2010 | aselsan Annual Report

Message from the Chairman of the Board of Directors

Dear Esteemed Partners,

ASELSAN's Vision

Becoming one of the world's fifty largest defense industry companies by creating state of the art and original technological opportunities and talents.

ASELSAN's Mission

Becoming a leader in the design, development, production and sustainability of contemporary, high quality and cost-effective products and system solutions compatible with developing technologies which will render the Turkish Armed Forces as self-sufficient as possible with regard to everything related to electricity, electronics, electronic warfare, communications, microwaves, electro-optics, guidance, computers, information technology, software, cryptology and security within land, air, sea, space and civilian applications, and which will execute all customers' needs to the fullest extent; and developing the assets and resources belonging to ASELSAN, relentlessly adding to their value.

ASELSAN's Fields of Operation

- Military Communications Systems,
- Radar Systems,
- Electronic Warfare Systems,
- Electro-Optic Systems
- Navigation and Guidance Systems
- Avionics Systems,
- Weapons Systems
- Naval Systems
- C4ISR Systems
- Homeland Security Systems,
- Intelligent Transportation Systems

A subsidiary of the Turkish Armed Forces Foundation, ASELSAN operates under four divisions working on design, production, systems integration, modernization and post-sale support services.

ASELSAN has in its employ 3,840 staff, including 2,200 engineers. Engineers make up 57% of ASELSAN staff.

ASELSAN, with the high tech products and systems it developed, maintained its title as the largest organization of the Turkish Defense Industry in 2010 as well. As of 2010, ASELSAN improved its position from 93rd in the list of the world's top 100 defense industry companies to 86th, making it the only Turkish company mentioned in this list. ASELSAN is taking unwavering strides toward its goal of becoming one of the 50 largest companies in the world.

According to the International Financial Reporting Standards, in 2010, ASELSAN made consolidated net sales of 792 million US Dollars. Of the net sales, which increased by 16% in 2010, 51 million US Dollars made up export revenues and 741 million US Dollars comprised domestic sales.

As of the end of 2010, ASELSAN has 98 ongoing projects, with remaining orders worth 3.8 billion US Dollars from related projects.

The noteworthy projects carried out in 2010 are below:

- ATAK Project
- Low Altitude Air Defense Weapon System and Fire Control Unit Project
- MILGEM Combat System Supply Project
- ADOP-2000 Fire Support Automation Project
- 3D Mobile Search Radar Project
- Turkish Land Forces Command Avionic System Modernization Project (HELIMOD II Project)
- Gendarmerie Integrated Communications and Information System (JEMUS)
Kastamonu, Konya Radio System
- TAF Software Defined Radio Supply Contract
- Land based Stand Off Jammer Remote ES/ E Warfare Capability Building Project
- Pakistan Software Defined Radio Project
- ALTAY Project

In the R&D centers located in our Four Divisions, nearly 1500 of our engineers work on defense technology design. ASELSAN, with the firm belief that "a country's technological wealth is composed of the various technologies in its possession", allocates about 6-7% of its yearly turnover to meet R&D costs, which it finances through its own resources. In 2010, ASELSAN spent 38 million US Dollars of its own resources on R&D related activities.

ASELSAN stocks, which started 2010 out at 5.62, went down to 4.95 as the lowest value and peaked at 9.00 within the year and closed at 8.24 at the end of the year with a 46.6% value increase. Accordingly, the market value of our company has become 1.25 billion US Dollars as of the end of 2010.

ASELSAN continued export activities with great determination in 2010 as well. In line with its strategic plan, ASELSAN has completely fulfilled the goals set for 2010, and provided not only the Turkish Armed Forces, but also the armed forces of Turkey's allies as well as domestic and international civilian customers with state of the art products and systems. The number of countries to which ASELSAN has exported its products has reached 37 with the contracts signed in 2010.

Technology transfer negotiations have taken place concerning the common production of Night Vision Systems abroad. In this context, a contract has been signed for the production of Monocular Night Vision Goggles.

APCO Digital Radio sales which started at the end of 2006 to the USA continued in 2010. 4700 APCO Digital Radio sales are expected to increase following new product developments in the same category.

