.463)	135.238.375
Taxes paid		(9.823.371)	(30.353.102)
Effect of prior period adjustments		1.183.493	0
Interest paid		(4.787.976)	(1.260.789)
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES		(73.017.317)	103.624.484
CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES			
Changes in marketable securities		12.070.565	(5.990.812)
Cash outflow from purchase of property, plant and equipment		(48.032.282)	(38.113.699)
Cash outflow from purchase of intangible assets		(35.474.786)	(58.829.762)
Changes in financial assets		(475.000)	0
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES		(71.911.503)	(102.934.273)
CASH FLOW FROM FINANCING ACTIVITIES			
Changes in financial liabilities		3.944.575	(48.620.658)
Dividends paid		(23.522.400)	(26.462.698)
NET CASH (OUTFLOW) INFLOW FROM FINANCING ACTIVITIES		(19.577.825)	(75.083.356)
NET CHANGES IN CASH AND CASH EQUIVALENTS		(164.506.645)	(74.393.145)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		316.224.638	390.617.783
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		151.717.993	316.224.638

NOTES TO THE FINANCIAL STATEMENTS PREPARED AS OF 31 DECEMBER 2007 AND 31 DECEMBER 2006

The Financial Statements have been prepared in accordance with Communiqué: XI No: 25 (Amounts expressed in YTL unless otherwise indicated.)

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Aselsan Electronic Industries Inc. ("the Company", "the Parent Company") was established in order to engage in research, development, engineering, production, tests, assembly, integration and sales, after sales support, consultancy and trading activities, to provide and conduct all sorts of activities for project making, engineering, consultancy, service providing, training, contracting, construction, publishing, trading, operation and internet services regarding various software, equipment, system, tool, material, and platform in the fields of electrical, electronics, microwave, electro-optics, guidance, computer, data processing, encryption, security, mechanics, chemistry and related subjects within the army, navy, air force and aerospace applications to all institutions, organizations, companies and individual consumers. The Company, and its consolidated subsidiary Microwave Electronic Systems Inc. operating in the same sector with the Company, will be collectively referred to as the "Group" in the accompanying notes.

The subsidiary included in the consolidation, its business activities and the effective shareholding percentages of the Parent Company at 31.12.2007 and 31.12.2006 is set out below:

Name of the Company	Operation	31.12.2007	31.12.2006
		Share(%)	
Microwave Electronic Systems Inc.	Projects on research and development on micro wave.	72,00	72,00

Other financial assets stated in Note 16, are not consolidated due to low participation rate and/or minor effects on the financial statements.

The average number of the personnel based on categories:

	31.12.2007	31.12.2006
	Unit	Unit
University graduates (Engineer)	1.683	1.522
University graduates (Other)	315	279
Technical personnel	1.225	999
Black coated personnel	219	207
Workers	258	315
	<u>3.700</u>	<u>3.322</u>

The registered address of Parent Company is P.O. Box: 1 Yenimahalle / Ankara. The registered address of the subsidiary is Çankırı Yolu 5. km 06750 Akyurt / Ankara.

2. BASIS OF THE FINANCIAL STATEMENTS

Accounting Standards

The Capital Market Board issued Communiqués XI No: 25 as at November 15, 2003 that sets forth the accounting standards in capital market in Turkey which is applicable for the periods starting at January 1, 2005.

The Group maintains its books of account and prepares its statutory financial statements ("Statutory Financial Statements") in accordance with accounting principles issued by the Turkish Commercial Code ("TCC") and tax legislation (collectively, "Turkish Practices"). Accompanying consolidated financial statements include the adjustments and reclassifications made on the company's legal records in accordance with the Decree No XI-25 "Capital Markets Accounting Standards" issued by the Capital Market Board.

Basis of Presentation of the Consolidated Financial Statements

The Capital Market Board has issued a comprehensive set of accounting principles in Communiqué No:XI/25 "The Accounting Standards in Capital Markets" (the Communiqué). In the aforementioned communiqué, it has been stated that applying the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB) and International Accounting Standards Committee (IASC) will be accepted as an alternative to conform to the Capital Market Board Accounting Standards. The accompanying consolidated financial statements and footnotes were prepared in accordance with the reporting formats prescribed by the Capital Market Board No: XI/25 in its announcement dated 20.12.2004 and required to be adopted by quoted companies. Capital Market Board made an announcement on 17.3.2005, stating that in effect from 01.01.2005 financial statements of companies operating in Turkey that prepare financial statements in accordance with the Accounting and Reporting Standards issued by the Capital Market Board will not apply inflation accounting. Based on this resolution the financial statements as of and for the years ended 31.12.2005, 31.12.2006 and 31.12.2007 were not restated.

Comparative Information and Restatement of Prior Period Financial Statements

Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current year so that the reclassification will result in a more appropriate presentation of events or transactions.

The Group's financial statements are prepared comparatively with the prior period to enhance the inter-period comparability of information to assist users in making economic decisions by allowing the assessment of trends in financial position and performance trends. Comparative information is reclassified to achieve comparability with the current period, when the financial statements' items disclosure or classification changed prior period financial statements are reclassified in accordance. To achieve comparability with the current period, the reclassifications made on the comparative financial statements are as follows:

YTL 19.998 classified in the cost of long term construction and repair projects in the prior period balance sheet was reclassified to other current assets account.

Amounts reclassified in the comparative income statement comprised: employment termination benefits provision of YTL 4.705.011 classified in general and administrative expenses in the prior year was reallocated to cost of sales, research and development expenses, marketing selling and distribution expenses and general administrative expenses; guarantee provisions of YTL 6.129.218 recorded in provisions reversed was reclassified as YTL 5.894.263 to cost of sales account and the remainder YTL 234.955 to marketing selling and distribution expenses; Provision for doubtful receivables of YTL 184.690 and reversed lawsuit provisions of YTL 130.000 were classified to general administrative expenses.

Profit from options of YTL 10.288.000, recorded to foreign exchange gains account was reclassified to other income account; losses from options of YTL 3.095.380, recorded to foreign exchange loss account was reclassified to other expenses account.

Prior period adjustment:

The change in the computation of 2006 Corporation Tax has arisen from an amendment made in respect of the treatment of research and development expenditure incurred in the determination of taxable incomes, that was stated in Corporation Taxes General Communiqué numbered 1, published in the Official Journal dated 03.04.2007, numbered 26482, in regards the application of Corporation Tax Law No. 5520. The arising tax adjustment of YTL 1.183.493 was taken to retained earnings as the change arose after the public declaration of financial statements. In addition, a correction was made in the prior years minority interest balance as a result of taking to 2006 retained earnings the effect of the change in the computation of Corporation Tax for 2006 for Microwave Electronic Systems Inc., the consolidated subsidiary.

Business Combination and Goodwill

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries controlled by the Company as explained in Note 1. Adjustments are made to eliminate intercompany sales and purchases, intercompany receivables and payables and intercompany equity investments.

Entities in which the Company, directly or indirectly, has above 50% shareholding or interest of voting rights or otherwise has power to exercise control over operations, have been fully consolidated. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The accounting policies of the subsidiaries included in consolidation are changed and adopted to the Group's accounting policies where necessary. All significant transactions and balances between the Company and its consolidated subsidiaries are eliminated on consolidation. In cases where the consolidated entities are not 100% owned, the shareholders' equity and net income which belong to third party shareholders are separately disclosed as minority interest. The negative goodwill arising due to consolidation is being recorded as income over fifteen years.

A subsidiary is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. The carrying amount of such investments is reduced to recognize any decline, other than a temporary decline, in the value of individual investments.

Other equity participations in which the Group has less than 20% ownership or interest in voting rights are accounted for at indexed cost, less provisions where necessary for decline in value.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

Netting-off

Financial assets and liabilities are disclosed with their net amounts in the balance sheet if there is a legal right to net-off or recoverability is possible, or if acquisition of asset and performance of obligation are realized simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the accompanying consolidated financial statements are as follows:

Revenue Recognition

Revenue is recognized under sales when the company has transferred the significant risks and rewards of ownership of a product to the buyer. The Group recognizes revenue from the sale of goods and equipment when persuasive evidence of an arrangement with its customer exists, delivery has occurred, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. Net sales are presented by netting of the returns, discounts and commissions. The invoiced other income, except endorsement premiums, is recorded as sales by using accrual basis for the period that the related services received by the sellers or subcontractors. Endorsement premiums are deducted from the cost of sales.

Rent income is recorded by using accrual basis, interest income is recorded based on effective interest basis and dividend income is recorded when the right to collect the dividend is obtained.

The Group's revenues on projects are recognized on the basis of the underlying sales contracts and comprise production made to order, serial production sales, service sales, merchandise sales and progress billings sales.

Production made to order contracts: In these types of contracts, the specifications of the goods to be produced are predetermined and production plans are made considering existing inventories and conducting research and development activities as and when deemed necessary. Orders are completed in conformity with contract specification and terms and goods delivery to customers is effected acceptance following quality controls. Invoice is raised upon customer's acceptance. Revenue is recognized on the basis of delivery and invoice accrual.

Sales made based on serial production contracts: Revenue is recognized by reference to the underlying terms of the contracts, on the basis of sales of product quantities manufactured by the use of Group technology or supplemented by research and development activities when necessary, without any stockholding period, according to a delivery plan agreed in the contract. Revenue is recognized upon delivery based on invoice raised.

Service sale contracts: These comprise of service sales, excluding repair and maintenance, customer training, sales beyond warranty and similar. Service is completed within a one month period and revenue is recognized upon invoicing raised to customer together with allocation made for the associated service cost.

Merchandise sale contracts: These contracts comprise the sales of goods which are purchased for sale and not held subject to any production process within the Company. Certain commercial merchandise can be part of a project and can be inventoried by passing through some production processes and recorded as revenue upon final sale from the finished goods inventory.

Progress billings contract sales: In government bids, progress billings are issued based on the level of contractual work to be undertaken. Invoice is raised based on the progress billings issued. Changes in the composition of the unit prices in the following years in accordance with the terms of the contract, are added on the progress billings as price difference, as a result of which unit prices may vary from year to year. These contracts are based on progress billings and revenue is recognized on the basis of delivery. Progress billings are raised upon completion of part of production. The project revenues and expenses costs are taken to income on the basis of percentage of completion rates of the project in the related accounting period.

Inventories

Inventories are valued with the monthly weighted average method. At the purchase of merchandises, the maturity differences in the prices are deducted from the cost of sales and inventories. Inventories are stated at the lower of cost or net realizable value. Cost includes raw materials, direct labor and production overhead appropriate to the relevant stage of production.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and permanent impairment. Property, plant and equipment acquired before the date of 01.01.2005 have been restated to equivalent purchasing power at 31.12.2004.

Depreciation is provided on a straight-line basis based on the approximate economic useful lives taken into consideration. The useful lives of property, plant and equipment are as follows:

In effect from 01.01.2007 the Parent Company has made a review of the useful lives of the machinery and equipment, furniture and fittings and vehicles and revised the useful lives of these assets as follows:

	<u>Prior period useful lives</u>	<u>Revised useful lives</u>
Buildings	25-33 years	14-33 years
Land Improvements	14-17 years	14 years
Machinery and Equipments	10-17 years	4-20 years
Vehicles	4 years	4 years
Furniture and Fixtures	2-5 years	3-14 years

Even though the useful lives of buildings and land improvements have not been revised the difference in the useful lives of these assets shown in the table above is due to the effect of current period additions and disposals.

Since the change in useful lives represent a change in accounting estimates, it will affect current period and future period financial statements. The effect of this change in estimates has been an increase in amortization of YTL 7.402.201. The effect of the change has been an increase in current period expense of YTL 4.475.748 and a reclassification effect on inventories and project costs of approximately YTL 2.926.453. As a result of this change, the shareholder's equity has been reduced by YTL 4.475.748.

Land is not depreciated since it has an indefinite life.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Recoverable amount is determined as the higher of net sales price and its value in use.

Intangible Assets

Intangible assets purchased before 01.01.2005 are carried cost, restated in equivalent purchasing power at 31.12.2004, and purchases from 2005 are carried at historical cost less accumulated amortization and impairment. Amortization of intangible assets is allocated on a systematic prorata basis using the straight-line method. Intangible assets are amortized using the straight-line method over their estimated useful economic lives.

Research and Development Costs

Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled: it is technically feasible to complete the intangible asset so that it will be available for use; management intends to complete the intangible asset and use or sell it; there is an ability to use or sell the intangible asset; it can be demonstrated how the intangible asset will generate probable future economic benefits; adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and the expenditure attributable to the intangible asset during its development can be reliably measured. Research expenditure is recognized as an expense as incurred. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Capitalized development costs that are incurred on a contractual basis are amortized on the basis of period costs incurred at the contractually determined delivery phases of the contracts and those that are incurred on a non-contractual basis are amortized from the point at which the asset is ready for use for commercial production on a straight-line basis over its useful lives.

Impairment of Assets

Long term assets other than deferred tax assets and financial assets are tested for impairment. An impairment loss can be recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount of an asset is the higher of an asset net selling price and its value in use. Value in use is the present value of estimated future cash flow expected to arise from the continuing use of an asset and from its disposal at the end of its life.

Borrowing Costs

Borrowing costs are recorded in the income statement in the period in which they are incurred.

