

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

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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 BİLGİ	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 BALI | 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:

- a. Legal positions and responsibilities of the members of the Board of Directors and Auditors
- b. Current economic issues
- c. Financial statements
- d. Interpretation of balance sheets
- e. Interpretation of income statements
- f. Interpretation of statements of cash flow
- g. Problems of the defense industry
- h. Off-set practices
- i. Management and organization
- j. Company strategic plans
- k. Contract management
- l. Public procurement law
- m. Labor law
- n. Inflation accounting
- o. Financial management and planning
- p. Process of transformation in the global defense industry and Turkey
- r. Management and information technologies
- s. 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.