Proposals have been submitted for the export of Python and Boa Thermal Weapon Sights with contracts expected in 2011. Proposals have also been made for SCOUT and Falconeye Electro-Optic Sensor systems.

ASELSAN views its subcontractors as business partners to collaborate with from the design process onwards, having strong engineering infrastructure and supportive of efforts to decrease costs as well as responsive towards customers' evolving needs. In 2010, orders worth about 460 million US Dollars were placed with over 600 domestic companies, most of which were SMEs.

As the leading organization in the Turkish electronics industry, we at ASELSAN extend a heartfelt thanks to our customers, who have played an enormous role in bringing ASELSAN to its position as a leader, and to our staff, who have selflessly carried ASELSAN to where it is today.

We submit the annual financial statements, revenue tables and profit distribution proposal for the 2010 fiscal year to your approval and suggestions.

Respectfully yours,

Hasan MEMİŞOĞLU
Chairman of the Board

Message from the General Manager

In 2010, which was an especially productive year for ASELSAN, important projects were completed and delivered for the Turkish Land, Naval and Air Force Commands as well as the General Command of Gendarmerie, and contracts were signed for remarkable national and international projects. Noteworthy activities carried out in 2010 are presented below.

Within the scope of the Battle Tank Development (ALTAY) Project strictly using national resources, ASELSAN continued prototype production and development work related to the Tank Firing Control System, Electrical Gun and Turret Drive Units, Tank Command Control Communication and Information System, Tank Laser Warning System and Remote Control Weapon System. Of the systems currently being developed, the Tank Firing Control System entails independent commander and shooter periscopes with the ability to take over each other's firing functions fully due to the redundancy architecture. In the event that one of the periscopes is damaged or either the shooter or the commander is unable to resume combat, the tank will maintain full battle functions on duty.

Furthermore, the operational talent of the tank is fortified with its various operating modes, as well as its full compatibility with the Laser Warning System and the Remote Control Weapon System, both of which can be easily integrated to the tank. In addition to the ongoing system development work, negotiations are underway with the Turkish Secretariat for Defense Industries concerning the development of an "Active Protection System" and "Identification Friend or Foe System", both of which will be handled within the ALTAY Project.

Within the scope of the ATAK Project subcontract, which involves the design and integration of the Avionics and Weapon Systems by ASELSAN for the ATAK T-129 Attack, Reconnaissance/Surveillance Helicopters using national resources for the Turkish Land Forces Command, the detailed design phase was completed. The design work on the units originally developed within the scope of the ATAK project was completed, the first group was produced and the qualification tests were initiated.

Development and production activities continued on the Software Defined Radio Project for the Turkish Armed Forces' land, sea and air units.

In 2010, the integration and system verification activities were completed on the new and improved Tactical Area Communications System (TASMUS-G), consequently delivered to the Turkish Armed Forces. This system entails new, more developed features and is a follow up to the TASMUS Project, whose most important application in the tactical area is its Network Enabled Capability (NEC).

The Acceptance tests for the Mobile HF Direction Finding and Monitoring System and Radio Frequency Controlled Improvised Explosive Device Jamming

(RCIED) System were completed. The design, production and integration work was continued on the RUZGAR class Combat Boat Radar Electronic Support System, MILGEM Radar Electronic Support System, Land Platform Remote Jamming System and V/UHF Jamming System projects.

One ASELFLIR-300T and a set of Support Equipment were delivered to the Turkish Aerospace Industries (TAI) within the scope of the Indigenous Turkish Unmanned Air Vehicle Program (ANKA).

Business development and pre-design related activities within the scope of the New Type Submarine and AY Class Submarine Modernization Projects continued on the Radar Electronic Support System, Naval Surface Platform Remote Jamming System, Facility Protection and Preventive Electronic Warfare.

The integration of a 40mm Grenade Launcher, 7.62mm Machine Gun and 12.7mm GAU-19/A Gatling Gun for the Stabilized Machine Gun Platform (STAMP) developed for surface naval platforms was completed. Further, the production, installation and testing activities were completed for the 12.7mm Stabilized Machine Gun Platform and 25mm Stabilized Gun (STOP) as per domestic and international contracts.