Financial Instruments

Financial assets are classified as held for trade financial assets, held to maturity financial assets and available for sale financial assets. Financial assets that are purchased to obtain profit from short term deviations in prices are classified as held for trade financial assets and included in current assets. Financial assets in which the Group management is willing and able to keep until a fixed maturity with constant and certain payments are classified as held to maturity financial assets.

Financial assets that can be sold in order to cover the need for liquidity or because of the changes in interest rates are classified as available for sale financial assets. Available for sale financial assets are included in the non-current assets unless the management is willing to hold the financial asset less than 12 months after the balance sheet date.

All financial assets are presented at cost including the purchase expenses. After the related financial asset is included in the financial statements, available for sale financial assets are presented with their estimated fair values as long as their estimated fair values can be calculated reliably.

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Market value is the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented here in may not necessarily be indicative of the amounts the Group could realize in a current market exchange.

Balances with banks, receivables, contingent liabilities like letters of guarantee, letters of credit are important financial instruments which would have negative effects on the financial structure of the Group if the other party failed to comply with the terms and conditions of the agreement.

The fair values of certain financial assets carried at cost are considered to be representative of carrying values due to their short-term nature.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate fair value.

Cash and cash equivalents: Cash and cash equivalents denominated in foreign currencies are translated at year-end exchange rates. The carrying amounts of the remaining cash and bank balances are reasonable estimates of their fair value.

Trade receivables and trade payables: Book values of the trade receivables along with the related allowances for uncollectability and trade payables balances are estimated to be their fair values.

Due to/from related parties: The carrying value of due to and due from related parties are estimated to be their fair value.

Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with prevailing interest rates in the market. Borrowings are accounted from the cash incurred. Finance expenses are accounted by accrual basis and accrued amounts are added on the borrowings amount in the balance sheet.

Credit Risk

The Group's credit risk is primarily attributable to its borrowings, trade payables and trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment. The credit risk on liquid funds is limited because the funds are invested in government bonds and treasury bills for short-term purposes.

Market Risk

Market risk is determined by the changes in interest rates, foreign exchange rates or marketable securities and other financial contracts' values which will affect the Group negatively. The most important risks for the Group are the changes in foreign exchange rates and interests.

Liquidity Risk

The Group is generally raising funds by liquidating its short-term financial instruments such as collecting its receivables and disposing marketable securities. Also, the Group satisfies its need for funds by working on an advance basis. Proceedings from these instruments generally approximate their fair values.

The Group obtains funds from its bankers and its major shareholder when shortage of liquidity.

Foreign Currency Transactions

Transactions in foreign currencies are translated into New Turkish Lira at the rates of exchange ruling at the transaction dates. Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Gains and losses arising on settlement and translation of foreign currency items are included in the statements of income.

Earnings per Share

Earning per share is the net profit or loss per each share, calculated by division of net profit for the period by the average number of outstanding shares.

Subsequent Events

Subsequent events cover all of the events that occur between the balance sheet date and the publication date of the financial statements, even if the events occur subsequent to public announcements that are related with the profit or other pre-selected financial information are made.

The Group adjusts its financial statements if the above explained subsequent events require any adjustments.

Provisions, Contingent Liabilities, Contingent Assets

A provision is set forth in the financial statements if a legal liability exists as a result of past events in which the liability amount can be estimated reliably and if it is probable that the economically beneficial assets are to be liquidated in order to compensate that liability.

Changes in Accounting Policies, Accounting Estimates and Errors

If there is a change in accounting policies and if a significant accounting error is identified, the financial statements for the previous periods are adjusted accordingly. If the change in the accounting estimate is related with only one period they are applied only for the period in which the

change occurred. On the other hand, if the changes in the accounting estimates are related with the forthcoming periods, they are applied both within the period in which the changes occur and for the subsequent periods. The useful lives of property, plant and equipment were revised in the current period and the effects of such change were disclosed in the accounting policy note on property, plant and equipment.

The uncertainties related to the determination of the stage of completion of projects by reference to the application of the accounting standard in Capital Market Board Communiqué No: XI/25, Section 24, "Construction Costs" to the long-term construction projects of the Group relating to the prior periods in order to recognize attributable contract revenue and costs as revenue and expense in the income statement in the accounting periods in which the work was performed have been resolved in the current period. However as the project completion rates could not be determined retrospectively, the project revenues and expenses relating to the prior period could not be practically sorted out. The effect of this change was disclosed in Note 36.

Leases

Finance Leases

Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property after tax advantages or incentives have been deducted, or the present value of the minimum lease payments. Principal lease payments are recorded as a payable and are reduced as paid; the interest element is charged to the statement of income as expense during the lease period. Property, plant and equipment acquired under finance leases are depreciated over the estimated useful life of the asset.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Related Parties

For the purpose of the accompanying financial statements, shareholders and related companies, consolidated and non-consolidated group companies, and the companies related to those companies, their directors and key management personnel and any groups to which they are known to be related, are considered and referred to as related companies.

Segmental Information

Due to the Company operates in one industry; the accompanying financial statements do not include segmental information.

Construction Contracts

Due to the nature of construction contracts, the date of commencement and completion of the contract will cover more than a single accounting period. In the accounting of these contracts, contract revenue is recognized as revenue in the income statement in the accounting periods in which the work is performed. Contract costs are usually recognized as an expense in the income statement in the accounting periods in which the work to which they relate is performed. Revenue and expenses from long-term contracts are recognized by reference to the stage of completion of the contract.

Discontinued Operations

Disclosure will be made for an asset or disposal group (a group of assets, possibly with some associated liabilities, which an entity intends to dispose of in a single transaction) classified as a discontinued operation if management becomes a party to a binding sale agreement, has approved a detailed and formal plan with respect to the discontinued operation or made public announcement of the plan to discontinue or abandon the operation. Discontinued operations shall be measured on the basis of the criteria stated in Impairment of Assets, Provisions, Contingent Liabilities and Contingent Assets, Property Plant and Equipment and Employment Benefits. The Group has no discontinued operations as of 31.12.2007.

Government Grants and Incentives

A government grant, including non-monetary government grants, accounted for at fair value is recognized only when there is reasonable assurance that the enterprise will comply with any conditions attached to the grant and the grant will be received. The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

Grants received up to and including 2006 were recognized as income in the period in which they became receivable due to impracticalities involved in matching the particular research and development grants with the accounting periods in which related costs were incurred. In effect

from 01.01.2007, with the passage to the Corporate Resource Planning System and the accompanying procedural arrangement implemented by the Group, grants received were associated with the related costs of relevant project and accounted by deducting it from the related cost amount. In the event, related costs incurred were below the grant received, the excess was treated as income. The excess of the grant receivable over the costs incurred for the relevant projects at the balance sheet date was presented as deferred income and amortized to income over the life of the projects.

Government grants, whether by cash or deduction from a liability to government, are similarly disclosed in the financial statements.

Investment Property

Land that is held for the production or supply of goods or services, or for administrative purposes, or for long-term rental yields or for capital appreciation or both, rather than for the sale in the ordinary course of business, are classified as investment property and are carried at fair value. The Group has not investment properties as of 31.12.2007.

Taxation and Deferred Tax

Taxes on income for the year are comprised of current tax and the change in deferred taxes.

Provision is made in the financial statements for the Group's estimated liability to Turkish corporation tax on its results for the year. The charge for current tax is based on the results for the year as adjusted for items, which are non-assessable or disallowed.

Deferred tax assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are only provided to the extent if it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Employment Termination Benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. The total provision represents the vested benefit obligation as at the balance sheet date. Upcoming retirement payments are discounted, with the netting of the appropriate discount and the predicted inflation rate, and are brought to the value on the balance sheet date.

Retirement Plans

The Group has no retirement plans as of the balance sheet date.

Agricultural Operations

The Group has no agricultural operations as of the balance sheet date.

Statement of Cash Flow

The changes in cash and cash equivalents are reported by classifying those assets according to changes in investing and financial operations. Cash and cash equivalents are assets like cash and banks that are held for current liabilities are used for other purposes.

Derivative Financial Instruments

Derivative financial instruments, including forward foreign exchange contracts, are initially recognized in the balance sheet at cost (including transaction cost) and are subsequently re-measured at their fair value. All derivative instruments are classified as financial assets at fair value through profit or loss. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as an asset when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of derivatives at fair value through profit or loss are included in the income statement.

4. CASH AND CASH EQUIVALENTS

	31.12.2007	31.12.2006
Cash	15.696	9.158
Cheques received	-	260.118
Banks – YTL demand deposits	76.263	993.992
Banks – Foreign currency demand deposits	20.255	10.992
Banks – YTL time deposits	103.158.907	29.707.383
Banks – Foreign currency time deposits	48.165.229	283.064.221
Income accruals	281.643	2.178.205
Other cash equivalents	-	569
Total	<u>151.717.993</u>	<u>316.224.638</u>

Foreign currency demand deposits are listed below:

USD	4.123	4.068
EURO	3.247	6.089
GBP	12.885	835
Total	<u>20.255</u>	<u>10.992</u>

Foreign currency time deposits are listed below:

USD	45.298.063	251.211.453
EURO	2.867.166	31.786.010
GBP	-	66.758
Total	<u>48.165.229</u>	<u>283.064.221</u>

The Group has YTL 48.165.229 of foreign currency time deposits as of 31.12.2007 at various banks, with a maturity of January 2008, at interest rates varying between 4,30% and 5,60%.

The Group has YTL 103.158.907 of Turkish Lira time deposits as of 31.12.2007 at various banks, maturing between January 2008 and February 2008, at interest rates varying between 15,75% and 19,25%.

The Group has YTL 283.064.221 of foreign currency time deposits as of 31.12.2006 at various banks, maturing between January 2007 and May 2007, at interest rates varying between 2,25% and 6,30%.

The Group has YTL 29.707.383 of Turkish Lira time deposits as of 31.12.2006 at various banks, maturing between January 2007 and June 2007, at interest rates varying between 17,25% and 21,55%.

5. MARKETABLE SECURITIES

	31.12.2007	31.12.2006
Government bonds	2.713.537	10.302.396
Eurobond	4.109.660	4.590.171
Treasury bills	-	3.019.731
Income accruals	278.722	1.260.186
Total	<u>7.101.919</u>	<u>19.172.484</u>

As of 31.12.2007, Eurobonds consist of securities with a varying maturity between February 2014 and February 2034 and interests varying between 5,00% and 8,00%.

As of 31.12.2007, foreign currency Government Bonds consist of debt securities with a maturity of October 2010 and interest rate at 7,06%.

As of 31.12.2006, Eurobonds consist of debt securities of varying maturity between February 2014 and February 2034 and interests varying between 5,00% and 8,00%.

As of 31.12.2006, foreign currency Government Bonds consist of debt securities with a maturity varying between March 2007 and October 2010 and interest rates varying between 7,80% and 8,02%.

As of 31.12.2006, Treasury Bills consist of debt securities with a maturity of April 2008 and interest rate 15,20%.

As of 31.12.2007, marketable securities classified as held for trading were valued on the basis of unit prices declared by Ziraat Bank at the balance sheet date.

6. FINANCIAL LIABILITIES - NET

Breakdown of short term financial liabilities comprised:

	31.12.2007	31.12.2006
Short term financial liabilities	6.794.126	1.685.576
Export loans	-	2.000.000
Accrued expense	-	3.257
Total	6.794.126	3.688.833

Analysis of the loan repayments based on maturity is as follows:

As of 31.12.2007, YTL 2.585.000 of the short term financial borrowings have maturity date of January 2008, at interest rate of 17,15%. Loan amounting to YTL 367.000 have a maturity date of September 2008, at interest rate of 17,15%. Both loans were obtained for working capital needs. Loans amounting to YTL 3.842.126 were obtained interest free to apply against payment of social security premium and custom dues, with a maturity of January 2008.

As of 31.12.2006, YTL 1.253.000 of the short term financial borrowings consists of an open loan at 19,35% interest rate and YTL 243.205 portion of short term financial borrowings consists of interest free loans obtained to finance working capital needs. As of 31.12.2006, YTL 2.000.000 of the export loans consist of loans with 16,75% interest rate and maturity of June 2007. Spot loan amounting to YTL 189.371 with 0% interest rate and maturity of January 2007 are obtained to apply against payment of custom taxes.

As of 31.12.2007, the breakdown of other financial liabilities comprised:

Other financial liabilities – short term (net)	378.962
Other financial liabilities – long term (net)	1.585.860
Total	1.964.822

	USD	YTL
Payable in 2008	325.373	378.962
Payable in 2009	356.335	415.023
Payable in 2010	522.272	608.290
Payable in 2011	326.386	380.142
Payable in 2012	105.301	122.644
Payable in 2013	51.310	59.761
Total		1.964.822

As of 31.12.2006, the breakdown of financial liabilities comprised:

Other financial liabilities – short term (net)	97.358
Other financial liabilities – long term (net)	1.028.182
Total	1.125.540

	USD	YTL
Payable in 2007	69.264	97.358
Payable in 2008	222.834	313.215
Payable in 2009	228.815	321.622
Payable in 2010	217.238	305.349
Payable in 2011	62.603	87.996
Total		1.125.540

Other financial liabilities comprised of funds received from Technology Development Foundation of Turkey for project finance at 3% interest rate.

7. TRADE RECEIVABLES AND PAYABLES - NET

	31.12. 2007	31.12. 2006
a) Short term trade receivables		
Trade receivables	64.113.151	54.942.308
Unbilled receivables from projects in progress(*)	9.067.761	-
Notes receivables	2.314	291.778
Discount on trade and notes receivables	(936.183)	(1.224.837)
Other trade receivables	16.608	30.659
Deposits and guarantees given	22.917	66.135
Doubtful trade receivables	1.944.946	2.677.925
Provision for doubtful receivables (-)	(1.944.946)	(2.677.925)
Total	<u>72.286.568</u>	<u>54.106.043</u>

(*) Aggregate amount of contract costs incurred and progress billings made relating to contracts in progress determined on the basis of the stage of completion of the contract are taken to the cost of sales and sales income. For contracts in progress whereby progress billings have not been billed for work performed on a contract as of balance sheet date, the amount due from customers is recognized as revenue on the basis of estimated completion rates applied to the contractual revenue.

As of 31.12.2007, maturities of trade receivables vary between January 2008 and December 2008 and the effective annual interest rates are between 4,20% and 5,90% for foreign currency denominated receivables and between 14,96% and 16,50% for YTL denominated receivables.

Movement of provision for doubtful receivables:

	01.01.- 31.12.2007	01.01.- 31.12.2006
Opening balance as of January 1	2.677.925	2.605.833
Provision for the period	61.215	84.806
Provisions released	(794.194)	(12.714)
Closing balance as of December 31	<u>1.944.946</u>	<u>2.677.925</u>

	31.12.2007	31.12.2006
b) Long term trade receivables		
Trade receivables	145.423	426.496
Discount on trade receivables	(5.974)	(21.871)
Deposits and guarantees given	128.949	150.827
Total	<u>268.398</u>	<u>555.452</u>

c) Short term trade payables		
Trade payables	26.592.777	28.220.830
Notes payables	352.000	584.000
Discount on notes and trade payables	(307.984)	(357.293)
Other trade payables	2.904.909	3.342.242
Deposits and guarantees received	24.501	42.870
Total	<u>29.566.203</u>	<u>31.832.649</u>

d) Long term trade payables		
Trade payables	1.211.288	-
Notes payables	-	352.000
Discount on notes and trade payables	(72.819)	(104.878)
Total	<u>1.138.469</u>	<u>247.122</u>

8. FINANCE LEASE RECEIVABLES AND PAYABLES - NET

The Group had no financial lease receivables as of 31.12.2007 and 31.12.2006.

	31.12.2007	31.12.2006
a) Short term finance lease payables – net		
Financial lease payables	20.506	103.014
Financial lease cost (-)	(2.508)	(11.071)
Total	17.998	91.943
b) Long term finance lease payables – net		
Financial lease payables	24.619	1.351
Financial lease cost (-)	(978)	(1.351)
Total	23.641	-

9. DUE FROM/TO RELATED PARTIES - NET

	31.12.2007	31.12.2006
a) Due from related parties		
Roketsan	-	512.105
Aselsan Bakü	562.125	542.392
AselsanNet	3.332.379	5.269.455
Due from personnel	75	111
	3.894.579	6.324.063
b) Advances given to related parties (short term)		
Aspilsan	1.348.382	1.725.966
Total of due from related parties and advances given to related parties	5.242.961	8.050.029
c) Advances given to related parties (long term)		
Roketsan	18.999.182	10.668.824
d) Due to related parties		
Axa Oyak Insurance	2.363.302	1.902.189
Aspilsan	-	133.972
Due to personnel	1.509.913	1.320.212
Due to shareholders	116.158	94.507
	3.989.373	3.450.880
e) Advances received from related parties (short term)		
Roketsan	-	804.460
	-	804.460
Total of due to related parties and advances received from related parties	3.989.373	4.255.340
f) Advances received from related parties (long term)		
Turkish Armed Forces Foundation	10.001.061	999.545
g) Sales to related parties		
Roketsan	01.01.-	01.01.-
Aselsan Bakü	1.382.091	738.766
AselsanNet	28.531	862.486
Axa Oyak Insurance	33.898	-
AselsanNet	9.629.681	4.851.634
Turkish Armed Forces Foundation	7.482.300	847.457
Aspilsan	33.636	-
Total	18.590.137	7.300.343

	01.01.- 31.12.2007	01.01.- 31.12.2006
h) Purchases from related parties		
Axa Oyak Insurance	3.849.417	3.630.248
Aspilsan	4.219.314	2.052.103
AselsanNet	2.745.392	769.905
Aselsan Bakü	-	294.439
Rocketsan	-	2.787
Turkish Armed Forces Foundation	293.000	440.000
Total	<u>11.107.123</u>	<u>7.189.482</u>

10. OTHER RECEIVABLES AND PAYABLES - NET

	31.12.2007	31.12.2006
a) Other short term receivables		
VAT, SSK, incentive receivables	9.884.097	8.798.502
Other receivables	911.603	2.858.194
Doubtful receivables from Gendarmerie Command	-	330.822
Other doubtful receivables	-	283.840
Provision for other doubtful receivables	-	(614.662)
Total	<u>10.795.700</u>	<u>11.656.696</u>
b) Other short term payables		
Social security premiums payable	3.908.722	6.333.080
Taxes and dues payable	6.377.079	13.178.544
Overdue and rescheduled taxes and other liabilities	-	2.226.419
Expense accruals	30.208	3.181
Other liabilities	164.363	169.109
Deferred income (*)	6.991.568	16.672
Total	<u>17.471.940</u>	<u>21.927.005</u>

(*) Deferred income represents the incentive amount treated as deferred income relating to continuing projects as of the balance sheet date as the excess of incentive received over the portion charged against the cost of sales attributable to the completed projects.

11. BIOLOGICAL ASSETS

The Group had no biological assets as of 31.12.2007 and 31.12.2006.

12. INVENTORIES - NET

	31.12.2007	31.12.2006
Raw materials	211.604.754	163.223.193
Semi finished goods	78.056.817	65.453.607
Work in process	89.734.888	68.001.504
Finished goods	51.253.936	33.825.859
Trade goods	2.914.540	389.907
Other inventories	5.504.648	2.656.214
Order advances given	92.082.055	63.844.871
Goods in transit (*)	26.950.376	23.262.242
Allowance for diminution in value of inventories (-)	<u>(3.601.797)</u>	<u>(2.843.103)</u>
	<u>554.500.217</u>	<u>417.814.294</u>

(*) Such amount, previously included in raw materials caption, is separately shown in goods in transit caption in the current period notes.

Movement for allowance for diminution in value of inventories:

	01.01.- 31.12.2007	01.01.- 31.12.2006
Opening balance as of January 1	2.843.103	-
Provision for the period	758.694	2.843.103
Closing balance as of December 31	<u>3.601.797</u>	<u>2.843.103</u>

13. CONSTRUCTION CONTRACTS IN PROGRESS AND DEFERRED BILLINGS

	31.12.2007	31.12.2006
Cost of long-term construction and repair contracts	10.334.788	19.879.010
Total	10.334.788	19.879.010

As of 31.12.2007 and 31.12.2006 the details of construction projects in progress receivables and progress billings are set out below:

31.12.2007	31.12.2007	31.12.2007	31.12.2007	31.12.2007	31.12.2007	31.12.2007	31.12.2007
Project	cost amount	progress billings	percentage of completion	allocated to cost of sales	allocated to sales income	cost balance	progress billings balance
8481 project	8.487.423	14.215.397	88,61	8.134.234	14.215.397	353.189	-
7512 project	826.350	-	42,43	826.350	1.482.684	-	-
7920 project	15.996.897	-	99,00	15.996.897	16.537.628	-	-
08 project	18.191.889	-	46,25	8.413.748	6.579.900	9.778.141	-
20 project	1.356.388	-	85,00	1.152.930	1.217.314	203.458	-
12 project	2.881.454	-	100,00	2.881.454	1.671.071	-	-
Total	47.740.401	14.215.397		37.405.613	41.703.994	10.334.788	-

31.12.2006	31.12.2006	31.12.2006	31.12.2006	31.12.2006	31.12.2006	31.12.2006	31.12.2006
Project	cost amount	progress billings	percentage of completion	allocated to cost of sales	allocated to sales income	cost balance	progress billings balance
8480 Project	16.928.173	33.316.827	-	-	-	16.928.173	33.316.827
8481 Project	2.950.837	8.148.805	-	-	-	2.950.837	8.148.805
Total	19.879.010	41.465.632	-	-	-	19.879.010	41.465.632

The Group has determined the percentages of completion for the long-term projects based on the realization of satisfactory conditions for client acceptance and recognized the contract revenue and costs associated with long-term projects on the basis of revised progress billing contracts and by reference to the stage of completion of contract activity.

The cumulative project costs amounts relating to projects "8480 and 8481" incurred prior to 2006 were not corrected in the previous year's financial statements as the outcome of these projects could not be reliably estimated in those years.

14. DEFERRED TAX ASSETS AND LIABILITIES

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for Capital Market Board purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for Capital Market Board regulations and tax purposes and are set out below. Deferred tax assets and liabilities are reflected financial statements based on the anticipated increase or decrease in tax liability of future periods when temporary differences expire.

Deferred tax assets and liabilities are calculated by liability method from temporary differences to be realized in the future periods by applying 20% tax rate by the Group.

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided at 31.12. 2007 and 31.12. 2006 are as follows:

	Total Temporary Differences		Deferred Tax (Asset)/ Liability	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
<u>Current deferred tax assets:</u>				
Discount on notes and trade receivables	(936.183)	(1.208.265)	(187.236)	(241.653)
Adjustment for cost of long term construction projects	(22.732.734)	-	(4.546.547)	-
Adjustment for research and development incentive income	(6.816.067)	-	(1.363.213)	-
Doubtful receivables	(786.078)	(1.876.740)	(157.216)	(375.348)
Revaluation of stocks	(3.601.797)	(5.329.255)	(720.359)	(1.065.851)
Income accruals	(968)	(21.405)	(194)	(4.281)
Expense accruals	-	(715.875)	-	(143.175)
Provision for project delay expense	(1.253.282)	(4.651.355)	(250.656)	(930.271)
Guarantee expense provision	(13.620.788)	(1.957.510)	(2.724.157)	(391.502)
Adjustment on marketable securities	(32.282)	-	(6.456)	-
Prepaid expenses	(4.690)	-	(938)	-
Total	(49.784.869)	(15.760.405)	(9.956.972)	(3.152.081)
<u>Non-current deferred tax asset:</u>				
Discount on trade receivables	(5.974)	(21.870)	(1.195)	(4.374)
Adjustment for cost of long term construction projects	(14.672.875)	-	(2.934.575)	-
Prepaid expenses	(1.921.775)	-	(384.355)	-
Retirement pay provision	(41.580.443)	(32.846.470)	(8.316.089)	(6.569.294)
Provision for annual vacation and overtime	(4.984.437)	(3.514.140)	(996.887)	(702.828)
Total	(63.165.504)	(36.382.480)	(12.633.101)	(7.276.496)
<u>Current deferred tax liabilities:</u>				
Discount on notes and trade payables	458.412	301.525	91.683	60.305
Adjustment on progress billing amount	31.044.740	-	6.208.948	-
Guarantee expense provision	-	410.945	-	82.189
Income accruals	-	813.940	-	162.788
Adjustment on inventory	734.168	-	146.834	-
Adjustment on marketable securities	60.329	-	12.066	-
Adjustment on receivables	9.469.500	-	1.893.900	-
Other	-	439.300	-	87.860
Total	41.767.149	1.965.710	8.353.431	393.142
<u>Non-current deferred tax liabilities:</u>				
Revaluation of tangible and intangible assets	40.120.756	67.212.270	8.024.151	13.442.454
Tangible assets on resale	8.735	-	1.747	-
Discount on notes and trade payables	104.170	140.900	20.834	28.180
Adjustment on progress billing amount	1.190.967	-	238.193	-
Provision for annual vacation and overtime	-	670.035	-	134.007
Total	41.424.628	68.023.205	8.284.925	13.604.641
Deferred tax assets	(112.950.373)	(52.142.885)	(22.590.073)	(10.428.577)
Deferred tax liabilities	83.191.777	69.988.915	16.638.356	13.997.783
Deferred tax (assets)/liabilities – net	(29.758.596)	17.846.030	(5.951.717)	3.569.206

15. OTHER CURRENT/LONG TERM ASSETS AND CURRENT/LONG TERM LIABILITIES - NET

a) Other current assets	31.12.2007	31.12.2006
Prepaid expenses	13.366.904	17.001.944
VAT carried forward	52.694.109	28.261.987
Prepaid taxes and funds	-	51.861
Advances given for business purposes	38.197	159.400
Advances given to personnel	73.586	-
Total	<u>66.172.796</u>	<u>45.475.192</u>
b) Other long term assets		
Prepaid expenses	26.973.914	29.575.073
Advances given for business purposes	1.456.164	9.303.289
Other VAT	589.438	1.926.256
Other	12.722	9.277
Total	<u>29.032.238</u>	<u>40.813.895</u>

16. FINANCIAL ASSETS - NET

The Group's share in the equity participations and unconsolidated subsidiaries as of 31.12.2007 and 31.12.2006 are as follows:

Company:	Share (%)	31.12.2007	Share (%)	31.12.2006
Aselsan Bakü (*)	100,0	3.059.234	100,0	3.059.234
AselsanNet (*)	95,0	950.000	95,0	475.000
Roketsan	15,0	5.134.992	15,0	5.134.992
Tülomsaş	<1	600.595	<1	600.595
Airport Management and Aviation Ind. Inc.	<1	86.953	<1	86.953
Aspilsan	1,0	113.427	1,0	113.427
Total		<u>9.945.201</u>		<u>9.470.201</u>

(*) The above equity investments were not consolidated on the grounds of immateriality of their total assets, total sales, contingencies and commitments, similar financial data and their activity volume relative to those of the Group.