Design, production, integration, testing and delivery related activities were carried out with regard to the Synthetic Aperture Radar (SAR), KALKAN 3-D Air Defense Radar, SERDAR Coastal Surveillance Radar, ALPER Naval LPI Radar, Naval 3-D Search Radar, Muzzle Velocity Radar and RF Seekers. Flight tests were initiated for the indigenously designed SAR System and the first images were produced with great success.

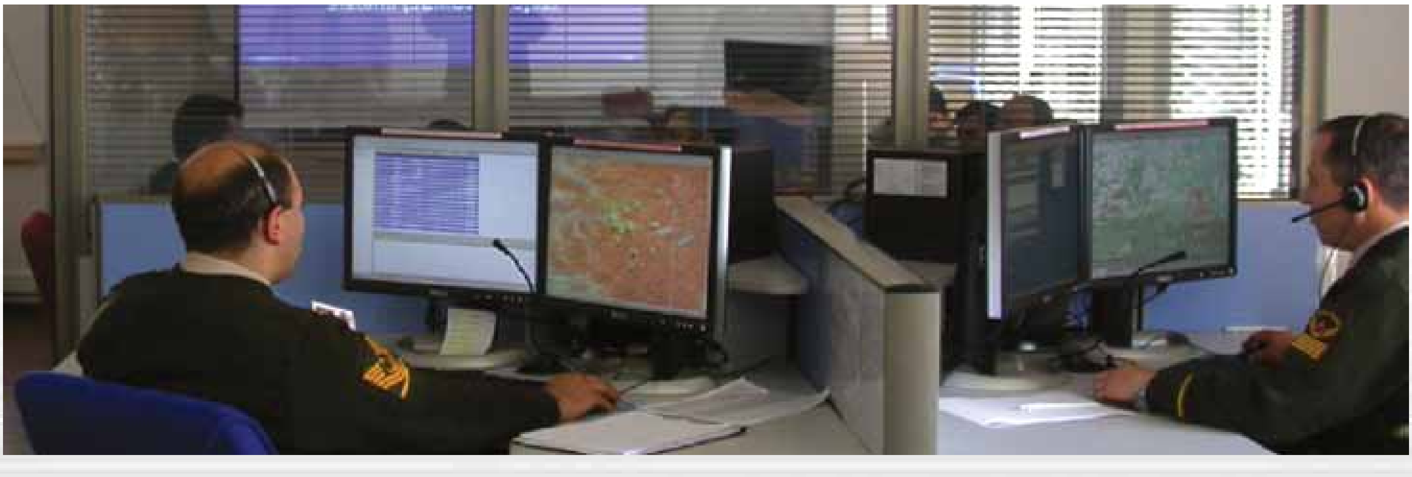
In the New Type Patrol Boat Project, ASELSAN has taken on the responsibility for the provision of state of the art Electro-Optic Director, Gyro, Pedestal Mounted Machine Gun Platform and Integrated Communications System. ASELSAN is also to design, manufacture, supply, integrate onto boats, test, and provide integrated logistical support for the electronics and

weapons systems of the Coast Guard Command's Search/Rescue boats. The development of the 40mm Grenade Launcher Control System (TAKS) to be used in both projects has reached completion.

All of the deliveries have taken place for the Işık Project, which consists of the modernization of the navigation and communication subsystems of RF-4E reconnaissance fighter aircrafts, and the Şimşek Project, which involves the modernization of the navigation and communication subsystems of F-4E fighter aircrafts.

Development activities for the Submarine Acoustic Decoy System (DAKA) as per the contract signed with the Turkish Ministry of Defense related to Acoustic Decoys being designed for AY Class Submarines are complete. In the R&D project initiated to develop and manufacture the Torpedo Counter Measure Systems for naval surface platforms, the first prototype units were produced and the integration/testing phase was started.

In the MILGEM Corvette Combat System Project, ASELSAN is responsible for the production and integration of the integrated communications systems, satellite communications system, electronic warfare system, electro-optics system, navigation systems,



radars, air defense and weapon systems, firing control systems, self protection systems.

As for the ASELPOD Project for the Turkish Air Forces Command, a program involving the development, prototype production of an indigenous targeting pod and its integration into F-16 and F-4E/2020, work was carried out related to the integration of the systems onto the aircraft.