17. POSITIVE / (NEGATIVE) GOODWILL - NET

<u>Negative Goodwill</u>	31.12.2007	31.12.2006
Mikes, Microwave Electronic Systems Inc.	(461.188)	(461.188)
<u>Accumulated Amortization</u>		
Opening balance	158.107	127.361
Income for the period	30.746	30.746
As of period end	<u>188.853</u>	<u>158.107</u>
<u>Negative Goodwill-net value</u>	<u>(272.335)</u>	<u>(303.081)</u>

Negative goodwill has arisen from the acquisition of Mikes Microwave Electronic Systems Inc. on 03.05.2002.

18. INVESTMENT PROPERTY - NET

The Group had no investment properties as at 31.12.2007 and 31.12.2006.

19. PROPERTY, PLANT AND EQUIPMENT

Movement of property, plant and equipment for the period 01.01.2007 – 31.12.2007 is stated below:

	Land	Infrastructure and Land Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress	Total
<u>Cost</u>									
As of 01.01.2007	13.644.407	5.791.688	83.037.179	285.480.480	2.079.689	73.751.078	18.214.896	8.182.470	490.181.887
Additions	-	4.200	352.149	24.141.572	349.791	5.219.038	-	22.684.987	52.751.737
Disposals	-	-	(222.060)	(9.420.496)	(464.976)	(7.366.997)	(4.822.572)	(2.211.388)	(24.508.489)
Transfers (Note 20)	78.700	455.945	3.789.717	(190.993)	-	(117.920)	4.798.361	(9.266.253)	(452.443)
As of 31.12.2007	13.723.107	6.251.833	86.956.985	300.010.563	1.964.504	71.485.199	18.190.685	19.389.816	517.972.692
<u>Accumulated depreciation</u>									
As of 01.01.2007	-	4.820.835	28.837.580	191.145.221	1.385.635	61.733.656	9.246.405	-	297.169.332
Charge for the year	-	123.094	2.818.164	25.630.813	331.851	4.647.151	2.312.339	-	35.863.412
Disposals	-	-	(53.653)	(9.062.893)	(464.978)	(7.297.671)	(4.321.402)	-	(21.200.597)
Transfers	-	-	-	(1.197.843)	-	(131.964)	1.329.807	-	-
As of 31.12.2007	-	4.943.929	31.602.091	206.515.298	1.252.508	58.951.172	8.567.149	-	311.832.147
Advances given	-	-	-	-	-	-	-	-	4.883.266
Net book values as of 31.12.2007	13.723.107	1.307.904	55.354.894	93.495.265	711.996	12.534.027	9.623.536	19.389.816	211.023.811

Property, plant and equipment items were reclassified within their own categories.

As a result of the revised useful lives of certain tangible assets, YTL 7.402.201 of additional depreciation cost was reflected in the financial statements for the year ended 31.12.2007.

Movement of property, plant and equipment for the period 01.01.2006 – 31.12.2006 is stated below:

	Land	Infrastructure and Land Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment	Construction in Progress	Total
<u>Cost</u>									
As of 01.01.2006	13.612.535	5.562.310	82.194.542	280.762.361	6.686.569	73.165.405	-	8.495.652	470.479.374
Additions	65.740	221.552	3.609	22.356.567	310.936	6.058.021	5.593	7.579.937	36.601.955
Disposals	(33.868)	-	(9.996)	(6.819.132)	(4.575.415)	(5.026.233)	(20.113)	(119.446)	(16.604.203)
Transfers	-	7.826	849.024	(10.819.316)	(342.401)	(446.115)	18.229.416	(7.773.673)	(295.239)
As of 31.12.2006	13.644.407	5.791.688	83.037.179	285.480.480	2.079.689	73.751.078	18.214.896	8.182.470	490.181.887
<u>Accumulated depreciation</u>									
As of 01.01.2006	-	4.705.315	25.886.789	186.598.847	5.124.653	62.130.060	-	-	284.445.664
Charge for the year	-	115.520	2.781.983	17.722.167	618.268	5.251.289	1.365.941	-	27.855.168
Sales	-	-	(1.085)	(6.119.547)	(4.090.289)	(4.925.692)	(3.439)	-	(15.140.052)
Transfers	-	-	169.893	(7.056.246)	(266.997)	(722.001)	7.883.903	-	8.552
As of 31.12.2006	-	4.820.835	28.837.580	191.145.221	1.385.635	61.733.656	9.246.405	-	297.169.332
Advances given	-	-	-	-	-	-	-	-	5.842.386
Net book values as of 31.12.2006	13.644.407	970.853	54.199.599	94.335.259	694.054	12.017.422	8.968.491	8.182.470	198.854.941

(*]Property, plant and equipment items were reclassified within their own categories.

20. INTANGIBLE ASSETS – NET

Movement of intangible fixed assets for the period 01.01.2007 – 31.12.2007 is stated below:

	Rights	Goodwill	Contractual Development Costs (*)	Non- Contractual Development Costs (*)	Special Costs	Other Intangible Fixed Assets	Advances Given	Total
Cost								
As of 01.01.2007	17.033.775	56.600	163.072.267	55.312.222	131.438	14.049.484	-	249.655.786
Additions	5.728.729	-	147.824.430	26.883.418	170.500	366.805	-	180.973.882
Disposals	(247.251)	-	(120.727.148)	(49.827.434)	-	(296.984)	-	(171.098.817)
Transfers	(3.527.469)	-	2.666.504	(1.884.238)	22.650	3.174.996	-	452.443
As of 31.12.2007	18.987.784	56.600	192.836.053	30.483.968	324.588	17.294.301	-	259.983.294
Accumulated amortization								
As of 01.01.2007	8.376.600	-	-	34.274.218	42.831	12.504.870	-	55.198.519
Charge for the year	6.966.343	-	-	8.724.263	32.856	1.604.615	-	17.328.077
Disposals	(331.165)	-	-	(24.519.129)	-	(296.984)	-	(25.147.278)
Transfers	(620.778)	-	-	-	-	620.778	-	-
As of 31.12.2007	14.391.000	-	-	18.479.352	75.687	14.433.279	-	47.379.318
Net book values as of 31.12.2007	4.596.784	56.600	192.836.053	12.004.616	248.901	2.861.022	-	212.603.976

(*) Development costs were incurred directly for ongoing and potential projects.

Movement of intangible fixed assets for the period 01.01.2006 – 31.12.2006 is stated below:

	Rights	Goodwill	Contractual Development Expenses (*)	Non- Contractual Development Expenses (*)	Special Costs	Other Intangible Fixed Assets	Advances Given	Total
Cost								
As of 01.01.2006	8.559.737	56.600	135.443.895	33.666.270	95.872	13.343.516	-	191.165.890
Additions	8.921.329	-	110.309.853	21.635.603	35.566	697.640	-	141.599.991
Disposals	(450.900)	-	(82.954.108)	-	-	(326)	-	(83.405.334)
Transfers	3.609	-	272.627	10.349	-	8.654	-	295.239
As of 31.12.2006	17.033.775	56.600	163.072.267	55.312.222	131.438	14.049.484	-	249.655.786
Accumulated amortization								
As of 01.01.2006	4.057.956	-	-	4.364.424	14.619	9.808.139	-	18.245.138
Charge for the year	4.649.632	-	-	29.909.794	28.212	2.705.609	-	37.293.247
Disposals	(330.988)	-	-	-	-	(326)	-	(331.314)
Transfers	-	-	-	-	-	(8.552)	-	(8.552)
As of 31.12. 2006	8.376.600	-	-	34.274.218	42.831	12.504.870	-	55.198.519
Net book value as of 31.12.2006	8.657.175	56.600	163.072.267	21.038.004	88.607	1.544.614	-	194.457.267

(*) Development costs were incurred directly for ongoing and potential projects.

21. ADVANCES RECEIVED

	31.12.2007	31.12.2006
Short term advances received	276.974.449	290.228.876
Long term advances received	445.450.632	468.134.799
Total	722.425.081	758.363.675

Advances received of YTL 722.425.081 (31.12.2006- YTL 758.363.675) related to 49 orders (31.12.2006 - 66 orders) received, the total amount of highest 10 orders being equivalent to 90% of total advances received. (31.12.2006-71%).

22. RETIREMENT BENEFIT PLANS

The Group had no retirement benefits plan as at 31.12.2007 and 31.12.2006.

23. PROVISIONS

a) Short term provisions	31.12.2007	31.12.2006
Provision for corporate tax	11.079.247	20.330.801
Prepaid taxes and funds (-)	(9.766.502)	(20.273.932)
Provision for costs	2.699.763	335.256
Provision for overdue penalty	1.253.282	1.488.754
Provision for legal cases	551.957	382.137
Provision for guarantee expenses	13.620.788	12.604.569
Provision for the penalty against not hiring disabled people	1.931.004	1.324.111
Other	237.346	1.014.287
Total	<u>21.606.885</u>	<u>17.205.983</u>

Movements of provisions during the period:

Movement of provision for overdue penalty is as follows:

	01.01.- 31.12.2007	01.01.- 31.12.2006
Provision at the beginning of the period	1.488.754	289.927
Charge for the period	775.728	1.198.827
Provision expired	(1.011.200)	-
Provision as of the period end	<u>1.253.282</u>	<u>1.488.754</u>

Movement of provision for legal cases is as follows:

Provision at the beginning of the period	382.137	140.259
Charge for the period	191.420	361.878
Provision expired	(21.600)	(120.000)
Provision as of the period end	<u>551.957</u>	<u>382.137</u>

Movement of provision for guarantee expenses is as follows:

Provision at the beginning of the period	12.604.569	10.028.686
Charge for the period	7.504.046	8.470.145
Provision expired	(6.487.827)	(5.894.262)
Provision as of the period end	<u>13.620.788</u>	<u>12.604.569</u>

Movement of provision for the penalty against not hiring disabled people is as follows:

Provision at the beginning of the period	1.324.111	-
Charge for the period	606.893	1.324.111
Provision as of the period end	<u>1.931.004</u>	<u>1.324.111</u>

b) Long term provisions	31.12.2007	31.12.2006
Employment termination benefits provision	41.580.442	32.846.467
Overtime and annual vacation provision	4.984.438	4.243.342
	<u>46.564.880</u>	<u>37.089.809</u>

Movement of provisions during the period:

Movement of provision for overtime and annual vacation is as follows:	01.01.- 31.12.2007	01.01.- 31.12.2006
Provision at the beginning of the period	4.243.342	6.290.389
Charge for the period	3.370.927	131.242
Provision expired	(2.629.831)	(2.178.289)
Provision as of the period end	<u>4.984.438</u>	<u>4.243.342</u>

Movement of provision for retirement pay is as follows:

Provision at the beginning of the period	32.846.467	33.470.502
Service cost	11.146.520	1.623.602
Interest cost	3.121.663	1.836.268
Provision paid	(5.534.208)	(4.083.905)
Provision as of the period end	<u>41.580.442</u>	<u>32.846.467</u>

Under Turkish law, the Group is required to pay employment termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing the required years of service and achieves the retirement age. In addition, under the existing Social Security Law No.506, clause No. 60, amended by the Labor Laws dated 06.03.1981, No.2422 and 25.08.1999, No.4447, the Group is also required to pay termination benefits to each employee who has earned the right to retire by receiving termination indemnities.

The maximum amount of monthly YTL 2.087,92 effective from 01.01.2008 has been taken into consideration in calculating the reserve for employment termination benefits as of 31.12.2007 (2006: YTL 1.960,69).

The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31.12.2007, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 5% and a discount rate of 11%, resulting in a real discount rate of approximately 5,71% (31.12. 2006: 5,71%). The anticipated rate of forfeitures is considered. For retirement pay provision calculation personnel voluntary working rate is computed as 98% and discounted provision amount is calculated based on this rate.

24. MINORITY INTERESTS / (LOSS)-PROFIT OF MINORITY SHARES

Minority Interests	31.12.2007	31.12.2006
Balance as of 1 January	2.914.210	3.332.603
Minority interest which result from current period operations	1.242.389	(418.393)
Effect of tax adjustment in the current period (Note 2)	16.316	-
Balance as of 31 December	<u>4.172.915</u>	<u>2.914.210</u>
	01.01.- 31.12.2007	01.01.- 31.12.2006
(Loss) / Profit of Minority Shares	<u>1.242.389</u>	<u>(418.393)</u>

25. CAPITAL / TREASURY SHARES

The breakdown of shareholders and their respective share ownership as of 31.12.2007 and 31.12.2006 is given below:

Shareholders	Share (%)	31.12.2007	Share (%)	31.12.2006
Turkish Armed Forces Foundation	84,58	24.869.811	84,58	24.869.811
Other	15,42	4.533.189	15,42	4.533.189
Historical Capital	100,00	29.403.000	100,00	29.403.000
Effect of Restatement of Shareholders' Equity		<u>197.753.672</u>		<u>197.753.672</u>
Adjusted Capital		<u>227.156.672</u>		<u>227.156.672</u>

Shares are divided in to two groups as A and B and Group A consists of preferred registered shares. Its determined that member of Board of Directors will be elected among the owners of registered shares or among the candidates they will offer. Besides, in case of issuance of new shares percentage of the issued capital of Group A shares and new shares that will be issued for Group A are preserved. 17.802.180.000 shares belong to Group A and 11.600.820.000 shares belong to Group B. There are no preferred stocks.

26. CAPITAL RESERVES

	31.12.2007	31.12.2006
Inflation adjustment of shareholders' equity items	<u>198.791.065</u>	<u>198.791.065</u>

According to the Communiqué about Principles and Methods about Adjustment of Financial Statements in Hyperinflationary Periods (Paragraph 11 No 26) equity accounts are recorded with their book values in the financial statements. Positive differences resulting from adjustment of these accounts are recorded in "Equity Inflation Adjustment Differences" account. This account is disclosed in shareholder's equity section of balance sheet and details and composition of this amount is shown below:

Capital	197.753.672	197.753.672
Legal reserves	397.671	397.671
Extraordinary reserves	639.722	639.722
Total	<u>198.791.065</u>	<u>198.791.065</u>

27. PROFIT RESERVES

	31.12.2007	31.12.2006
Legal reserves	<u>9.418.488</u>	<u>7.213.263</u>
Extraordinary reserves	<u>130.416.600</u>	<u>78.287.130</u>
Total	<u>139.835.088</u>	<u>85.500.393</u>

According to Turkish Commercial Code, legal reserves consist of first and second legal reserves. The first legal reserves, appropriated out of historical statutory profit at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid in share capital. The second legal reserve is appropriated after the first legal reserves and dividends, at the rate of 10% per annum of all cash distributions.

28. RETAINED EARNINGS

	31.12.2007	31.12.2006
Retained profits	<u>31.751.333</u>	<u>31.619.569</u>

29. FOREIGN CURRENCY POSITION

As of 31.12.2007 Group's foreign currency position is stated below:

	USD	EURO	GBP	CHF	JPY	AUD	NOK	Total YTL Equivalent
31.12.2007								
Cash and banks	39 037.450	1.678.407	5.540	-	-	-	-	48.350.216
Marketable securities	3 507.022	1.764.291	-	-	-	-	-	7.101.919
Short term trade receivables	32 623.034	3.835.671	12.979	-	-	-	-	44.586.001
Short term other receivables	13.760	-	-	-	-	-	-	16.026
Order advances given	38 980.273	4.927.314	209.816	47.223	4.024.270	4.323	49.500	54.419.901
Other current assets	63.180	-	-	-	-	-	-	73.586
Long term trade receivables	28 063.578	-	-	-	-	-	-	32.685.649
Long term advances given	1 201.596	691.026	-	-	-	-	-	2.581.291
Total Foreign Currency Assets	143 489.893	12.896.709	228.335	47.223	4.024.270	4.323	49.500	189.814.589
Short term financial liabilities	326.849	10.524	-	-	-	-	-	398.680
Short term trade payables	4 465.788	1.898.692	16.519	14.466	-	-	-	8.501.729
Other short term financial liabilities	2 496.626	-	-	-	-	-	-	2.907.821
Other short term liabilities	101.742	-	-	-	-	-	-	118.499
Long term financial liabilities	1 450.743	13.824	-	-	-	-	-	1.713.321
Short term advances received	110 951.079	21.755.037	8.061	-	-	-	-	166.448.934
Long term advances received	133 550.574	30.966.989	-	-	-	-	-	208.506.098
Total Foreign Currency Liabilities	253 343.401	54.645.066	24.580	14.466	-	-	-	388.595.082
Net Foreign Currency Position	(109.853.508)	(41.748.357)	203.755	32.757	4.024.270	4.323	49.500	(198.780.493)

As of 31.12.2006 Group's foreign currency position is stated below:

	USD	EURO	GBP	CHF	JPY	AUD	DKK	Total YTL Equivalent
31.12.2006								
Cash and banks	180 279.593	17.211.511	24.523	-	-	-	-	285.335.716
Marketable securities	8 957.708	1.889.699	-	-	-	-	-	16.089.732
Short term trade receivables	15 661.519	5.152.136	52.177	-	-	-	-	31.696.857
Short term other receivables	686.386	-	-	-	-	-	-	964.784
Order advances given	33 389.147	4.496.055	227.856	159.030	2.557.530	18.200	1.939	56.120.036
Long term advances given	2 957.826	-	-	-	-	-	-	4.157.520
Other non-current assets	5 818.243	563.340	-	-	-	-	-	9.221.146
Total Foreign Currency Assets	247 750.422	29.312.741	304.556	159.030	2.557.530	18.200	1.939	403.585.791
Short term trade payables	1 774.684	766.014	-	48.060	-	-	-	3.968.054
Other short term liabilities	120.234	-	-	-	-	-	-	169.001
Long term financial liabilities	902.827	-	-	-	-	-	-	1.269.014
Long term trade payables	2 377.805	-	-	-	-	-	-	3.342.242
Short term advances received	127 140.322	17.938.018	40.820	-	-	-	-	212.033.214
Long term advances received	155.706.923	23.341.557	-	-	-	-	-	262.078.543
Total Foreign Currency Liabilities	288 022.795	42.045.589	40.820	48.060	-	-	-	482.860.068
Net Foreign Currency Position	(40.272.373)	(12.732.848)	263.736	110.970	2.557.530	18.200	1.939	(79.274.277)

30. GOVERNMENT GRANTS AND INCENTIVES

The Group has no investment incentive as of 31.12. 2007. (31.12.2006+None).

The Group has received YTL 15.599.962 (31.12.2006: YTL 17.304.958) of incentive for the development projects in progress from the Undersecretaries of the Prime Ministry of Foreign Trade, Export General Directorate and YTL 44.339 of fair incentive (31.12.2006: None) during the year ended 31.12.2007.

The Group receives capital fund support from "Support and Price Stability Fund" of the Central Bank of the Turkish Republic with the intermediation of The Scientific and Technological Research Council of Turkey (TÜBİTAK) and Technology Development Foundation of Turkey upon the approval of the Ministry of Foreign Trade within the scope of the Communiqué in respect of "Research and Development Subsidies" No:98/10 issued by the Fund-Loan and Coordination Board in respect of "Financing of Certain Portions of Expenses Incurred for Research and Development Projects" or "Providing equity support to research and development projects"

31. COMMITMENTS AND CONTINGENCIES

a) Lawsuits filed by the Group and which are in progress comprised:

As of 31.12.2007, there is a lawsuit filed by the Group in the amount of YTL 19.183.457 (31.12.2006: YTL 17.550.352) for the cancellation of the VAT accrued in the various periods by Esenboga Customs Directorate and Ankara T.I.R Customs Directorate. YTL 10.189.547 (31.12.2006: YTL 11.346.929) of such amount relates to lawsuits in progress and the remainder YTL 8.993.910 (31.12.2006: YTL 6.203.423) represents the interest charge on the cases. According to the written representation obtained from the legal counsel of the Group, three of the aforementioned cases had a favorable outcome as of November 2007 and it is stated to set an example for the other lawsuits which are underway in terms of a favorable outcome. Hence, the Group management decided not to make any provision for these cases.

The Group has YTL 1.944.946 (31.12.2006: YTL 2.677.925) of lawsuits filed for the doubtful receivables. 100 % provision was set forth for the above stated balance in the accompanying financial statements. Legal action has been started for the collection of receivables from Datem Automation Systems and Trade Inc. in the amount of YTL 1.409.287 (USD 1.210.000). Datem Automation Systems and Trade Inc. has declared bankruptcy and a provision was made for the receivable of YTL 786.078 from Datem Automation Systems and Trade Inc. A.Ş. and the remainder balance was collected by subsidiary.

As of 31.12.2007, a lawsuit was filed against Ankara Yenimahalle Tax Office in to claim the refund of corporation tax for YTL 2.046.868 (31.12.2006: YTL 2.046.868).

As of 31.12.2007, a lawsuit was filed against Arte Program Advertising Agency Trade Ltd. for the collection of YTL 100.000 for monetary compensation claims. (31.12.2006: YTL 100.000).

As of 31.12.2007, the lawsuits filed by the Group for the collection of receivables totaled YTL 68.833 (31.12.2006: None).

b) Lawsuits filed against the Group comprised:

As of 31.12.2007, lawsuits filed by the personnel who were dismissed from the Group's employment as monetary compensation amounted to YTL 551.958 (31.12.2006: YTL 382.137).

Provision was set forth in the accompanying financial statements for the lawsuits filed against the Group.

c) Guarantees received by the Group is as follows:

	31.12.2007	31.12.2006
Letter of gurantees received	123.543.450	82.111.617
Cheques of guarantee received	30.716	32.216
Notes of guarantee received	742.592	752.120
Mortgages	366.600	979.500
Total	124.683.358	83.875.453

d) Guarantees given by the Group is as follows:

Letters of guarantees given	1.259.486.549	1.164.560.437
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e) Derivative financial instruments

31.12.2007: None

31.12.2006

Type of Contract	Contract Amount (YTL)	Fair Value – Assets / (Liabilities)
Option contracts with defined upper or lower limits	131.850.000	(2.619.173)

f) Letters of Credit

	31.12.2007	31.12.2006
USD	39.438.206	19.478.510
EURO	25.445.899	42.993.645
GBP	-	97.872
CHF	-	238.000

32. BUSINESS COMBINATIONS

None (31.12.2006: None).

33. SEGMENT REPORTING

None (31.12.2006: None).

34. SUBSEQUENT EVENTS

None (31.12.2006: None).

35. DISCONTINUED OPERATIONS

None (31.12.2006: None).

36. OPERATING INCOME

	01.01.- 31.12.2007	01.01.- 31.12.2006
<u>Sales Revenue</u>		
Domestic sales	637.053.627	479.061.977
Export sales	29.160.244	16.402.332
Other revenues	2.556.591	18.473.085
Sales returns (-)	(229.117)	(42.267)
Sales discounts (-)	(1.625)	(777.536)
Total	<u>668.539.720</u>	<u>513.117.591</u>
<u>Cost of Sales (-)</u>		
Cost of goods sold (-)	(372.367.296)	(274.336.856)
Cost of merchandises sold (-)	(4.319.679)	(2.122.973)
Cost of other sales (-)	(71.309.068)	(43.474.140)
Total	<u>(447.996.043)</u>	<u>(319.933.969)</u>

In order to account for long-term project revenues and costs in accordance with Capital Market Board Communiqué No.XI/25 on the basis of percentage of completion method, the cumulative revenue and costs of certain projects applied in the current period (14.215.397 YTL sales, 8.134.234 YTL cost) were taken to the income statement as the project completion rates pertaining to the prior periods could not be reliably estimated.

37. OPERATING EXPENSES

Operating expenses consists of research and development expenses, marketing - selling and distribution expenses and general administrative expenses.

<u>Research and Development Expenses</u>	01.01.- 31.12.2007	01.01.- 31.12.2006
Labor cost	12.605.284	4.656.244
Depreciation and amortization expense	11.706.584	23.289.730
Material cost	3.026.809	649.119
Other expenses	3.438.405	1.298.409
Total	<u>30.777.082</u>	<u>29.893.502</u>

<u>Marketing Selling and Distribution Expenses</u>		
Business development expense	7.232.232	6.717.707
Labor cost	5.234.672	5.291.827
Stamp tax and duties	3.148.196	4.209.100
Fair and exhibition expenses	1.872.647	532.718
Overseas travel expense	1.193.486	1.140.318
Export sales commission expense	1.004.799	739.186
Material cost	866.023	2.332.012
Advertisement expense	719.096	938.218
Insurance cost	649.001	318.302
Promotion expense	486.380	294.493
Domestic travel expense	405.224	477.013
Depreciation and amortization expense	240.448	144.277
Other expenses	2.563.293	2.034.351
Total	<u>25.615.497</u>	<u>25.169.522</u>

<u>General Administrative Expenses</u>		
Labor cost	35.118.417	28.097.584
Depreciation and amortization expense	6.002.936	9.527.043
Electricity expense	1.735.323	974.342
Maintenance and repair expense	1.329.125	2.158.137
Consulting expense	1.136.977	1.216.391
Small fittings expense	884.849	209.869
Personnel transportation expense	831.294	713.674
Insurance expense	818.059	858.997
Training and seminar expense	719.517	438.231
Rent expense	662.629	648.379
Personnel food expense	495.063	591.261
Water expense	426.576	172.769
Tax expense	383.481	462.207
Fuel-oil expense	267.734	271.270
Other expenses	3.996.824	2.670.318
Total	<u>54.808.804</u>	<u>49.010.472</u>

Total of Operating Expenses	<u>111.201.383</u>	<u>104.073.496</u>
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38. INCOME/EXPENSE PROFIT / LOSSES FROM OTHER OPERATIONS

	01.01.- 31.12.2007	01.01.- 31.12.2006
a) Profit and income from other operations	31.12.2007	31.12.2006
Interest income	16.884.012	24.273.359
Profit on sale of marketable securities	298.740	73.091
Foreign exchange gains	15.188.678	-
Option income	1.822.000	10.288.000
Discounting income	1.832.825	1.261.755
Previous period income and profit	267	10.859
Dividend income from equity investments	22.126	37.776
Other income and profits	2.999.260	5.803.504
Total	39.047.908	41.748.344
b) Loss and expense from other operations (-)		
Foreign exchange losses	-	(23.738.782)
Discounting expenses	(1.571.339)	(2.780.701)
Previous period expense and losses	(485.387)	(298.786)
Overdue penalty	(4.025.372)	(343.811)
Other expense and losses	(3.536.851)	(2.994.784)
Option expense	(29.801.000)	(3.095.380)
Total	(39.419.949)	(33.252.244)

39. FINANCIAL EXPENSES (-)

Short term financial expenses (-)	(5.982.290)	(2.770.176)
Total	(5.982.290)	(2.770.176)

40. NET MONETARY GAIN / (LOSS)

In accordance with resolution taken by the Capital Market Board dated 17.03.2005, numbered 11/367, it was announced that companies operating in Turkey which prepare their financial statements in accordance with Capital Market Board Accounting Standards, will not be subject to the application of inflation accounting in effect from 01.01.2005. Consequently, there is no monetary gain or loss in the accompanying financial statements.