ASELSAN took part in MAGIC 2010 (Multi Autonomous Ground-Robotic International Challenge), a joint effort of the US and Australian Ministries of Defense in the field of Unmanned Systems, and led Team Cappadocia, with members from METU, Bilkent, and Boğaziçi Universities in Turkey and Ohio State University. Team Cappadocia was among the six finalists invited to compete in the challenge. In the finals in November 2010, Team Cappadocia ranked fourth among the competing teams. With the work done, great strides were taken concerning the development of the hardware and algorithms of an unmanned ground vehicle.

The Gendarmerie Integrated Communication System (JEMUS), which expedites coordination, and thus safety and security related services in the General Command of Gendarmerie squads and headquarters around Turkey by providing rapid and timely access to information, was delivered to 18 provinces under the Istanbul, Bursa and Ankara Command Centers of the Turkish Gendarmerie.

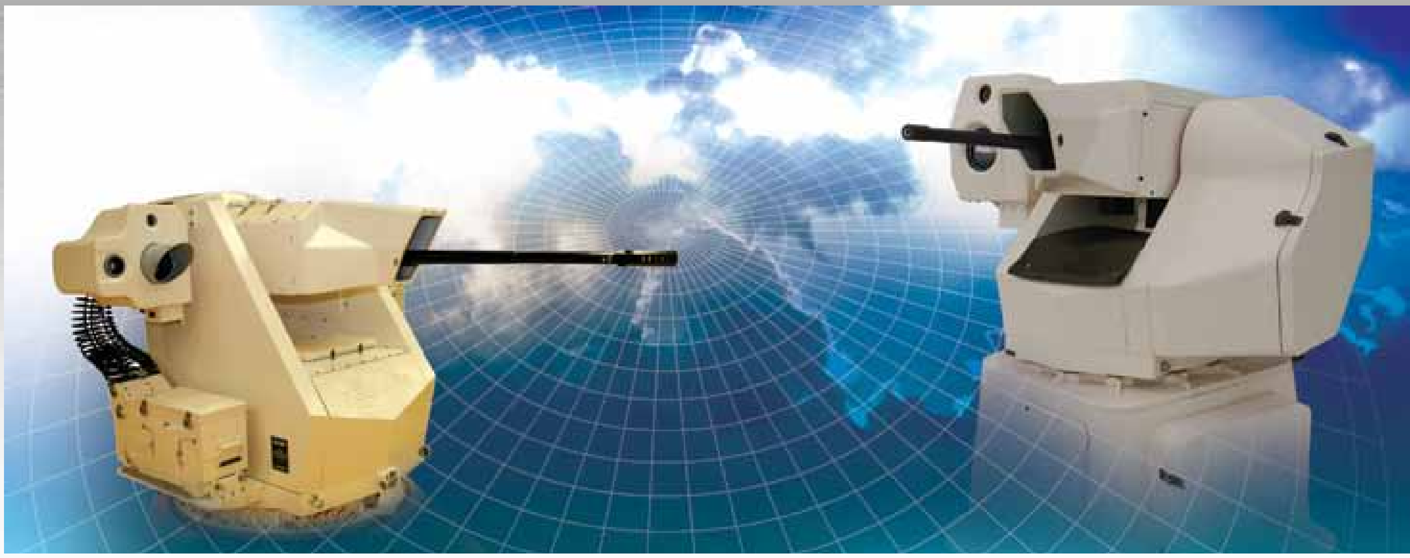
The thermal sighting system integration into the BTR-80 Armored Combat Vehicles of the General Command of Gendarmerie was completed with great success in 2010. Thermal sighting systems designed specially for the Advanced Armored Personnel Carrier Vehicles of the Land Forces Command were also integrated into these vehicles in 2010.

Within the scope of the contracts signed in 2009 and 2010 with the General Command of Gendarmerie concerning Python and Boa Thermal Weapon Sights and ASIR Thermal Cameras, the 2010 deliveries were made and production activities for 2011 are currently

underway. In 2010, work to export Thermal and Night Vision Systems was carried out.

Projects concerning the development of infrared detectors using national resources continued. Within this context, the QWIP sensor equipment developed at METU was processed in ASELSAN's facilities, and images were obtained from the first QWIP detector produced from a fully Turkish sensor.