41. TAXATION

Corporate tax payable:	31.12.2007	31.12.2006
Provision for corporate tax	11.079.247	20.330.801
Prepaid taxes and funds (-)	(9.766.502)	(20.273.932)
Total	1.312.745	56.869

Taxation:		
Current corporate tax expense	11.079.247	20.330.801
Deferred tax expense/(income)	(9.520.923)	(1.881.724)
	1.558.324	18.449.077

Corporate Tax:

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rate applied in 2007 is 20% (2006:20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate in 2007 is 20% (2006: 20%).

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax:

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for resident companies in Turkey receiving dividends from resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 15% starting from 23 July 2006. Income not distributed and added to capital are exempt from withholding tax.

Inflation adjusted legal tax calculation:

For 2003 and previous years, taxable profits were calculated without any inflation adjustment to the statutory records, except that fixed assets and the related depreciation were revalued annually. Law No. 5024 published in the Official Gazette No. 25332 on 30 December 2003 requires the application of inflation accounting in Turkey in 2005 and future years for tax purposes, if the actual rate of inflation meets certain thresholds, using principles which do not differ substantially from the principles in IAS 29 "Financial Reporting in Hyperinflationary Economies". As inflation met certain thresholds as of 31 December 2004, the Company has adjusted its statutory financial statements as of 31 December 2004 in accordance with Law No. 5024 and inflation adjusted balances as at 31 December 2004 were taken as opening balances as of 1 January 2005. However, as inflation did not meet the required thresholds as of 31 December 2005 and 2006 and 2007 period, no further inflation adjustment made to the Company's statutory financial statements in 2005 and 2006 and 2007 period.

42. EARNINGS PER SHARE

	01.01.- 31.12.2007	01.01.- 31.12.2006
<u>Number of shares outstanding – Lot</u>	29.403.000	29.403.000
Net profit - YTL	100.187.250	76.805.366
Profit of 1 Lot of share with 1 YTL nominal value YTL / %	3,41	2,61

As of report date, no decision was taken by the Parent Company in respect of profit distribution at the Ordinary General Board meeting, as a result the dividend amount and percentages have not been determined.

In accordance with Capital Market Board Communiqué No.25, in the event a profit distribution decision is taken at the annual general assembly by a consolidated subsidiary, the profit distribution to be transferred to Parent Company should be taken into consideration for the calculation of distributable profit of the Parent Company subject to the general assembly decision. The distributable profit by the consolidated subsidiary is determined on the basis of financial statements prepared in accordance with Capital Market Board Standards and can not be higher than the profit amount to be transferred to the Parent Company. Mikes Microwave Electronic Systems Inc., which is included in the consolidation, has taken the decision to hold the 2007 Ordinary General Board meeting on 11.04.2008, hence the profit distribution percentage and amount have not been determined.

43. STATEMENT OF CASH FLOW

	01.01.- 31.12.2007	01.01.- 31.12.2006
Changes in working capital		
Short term trade receivables and due from related parties	(15.373.457)	(11.362.215)
Inventories	(136.685.923)	(97.329.403)
Other receivables and current assets	(10.292.386)	(12.007.166)
Long term trade receivables and due from related parties	(8.043.304)	(353.200)
Other non current assets	11.781.657	17.383
Short term trade payables and due to related parties	(2.532.413)	3.332.937
Long term trade payables and due to related parties	9.892.863	(23.299)
Advances received (short term)	(13.254.427)	76.760.171
Advances received (long term)	(22.684.167)	(2.565.594)
Other payables and short term payables	(45.994.642)	14.721.080
Other long term payables	23.641	(2.318.360)
Total	(233.162.558)	(31.127.666)

44. OTHER ISSUES WHICH ARE SIGNIFICANT TO THE FINANCIAL STATEMENTS OR WHICH SHOULD BE DISCLOSED FOR THE PURPOSE OF UNDERSTANDABILITY AND THE TRUE AND FAIR VIEW/PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) In the meeting of board of Directors of Aselsan Electronic Industries Inc. dated 27.12.2007 it has been decided to present the change in main contract of the Company involving an increase of registered capital to YTL 500.000.000 for the approval of General Board.

b) In the Board of Directors meeting of Aselsan Electronic Industries Inc. dated 27.12.2007, it was decided to institute a mortgage on the Company's property at Macunköy or Akyurt plants as required guarantee for the advance and interim payments to be made by Undersecretariat for Defense Industries for the Atak Helicopter project agreement signed between Undersecretariat for Defense Industries and TAI (Contractor) with a value of USD 700.000.000, within the framework of a settlement reached with Undersecretariat for Defense Industries.

As of 31.12.2006, there is no issue that may affect financial statements materially, or that may cause a deficiency about interpretation and comprehension of financial statements.

c) The consolidated financial statements of the Group as of and for the year ended 31.12.2007 was approved by the Board of Directors on 14.03.2008.

Basic Financial Ratios

2007

LIQUIDITY RATIOS

a) Current Ratio (Current Assets / Short Term Liabilities)	2,43
b) Acid - Test Ratio ((Current Assets - Inventories) / Short Term Liabilities)	0,91
c) Cash Ratio ((Cash and Cash Equivalents+Marketable Securities) / Short Term Liabilities)	0,43

LIQUIDITY RATIOS

a) Profit (Loss) for The Period / Net Sales	0,15
b) Net Profit (Loss) for The Period / Net Sales	0,15
c) Net Profit (Loss) for The Period / Total Assets	0,07
d) Net Profit (Loss) for The Period / Equity	0,20

Engin Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş.
Certified Public Accountants

**CONVENIENCE TRANSLATION OF REPORT AND
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH**

INDEPENDENT AUDITOR'S REPORT

To The Board Of Directors.

Aselsan Elektronik Sanayi ve Ticaret A.Ş.

1. We have audited the accompanying consolidated financial statements of Aselsan Elektronik Sanayi ve Ticaret A.Ş. and its subsidiary (together the "Group"), which comprise the consolidated balance sheet as at 31.12.2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with financial reporting standards issued by the Capital Market Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing published by the Capital Market Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. The comparative financial statements of the Group as of and for the year ended 31.12.2006 were audited by other auditors whose report dated 12.03.2007 expressed a qualified opinion on those financial statements stating that no opinion could be formed regarding the impact on the financial statements of not being able to apply the accounting standard as per Section 24 of the Capital Market Board Communiqué No.XI/25 with respect to Revenue Recognition on Contract Costs on some of the long-term projects of the Group to be completed within more than one year.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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Engin Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş.
Certified Public Accountants

6. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

7. In accordance with financial reporting standards published by the Capital Market Board, project revenue and costs arising from long-term construction contracts should be recognized as revenue and expenses by reference to the stage of completion of the contract activity at the balance sheet date. On the basis of information furnished by the Group, the application of the accounting standard as per Capital Market Board Communiqué No: XI/25, Section 24, "Construction Costs" to the long-term projects of the Group relating to the previous periods in order to recognize attributable contract revenue and costs in the income statement in the accounting periods in which the work was performed became necessary. In respect of this matter, the uncertainties related to estimating stages of project completion were resolved in the current period. However, as the stage of project completion in regards previous periods could not be determined, the contract revenue and costs related to previous periods could not be distinguished. In the current year the Group has recognized the revenue and costs related to the long-term projects by reference to the stage of completion of the contractual activity at the balance sheet date. Accordingly, the cumulative contract revenue and losses determined under the percentages of completion at the current period were taken to the income statement (Note 36).

Opinion

8. In our opinion, except for the effect on the consolidated financial statements of the matter referred to in paragraph 7 above, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial positions of Aselsan Elektronik Sanayi ve Ticaret A.Ş. and its subsidiary as of 31.12.2007, and the consolidated results of its operations and cash flows for the year then ended in accordance with financial reporting standards issued by Capital Market Board.

Istanbul, 14.03.2008

Engin Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş.
Member Firm of Grant Thornton International


Jale Akkaş
Engagement Partner

Abide-i Hürriyet Caddesi
Bolkan Center,
No:285, C Blok Kat 2,
34381 Şişli / İstanbul

Proposal for Profit Distribution

ASELSAN ELECTRONIC INDUSTRIES INC. 2007 PROFIT DISTRIBUTION TABLE (YTL)			
	Distribution under the Capital Markets Board Regulations	Distribution under the Legal Records	EXPLANATIONS
Issued Capital	29.403.000,00	29.403.000,00	
Total amount of First Legal Reserve, according to the Legal Records	14.936.953,00	14.936.953,00	
The information for the profit distribution in the case of privileges according to the Company Articles of Incorporation			
Profit for the Period	101.745.574,00	110.942.717,79	
Taxes Payable (-)	1.558.324,00	9.286.957,90	
NET PROFIT FOR THE PERIOD (=)	100.187.250,00	101.655.759,89	
Accumulated Loss (-)	0,00	0,00	
First Legal Reserve (-)	0,00	0,00	No further First Legal Reserve be allocated since the ceiling amount has already been reached in accordance with Article 466 of the Turkish Commercial Code
Consolidated Subsidiary Net Profit for the period not subject to distribution, (-)	1.003.692,00		
NET DISTRIBUTABLE PROFIT FOR THE PERIOD (=)	99.183.558,00	101.655.759,89	
Donations Made throughout the Year (+)	349.956,00		
Net Distributable profit for the period, donations included in dividend calculation	99.533.514,00	101.655.759,89	
First Dividend to Shareholders	51.161.220,00	1.470.150,00	
- Cash	27.932.850,00	1.470.150,00	
- Non paid-up share	23.228.370,00	0,00	
- Total	51.161.220,00	1.470.150,00	
Second Dividend to Shareholders	0,00	49.691.070,00	The second dividend payment to shareholders presented in the Legal Records column will be distributed as YTL 26.462.700 in cash and YTL 23.228.370 in non paid-up shares.
Second Legal Reserve	2.646.270,00	2.646.270,00	
Statutory Reserve	0,00	0,00	
Special Reserve	0,00	0,00	
EXTRAORDINARY RESERVE	46.379.760,00	47.848.269,89	

As presented in the table above; out of the profit that remains from the period generated by our company from its 2007 activities after deduction of taxes and legal obligations payable thereon;

No further First Legal Reserves be allocated since First Legal Reserves, which must be allocated in accordance with Article 466/I of the Turkish Commercial Code, have already been allocated by our company

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, YTL 27.932.850 (YTL 0,95 per share of YTL 1 and 95% on the basis of the capital) (net profit YTL 23.742.922,50 - YTL 0,8075 per share of YTL 1 and 80,75% on the basis of the capital) as in the form of cash and,
- YTL 23.228.370 (YTL 0,79 per share of YTL 1 and 79% on the basis of the capital) in the form of non paid up shares added to the capital

Second Legal Reserves amounting YTL 2.646.270 be allocated in accordance with the Turkish Commercial Code,

The remaining profit and accumulated profit calculated in the legal records is going to be allocated as Extraordinary Legal Reserves

And distribution of the profit shares to be distributed to the shareholders are planned such that;

The cash amount will be distributed as of May 30, 2008, and,

The non paid up shares issued as addition to the capital will be distributed earliest as of 30.05.2008 or latest as of 30.06.2008 depending upon the approval of the Capital Markets Boards

Yours faithfully,
Board of Directors

Auditor's Report

To: The Chairman of the General Assembly of ASELSAN Electronic Industries Inc.

Title of the Company	: ASELSAN Electronic Industries Inc.
Head Office	: ANKARA
Capital	: Registered Capital : 60.000.000.-YTL Issued Capital : 29.403.000.-YTL
Field of Operation	: To carry out research, development, engineering, production, testing, installation, integration and sales, provide after sales services, engage in trading, assign dealers and agents for such trading for various software, devices, instruments, systems, tools, vehicles and platforms and engage in all kinds of ventures and activities for preparation of designs, consultancy, servicing, training, commitments and contracts, construction, publishing, trading, operation and Internet services provision as part of land, air and naval applications addressing all kinds of entities and establishments and consumers.
Names and Terms of the Board of Auditors	: Mehmet TIMUR (2007 - 2008 - 2009) Melih Sahir BIÇER (2007 - 2008 - 2009)
Whether they are partners	: They are not partners.
No of the Board of Directors' meetings attended	: 12
No of Audit Board meetings held	: 12
Scope of review conducted on the company accounts, books and documents, dates of review and opinion thereof	: It has been found out as a result of the audits conducted by our board on the company's journal books, ledgers, cash books, offset and cash slips / vouchers and other documents for activities in the Year of 2007 that all the records and documents are duly compliant with the established procedures Dates of audit: 31.01.2007 - 28.02.2007 - 28.03.2007 - 27.04.2007 - 31.05.2007- 27.06.2007 - 19.07.2007 - 29.08.2007 - 28.09.2007 - 25.10.2007- 29.11.2007 - 27.12.2007
No and results of counting conducted at the company cashier's office as per paragraph 3 of Sub-Clause 1 of Article 353 of the Turkish Commercial	: The company central cashier's office was subject to inspection 12 times and it has finally been concluded that the discharge transactions were in compliance with the pertinent documents.
Dates and results of audits conducted as per paragraph 4 of Sub Clause 1 of Article 353 of the Turkish Commercial Code	: Company books were subject to audit 12 times; as a result, it has been found out that the records are in compliance with the pertinent records. Dates of audit: 31.01.2007 - 28.02.2007 - 28.03.2007 - 27.04.2007 - 31.05.2007- 27.06.2007 - 19.07.2007 - 29.08.2007 - 28.09.2007 - 25.10.2007- 29.11.2007 - 27.12.2007
Any Complaints and irregularities reported and action taken thereon	: No complaints or regularities have been reported.
Quarterly reports containing our views about the general state of affairs were submitted to the Executive Board.	
We have audited the accounts and transactions of Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi (Aselsan Electronic Industry and Trade Joint Stock Company) for the period of 01.01.2007 to 31.12.2007 in accordance with the Turkish Commercial Code, Company articles of incorporation and generally recognized accounting principles and standards.	
According to our opinion, the enclosed Balance Sheet drawn up as at 31.12.2007, the contents of which are agreed by us, truly reflects the financial position of the company as of the said date whilst the Revenue Sheet for the period of 01.01.2007 to 31.12.2007 reflects the operational results for the subject period correctly and genuinely.	
You are hereby kindly asked to approve the Balance Sheet and Revenue Sheet and issue an acquittal for the Executive Board accordingly by your votes.	

AUDITOR
Melih Sahir BIÇER

AUDIT BOARD

AUDITOR
Mehmet TIMUR

CORPORATE GOVERNANCE COMPLIANCE REPORT

1. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

The efforts to achieve compliance with made public by the Capital Market Board in the context of the Corporate Governance Principles, the REPORT OF COMPLIANCE incorporating the implementation aspects for the operational period of 01.01.2007 to 31.12.2007 regarding the minimum elements requested by the Capital Market Board to be included by the companies in their operational reports is presented below.

Efforts will continue in the forthcoming periods to achieve compliance with those aspects of the Corporate Governance Principles, which have not yet been complied with, to the extent permitted by the characteristics of the relevant sectors of operation.

PART I – SHAREHOLDERS

2. Unit for Relations With the Shareholders

Information is provided below on the unit established within our company, which is in charge of relations with the shareholders.

Ahmet DEMİR (Chief Financial Officer)

Atakan ATA (Treasurer and Fund Man. Manager)

Bani Betül DİNÇER (Partnership and Subsidiary Relations Specialist)

Kenan GURATEŞ (Administrative Personnel)

Communication Information

Tel: (312) 592 12 45-46

e-mail:ortaklar_servisi@aselsan.com.tr

The Unit for Relations With the Shareholders carries out activities concerning the exercise by the shareholders of their partnership rights, public disclosure of particular situations, replies to the questions by the shareholders on the exercise of their company or partnership rights, procedures for general assemblies, capital expansion, profit distribution and amendment to the articles of incorporation, execution of the Public Information Project and Central Records System carried out by the Capital Market Board and efforts for the Corporate Governance Principles.

The Unit for Relations With the Shareholders concluded procedures for the share and profit share rights of 200 shareholders, which relate to the past years, in 2007; the share of 129 Shareholders is dematerialized.

3. Exercise of Shareholders' Right to Be Informed

Requests for information by about 300 shareholders, which were largely characterized by inquiries about the method of using their rights on the shares and dividends, which could not be exercised by them within the legal time limits and the inquiries for what the procedures would be to pursue the records of their shares were verbally replied. Inquiries by those shareholders, who apply to our company, are handled by taking into consideration the arrangements governing particular situations and attention is paid to ensure that any inquiries are replied such that their replies thereof are fully understood.

The electronic media is being effectively used to communicate any development that may affect the exercise by the shareholders of their rights.

Appointment of private auditors has not been regulated by the Company Articles of Incorporation as an individual right and no requests were made by the shareholders for appointment of any such private auditors during the period.

4. Information on the General Assembly

The agenda of and invitation to the 32nd Ordinary General Assembly Meeting held by our company in the company head quarter on 30.03.2007 for the operations of 2006 were published in the Turkish Journal of Trade Registrations dated March 15, 2007 as well as in seven newspapers having circulation throughout Turkey and the meeting took place with the participation of 7 shareholders, which represented a portion of 2,491,481,162 shares out of a total of 2,940,300,000 shares representing the issued capital of TRY 29.403 million.

No specific time limit is envisaged by our company for the participation by the holders of registered shares in general assemblies. Annual operational reports are made available for the shareholders to examine in the company head office minimum 15 days in advance of the date of a general assembly meeting and its copies are distributed to the shareholders applying to participate in a general assembly and any inquirers. Attention is paid to ensure that the shareholders can exercise their right to raise questions regarding the subjects covered by agendas of general assembly meetings and replies to the questions and proposals by the shareholders during a meeting are taken down by general assembly minutes.

The articles of association do not contain any provisions requiring that any resolutions concerning partitions and sale, purchase and lease of property of any substantial size be adopted by the general assembly. However, Article 13 of the articles of association has this stipulation: "...an affirmative opinion of the Turkish Armed Forces Foundation is obtained in advance of adoption of any resolutions on assumption of commitments involving the cases imposing heavy obligations on the operation such as assumption of new projects, financial and/or commercial borrowing and introduction of new fixed asset investments, which are in excess of 20 % of the total assets on the basis of such an individual operation and/or an individual year according to the last company balance sheet issued". Turkish Armed Forces Foundation, which has been established for the purpose of meeting the requirements of the Turkish Armed Forces and operates on the basis of public interests, pays particular care over safeguarding and protecting the rights of other shareholders in connection with any major resolutions by the company.

5. Voting rights and minority rights

Our company, in which the shareholders hold no privileges over their voting rights, has no arrangement for the method of exercising cumulative voting rights. Minority shares are not represented in management as the members of the Board of Directors are elected from among the holders of Group A Registered Shares or candidates nominated by them as required by the Company Articles of Incorporation.

6. Profit Distribution Policy and Profit Distribution Timing
The profit distribution policy related to 2007 and subsequent years of our company in which the shareholders hold no privileges over participation in profit generated by the company had been drawn up in accordance with No. 4/67 and 27.01.2006 dated Decision of the Capital Market Board and which had been presented to the partners for information in the Ordinary General Assembly Meeting held in 2007 at which the activities of 2006 had been discussed is given here below. Out of the profit generated from the operations of 2006, a dividend, which was 80% and 68% in gross and net terms, respectively, was paid to our partners in 2007. Profit distribution was realized in the framework of the Capital Market Law and other statutory regulations and the provisions of the articles of association within the legal time limits.

Profit distribution policy for 2007 and subsequent years:

The profit distribution proposal to be prepared by the Board of Directors to the effect that the sum of dividend, which is to be calculated on the basis of the sum of distributable profit calculated by taking as a basis the period profit indicated in the financial statements of our company prepared in the framework of the present legal arrangements (after deduction of legal reserves, which have to be allocated as required by laws and taxes, levies and financial payments and previous years losses if any) by having due regard to the provisions of the applicable legislation and articles of incorporation as well as the company equity ratio, sustainable growth rate, market value and cash flows, be realized in cash or through distribution of shares by means of shares to be issued by adding the dividend to the capital free of charge or on the basis of a certain ratio of cash and a certain ratio of free shares on the date (dates) to be fixed pursuant to the arrangements under the Capital Market Board Regulations will be presented to the General Assembly for approval.

There are no privileges for participation in our Company's profit.

7. Transfer of shares
Designation of a controlling partner, which can direct the company management, is of particular importance in the defense industry sector, of which our company is a part. Therefore, transfer of Group A registered shares representing a portion of the capital, which are not listed by Istanbul Stock Exchange, is restricted pursuant to the provision in the articles of association, which reads as follows: "Group A shares cannot be sold and transferred unless expressly consented by the Board of Directors and in case of transfer of these shares to third parties in whole or in part without the consent of the Board of Directors, the Board of Directors may refrain from taking under record such a sale without justification".

PART II – PUBLIC INFORMATION AND TRANSPARENCY

8. Company's Information Policy
The Information Policy that was prepared in 2006 presented in 30.03.2007 to the interest of our partners in the Ordinary General Assembly Meeting at which the activities of 2006 was discussed is published via our internet site.
9. Disclosures of Particular Situations
37 disclosures of particular situations were made in 2007 in the framework of the arrangements of the Capital Market Board. There were no inquiries for additional clarification by either Capital Market Board or Istanbul Stock Exchange.
10. Company Internet Site and Its Contents
As a result of arrangements made, it shall be possible to have access to the following information on our company's Internet site (www.aselsan.com.tr)
- Information on the Company Trade Registration particulars
 - Latest Composition of Shareholders
 - Present Members of the Board of Directors
 - Information on preferable shares
 - Present version of the articles of association,
 - Annual reports,
 - Disclosures of Particular Situations,
 - Corporate Management Compliance Report,
 - Schedules of participants and minutes of meetings for the general assembly meetings,
 - Form for voting by proxy,
 - Periodical financial statements and independent auditors' reports,
 - Prospectuses and circulars on public offers,
 - Frequently asked questions.

Our company's particular situations disclosed to the Istanbul Stock Exchange and other subjects that our investors may be interested in are taking place in the news section of our Internet site.

11. Disclosure of Final Controlling Shareholder / s as a Natural Person /s
Turkish Armed Forces Foundation is the biggest shareholder possessing 84.58% of the company capital. Our company has no mutual subsidiary or affiliate relations with Turkish Armed Forces Foundation or any other companies.
12. Public Disclosure of People in Position to Have Internal Information
The list of people in position to have internal information is being publicly disclosed annually within the Report of Compliance with Corporate Governance Principles section of the Annual Report since the Annual Report of 2004. Furthermore, the changes that occur during the course of the year are publicly disclosed within the framework of the Capital Market Board's regulation governing "Public Disclosure of Particular Situations".

The version of the "List of People in Position to Have Internal Information" as of the end of March 2008 is provided here below:

1) Mehmet ÇAVDAROĞLU	Chairman
2) Adem DEMİR	Vice Chairman
3) M. İhsan ONGUN	Member
4) Mehmet BALI	Member
5) Ahmet ŞENOL	Member
6) M. Ayhan GERÇEKER	Member

7) Burcu GÜRAN	Member
8) Mehmet TİMUR	Auditor
9) Melih Sahir BİÇER	Auditor
10) Cengiz ERGENEMAN	General Manager
11) Özcan KAHRAMANGİL	CEO
12) Fuat AKÇAYÖZ	CEO
13) Faik EKEN	CEO
14) Ergun BORA	CEO
15) Ahmet DEMİR	Chief Financial Officer
16) Gönül TETİK	Director, Accounting
17) Afşin AKKERMAN	Director, Procurement
18) Ali Fatih BILGI	Director, Information Technologies
19) Mustafa ERTÜRK	Director, Market Development
20) Nihat İRKÖRÜCÜ	Director, Human Resources and Support Services
21) M. Uğur KARAVELİOĞLU	Director, Military Radio Programs
22) M. Atilla AKAY	Director, Communication Systems Programs
23) Sinan ŞENOL	Director, Avionics&Satellite Comms. Sys. Programs
24) Özge SAVAŞ	Director, Radar Programs
25) Hayrullah YILDIZ	Director, EW Programs
26) Fikri ATMACA	Director, EW Programs
27) İ. Aybars KÜÇÜK	Director, Land and Missile Programs
28) Fikret ÜLGÜT	Director, Defense Programs
29) Metin SANCAR	Director, Air and Naval Programs
30) Yavuz Suat BENGÜR	Director, Naval Combat Systems Programs
31) Yavuz BAYIZ	Director, Public Systems Prog.
32) İnci UYSAL	Chief Internal Auditor
33) Atakan ATA	Manager, Treasury and Fund Man.
34) Baran ÖZER	Manager, Contracts
35) M. Sacit GÜN	Business Development Manager, Military Radio Prog.
36) Hezarfen ORUÇ	Business Development Manager, Air and Naval Prog.
37) Oğuz YEMİŞÇİLER	Business Development Man., Land and Missile Prog.
38) Bedri Tekin TUĞAÇ	Business Development Manager, Defense Programs
39) Murat ŞAVKILIOĞLU	Business Development Manager, Naval Systems

PART III – BENEFICIARIES

13. Provision of Information to Beneficiaries
Inquiries by beneficiaries regarding the matters related to our company or them are treated meticulously, with due care being shown to ensure that such inquiries are replied in a correct and understandable manner. Furthermore, information on operations carried out is provided by ASELSAN magazine which is published quarterly.
14. Participation of Beneficiaries in Management
Company employees are capable of conveying their expectations and requests to the top management via their representatives. The studies initiated continue for other beneficiaries apart of the employees and shareholders, to participate in management.
15. Human Resources Policy
In line with the company vision, mission and principles, arrangements have already been made with regard to the employment conditions, qualifications, recruitment, promotion, salaries, rewards, dismissals, leaves, disciplinary actions, rights, duties and responsibilities and other employment benefits of the staff.