In 2010, the installation and delivery activities were completed for the Computer Aided Dispatch and Management System for the 112 Emergency Aid for use in the provinces of Antalya and Isparta by the Directorate General of Provincial Administrations under the Ministry of the Interior. The production and delivery of Pedestal Mounted Stinger systems for the Turkish Armed Forces continued throughout 2010. Contracts were signed with the Turkish Undersecretariat for Defense Industries (SSM) in March 2010 regarding the development of a 35mm Self Propelled Air Defense Gun System, Fire Direction System, 35mm Fragmented Ammunition and the modernization of 35mm Towed Air Defense Guns. A contract was signed with Raytheon (USA) in October 2010 concerning the production of an Antenna Mast Group within the scope of the PATRIOT Long Range Air and Missile Defense System for a third country.



Upon a request from the Turkish Undersecretariat of Defense Industries for seismic research activities, ASELSAN came up with the Scientific Mission System Solution entitled “TURKUAZ”. The aim of this project is for ASELSAN to provide the systems necessary for the main tasks related to Oceanographic and Geological research as well as the navigation and communications systems of the ship.

ASELSAN owns 95% of the shares of ASELSANNET, which runs the sales, integration and maintenance activities for civilian public and other various institutions related to radio devices and systems. ASELSANNET also operates in the fields of systems infrastructure integration, alarm and security systems, consumer electronics and Radio Frequency ID (RFID) Systems.

ASELSAN owns 96.36 % of the shares of MIKES, Inc., which is active in the field of Electronic Warfare. In 2010, MIKES undertook new business worth 235 million US Dollars.

It is of utmost importance that “microelectronic integrated circuit design and production” take place in-country to avoid export permit restrictions by eliminating dependence on foreign countries in Radar and Electronic Warfare Projects carried out within

ASELSAN, decrease costs and improve performance and strength/weight/size values. Thus, ASELSAN now holds 85% of the shares of Microelectronic Research Design and Trade Inc., a company working in this field, through the recent purchase of the shares from partners except for the ITU-ETA Foundation.

Within the scope of the initiative to move REHIS (Radar, Electronic Warfare and Intelligence System Division) from the ASELSAN Macunköy facility to the Gölbaşı facility; the Investment Incentive Certificate was obtained, the geotechnical ground studies were completed, work on the general layout of the facility and the internal plans of the construction of the functional departments was completed, and the medium level voltage energy supply and its application projects for the facility was prepared.

ASELSAN takes determined strides in all its efforts towards the company’s goal of furthering its position in Turkey and in the world thanks to the strength it is afforded by the great Turkish nation.

Respectfully yours,

Cengiz ERGENEMAN
General Manager

Communication and Information Technologies Division

Dr. Faik EKEN

Vice President

Tactical Area Communication Systems

The integration and verification activities of new generation Tactical Area Communications System (TASMUS-G) with new, advanced features as a successor of the TASMUS Project, whose most important application is the Network Enabled Capability (NEC) in the tactical area, were completed in 2010. The TASMUS-G System with its NEC compatibility, strong IP based infrastructure and design rendering it compatible with any developments will serve as an integrated solution to meet all communication related needs in the tactical area. The TASMUS-G System was delivered to the Turkish Armed Forces (TAF) in July 2010.

The Deployable Command Control System is composed of a number of easily installable and user-friendly Transportable Communication Sets that are deployable by case; the system provides voice, data and video communication services in tactical fields. Within the scope of the integrated system solutions offered in the Deployable Command Control System, a Satellite Communication System, Tactical Communication Switching equipment, Bulk Encryption and IP Crypto devices and a Secure Voice over IP Telephone System was manufactured. Most of the units of the system were developed, integrated, produced and delivered in 2010. The remaining deliveries of the Terrestrial Communication Interface Set are to take place in 2011. The Secure Voice over IP telephone terminal developed in this project is mobile, designed for hard tactical area conditions, operative on the VoIP concept, and serves not only as a voice terminal but also as a data and video communication terminal by means of standard IP based equipment.

Activities related to the determination of the system requirements and formulation of a system solution for a new wave form for command control applications have been started for the ASELSAN Software Defined Radio Family.
Tactical Radios.

Development and production work on tactical radios covering the HF and V/UHF bands continued within the scope of the Software Defined Radio Project Contract for the Turkish Armed Forces' strategic and tactical radio communication requirements on land, naval and airborne platforms.