There are a total of 40 representatives for the company employees, of which 9 represent engineers, 4 represent office staff / white collar workers, 20 represent technical staff, 2 represents secretarial workers, and 5 represent blue collar workers.

No complaints were made by the employees about any discriminatory practices in 2007.

16. Information on the Relations with Customers and Suppliers

Our company has adopted as a basic principle the constant development and verification of processes, services and products and provision of defect free products and services to customers on a timely basis all the time for the purpose of meeting customers' requirements totally. To this end, a quality system, which is documented by a quality manual, directives, quality plans and directives on standards, supervision, audits and tests, has been developed to meet the requirements of the quality standards.

Suppliers are subject to an assessment of capabilities and capacity in terms of technical and commercial considerations and quality in order to ensure that materials and software used in products or services related to such products can be procured from reliable suppliers so that any potential quality problems can be minimized. Suppliers are informed of the results of such an assessment and business is conducted with only those suppliers meeting the necessary conditions. In this context, in the year 2007, orders have been placed to 3438 supplier company of which 154 of them are sub-industry firms.

Information related to customers and suppliers are designated appropriate classes of confidentiality and it is treated depending on the respective level of confidentiality it is designated. Information on any proposals received from suppliers as well as correspondence thereof are treated confidentially and such is not furnished to any unauthorized persons or third parties. Non-occurrence of any conflict of interest in relations with customers and suppliers or any practices leading to it is guaranteed by the directives developed

17. Social Responsibility

Being sensitive towards environment, our company received "Award for Promotion of Environmental Protection in Industries" from the Chamber of Chemical Engineers and "Environmental Awards" from Ankara Chamber of Industry in 1991, and 1992 and 1995, respectively.

Our company, which has so far carried out a number of implementations on various occasions in the framework of its understanding of social responsibility, built a primary school in the Province of Sakarya after Marmara Earthquake. ASELSAN has completed the reconstruction of an elementary school that was demolished in the last earthquake in Pakistan. Requirements of ASELSAN Primary School in the district where our company headquarter is located are being met.

PART IV - BOARD OF DIRECTORS

18. Composition and Formation of the Board of Directors and Independent Members:

Members of the Board of Directors;

- | | |
|----------------------|--|
| 1) Mehmet ÇAVDAROĞLU | Chairman |
| 2) Adem DEMİR | Vice Chairman (Executive Member) |
| 3) M. İhsan ONGUN | Member (Committee Member In Charge of Audits) |
| 4) Mehmet BALLI | Member (Corporate Governance Committee Member) |
| 5) Ahmet ŞENOL | Member |
| 6) M. Ayhan GERÇEKER | Member (Corporate Governance Committee Member) |
| 7) Burcu GÜRAN | Member (Committee Member In Charge of Audits) |

There are no Board members involved in execution.

There are no independent Board members due to the peculiarity of the defense sector, of which our company is a part. Our company's Board of Directors is comprised of experienced professionals in the sector and ex-military staff who retired after service in the Armed Forces in various levels of command and in the context of company's article of incorporation; they perform their tasks as the representatives of the Turkish Armed Forces Foundation. One of our members of the Board of Directors also works in the Turkish Armed Forces Foundation and one other member also holds an academic position in the Middle East Technical University.

The members of the Board of Directors perform their duties without any personal interests or benefits in the framework of the responsibilities and powers delegated to the Board of Directors pursuant to the arrangements by the Capital Market Board and Turkish Commercial Code.

The members of the Board of Directors are obligated by the Code of Conduct for the Board of Directors not to engage in any commercial transactions covered by the company scope of operation without permission by the General Assembly directly or indirectly on behalf of others.

19. Qualifications of the Members of the Board of Directors

Apart from the knowledge and experience gained during their previous service for the Turkish Armed Forces in various levels of command, the Members of the Board of Directors of our company undergo an orientation process of two weeks by the Turkish Armed Forces Foundation. The subjects covered by the orientation process are the following:

- Legal positions and responsibilities of the members of the Board of Directors and Auditors
- Current economic issues
- Financial statements
- Interpretation of balance sheets
- Interpretation of income statements
- Interpretation of statements of cash flow
- Problems of the defense industry
- Off-set practices
- Management and organization
- Company strategic plans
- Contract management
- Public procurement law
- Labor law
- Inflation accounting
- Financial management and planning
- Process of transformation in the global defense industry and Turkey
- Management and information technologies
- Internal audit and evaluation activities

20. Company Mission and Vision and Strategic Targets

The Board of Directors is the highest level organ for adoption and execution of strategic decisions and representation. Pursuant to the company articles of association, the Board is responsible for identification and implementation of strategic plans. In this context, corporate missions, visions and strategic targets are identified by the Board and such targets are incorporated in the strategic plans developed. The extent of achievement of these targets by the company is controlled by the Board and General Manager once a month over the Information Management Systems. The current version of the statement of corporate mission and vision is made public at the company Web site.

Company mission:

Its mission is to design, improve, produce and ensure sustainability of highly qualified and cost effective products and system solutions compatible with up-to-date and developing technologies which will minimize dependency of Turkish Armed Forces in fields of electricity, electronics, electronic warfare, communication, microwave, electro-optics, guidance, computer, informatics, software, cryptology and security in scope of land, air, naval, space and civil practices, which will meet the needs of all customers in maximum level; to be a pioneer on these issues, to increase assets and sources of ASELSAN and improve their values continuously.

Company vision:

Its vision is to be one of the top fifty defense industry companies of the world by creating high, original and national technologic opportunities and skills.

21. Risk Management and Internal Control Mechanism

As regards our company's risk management, the Internal Audit and Assessment Board (IDDK) established under the Board of Directors for the purpose of assessing the control and corporate Governance processes and improving their effectiveness audits all the units in the company in the framework of the annual plans it prepares, reporting any findings to the Board of Directors on a regular basis. Works are conducted continuously to improve and develop the system effectiveness.

22. Powers and Responsibilities of the Members of the Board of Directors and Managers

Article 13, "Duties and Powers of the Board of Directors", of the company articles of association defines the powers and responsibilities of the Board of Directors. In addition, the duties and powers of the Board of Directors are further explained by the Code of Conduct for the Board of Directors, a document prepared by the company internally. Transfer of powers by the Board of Directors to the General Manager is regulated by Article 14, "Transfer of Powers to the General Manager", of the articles of incorporation. Powers and responsibilities of the managers are explained by "the Directive on Duties and Responsibilities", which was internally prepared and issued by the company.

23. Principles of Activities by the Board of Directors

Agendas of Board of Directors meetings are determined by the Chairman in a manner covering any matters proposed by the Members of the Board. In addition, agendas also cover any matters requested by the members of the Audit Board to be deliberated. Any issues requested by the Members of the Board of Directors to be included in agendas as well as any suggestions by the Office of the General Manager regarding agendas are communicated to the Chairman. The Chairman finalizes an agenda by assessing the views of the Members of the Board and office of the General Manager. Any matters, which emerge urgently and are regarded as useful for deliberation, may be included in the agenda during a Board meeting.

The Board of Directors convenes any time as may be required by the nature of matters provided that this is at least once a month and the number of meetings held in 2007 was 31.

During Board meetings; the location, date, time and agenda of the next meeting is agreed on. Any documents related to the matters on the meeting agenda prepared for the subjects covered by a meeting agenda are distributed to Board members at least 5 business days in advance in line with the directives issued by the office of the General Manager, by Chairman, Deputy Vice Chairman or an executive member of the Board. No invitation is made by phone and the members of the Audit Board are also invited.

It is a prerequisite for the Members of the Board of Directors to attend to perform their duties as required by their powers and responsibilities. Any members unable to attend, if any, inform about their excuses.

There is a secretariat to keep the Board members informed and provide communication thereof and a reporter is assigned to conduct necessary works in this respect.

At the same time, Board of Directors Reporter acts in compliance with Turkish Commercial Code Article 78 governing the Book of Resolutions to incorporate meeting resolutions in the book of resolutions as well as with Article 330 thereof related to any resolutions by the Executive Board.

Accordingly, the reporter ensures that the subject book of resolutions have proper records on the dates and numbers of resolutions, names of the participants in a meeting, names of Board members unable to attend a meeting including their excuses if any, meeting agenda, proposals and negotiations concerning the agenda, texts of resolutions, any reservations if any and signatures of those attending a meeting.

Including the Chairman, the Members of the Board of Directors each have one vote. In case of a tie in votes, the vote by the Chairman does not change the balance. Abstaining is not permissible in voting; affirmative or rejection vote is cast. Votes of any abstaining members are considered a rejection. Members giving rejection votes for any resolutions indicate this in the minutes of meeting including his / her justification for it, signing his statement.

Any signed resolutions are sent to the Audit Board and all the Members of the Board of Directors with the following months Board Preparatory file.

24. Prohibition on Trading and Competition with the Company
There are no powers issued to the Members of the Board of Directors of our company pursuant to any General Assembly resolutions in the framework of the provisions "Prohibition on Trading With the Company" and "Prohibition on Competition" stipulated by Articles 334 and 335 of the Turkish Commercial Code.
25. Ethical Rules
The studies fulfilled about Ethical Rules for company employees determined by Board of Directors are disclosed to public in 2007 via our internet web site.
26. Numbers, Structures and Independence of the Committees set up within the Board of Directors
- a) Committee Responsible for Audits
M. Ihsan ONGUN - Member - Member of the Board of Directors
Burcu GURAN - Member - Member of the Board of Directors

The duties of the committee are generally the following, as covered by the Code of Conduct for the Audit Committee under ASELSAN Board of Directors Responsible for Audits, which governs the code of conduct for the Committee in charge of audits:

- Basically, the Committee in Charge of Audits (DSK) is responsible for supervision of the operation and effectiveness of ASELSAN's accounting system, public disclosure of financial data, independent audits and ASELSAN's Internal Control (Internal Audit) System.
- DSK convene at least once every quarter for a total of 4 (four) times a year as a minimum. Meeting results are taken down under records by minutes and presented to the Board of Directors.

- b) Corporate Governance Committee
M. Ayhan GERÇEKER - Member - Member of the Board of Directors
Mehmet BALI - Member - Member of the Board of Directors

The code of conduct for the Corporate Governance Committee, which has been established to carry out efforts on achievement of compliance with the Corporate Governance Principles and also on the Report of Compliance to be drawn up in this scope, was approved in February 2006. The duties of the committee are generally the following, as covered by the Code of Conduct for the Corporate Governance Committee under ASELSAN Board of Directors Responsible for Corporate Governance, which governs the code of conduct for the Committee in charge of corporate Governance:

- Basically, the Corporate Governance Committee conducts studies on implementation of the corporate Governance principles on a company wide basis.
- It determines if the corporate Governance principles are complied with, justification thereof if not and any conflicts of interest that occur on ground of incomplete compliance with such principles, making recommendations to the Board of Directors for improvement of practices.

27. Emoluments for the Members of the Board of Directors
Monthly emoluments payable to the Members of the Board of Directors of our company are determined in line with the proposals presented by the General Assembly and no benefits other than monthly emoluments are provided to them. Pursuant to the proposal submitted by the Turkish Armed Forces Foundation and accepted by the General Assembly at its 32nd meeting held on March 30, 2007, a net monthly emolument of TRY 1.250- is paid to the Board Members including Executive Members as well as to the Members of the Audit Board. In determination of emoluments for the Members of the Board of Directors, there is no system of rewarding based on the performance of the Members of the Board, which reflects the overall company performance.

No loans have been extended to any Members of the Board of Directors or managers in our company.

ASELSAN ELECTRONIC INDUSTRIES A.Ş.

PROFIT DISTRIBUTION POLICY FOR 2007 AND SUBSEQUENT YEARS

The profit distribution proposal to be prepared by the Board of Directors to the effect that the sum of dividend, which is to be calculated on the basis of the sum of distributable profit calculated by taking as a basis the period profit indicated in the financial statements of our company prepared in the framework of the present legal arrangements (after deduction of legal reserves, which have to be allocated as required by laws and taxes, levies and financial payments and previous years' losses if any) by having due regard to the provisions of the applicable legislation and articles of incorporation as well as the company equity ratio, sustainable growth rate, market value and cash flows, be realized in cash or through distribution of shares by means of shares to be issued by adding the dividend to the capital free of charge or on the basis of a certain ratio of cash and a certain ratio of free shares on the date (dates) to be fixed pursuant to the arrangements under the Capital Market Board Regulations will be presented to the General Assembly for approval.

There are no privileges for participation in our Company's profit.



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