Deliveries of the communication systems for FNSS and GAMA took place in 2010. New export contracts were signed and Software Defined Radios were also delivered to Indonesia.

Deliveries within the context of the Soldier Communication System Contract for the Turkish Naval Forc-

es Command were completed in 2010. New contracts for soldier radios have been signed with the General Command of Gendarmerie and the Turkish Cypriot Security Forces Command.

Professional Communication Systems

The installation of the JEMUS (Gendarmerie Integrated Communication System) Radio Communication System, which speeds up the coordination of mobile units by providing rapid and timely access to information via secure voice and data communication, was completed for 18 provinces in the Istanbul, Bursa and Ankara Command Centers of Turkish Gendarmerie in 2010.

In the third phase of the JEMUS Radio Communication System Project for the 11 provinces under the Command Centers of Turkish Gendarmerie in Kastamonu and Konya, system installation activities continued throughout the year. The installation of the system and acceptance by the customer took place for the first province, Antalya, in December 2010. In addition to Antalya, installation activities for three more provinces (Karaman, Burdur and Konya) were completed, with these provinces becoming ready for acceptance tests by the end of 2010. With the completion of the project, these provinces will attain (i) radio switchboard operating with back-up (ii) new handheld radios with colorful large LCD screens and internal GPS modules (iii) vehicle registration plate recognition system searching the central databases automatically in addition to the existing capabilities from the second phase of JEMUS Radio Communication.

Construction and system installation activities continued throughout the year to improve the capabilities of JEMUS Radio Communication System installed in 2005 in six provinces under the Aydın Command Centers of Turkish Gendarmerie.

The first delivery under the SAHMUS (Coast Guard Communication System) Radio Communication System Contract, signed in 2009 to provide the Coast Guard Marmara and Straits Area Command with secure communication, was completed in December 2010. A new contract was signed between ASELSAN and the Coast Guard Command in December 2010 for the installation of the SAHMUS Radio Communication System to the Coast Guard Western Black Sea and Mediterranean Command regions.

APCO Digital Radio sales, which started at the end of 2006 to the USA, continued in 2010. 4700 APCO Digital Radio sales are expected to increase following new product developments in the same category.

The SK-2 4700 Digital Encrypted Radio System delivered to Pakistan is being effectively used by the Pakistan Armed Forces, with additional deliveries made in 2010.

Within the context of the Secured Digital Trunk Radio Communication System contract signed in 2009 with the General Staff regarding radio communication, the installations of the infrastructure of the base stations in Ankara, Istanbul and Izmir were initiated in 2010. System installations will continue in 2011 as planned

Regarding the Computer Aided Dispatch and Management System for the 112 Emergency Aid Contract, installations were completed and, in 2010, the system went into commission in Antalya and Isparta.

In 2010, ASELSAN won the Digital Trunk Radio System contract announced by the Izmir Metropolitan Municipality, which was signed on September 1st, 2010. Within the scope of the contract, a trunk radio system will be established, covering 11 sites and one system center in order to provide voice and data communication services to the municipality and its subsidiary companies within the jurisdiction of the Izmir Metropolitan Municipality. The plan is to complete the installation of the system by mid-2011.

Satellite, Avionics and Naval Communication Systems.

MXF-484 Airborne Radios were delivered under the Basic Trainer Aircraft Program to KAI (South Korea), under the SEAHAWK/Lot-II Program to the Sikorsky Aircraft Corporation (USA), under the Command and

Control Aircraft Program to the Gulfstream Aerospace Corporation (USA), under the Meltem-2 Turkish Navy Marine Patrol and Surveillance Aircraft Project to Thales Airborne Systems (France), under the ARI (T-38 Aircraft Modernization) Program to TAI (Turkey), under the HELİMOD-II (Avionic System Modernization) Contract to the Turkish Land Forces, under IŞIK (GAF/RF-4E Modernization) Program and under the ŞİMŞEK (RF-4 Modernization) Program to the Turkish Air Forces. As for the MXF-795 Fixed Station Radio, a delivery was made to Aeronautics (Israel) under the UAV Program.

In addition, a new contract was signed with TAI for MXF-484 Airborne Radios under the Indigenous Turkish UAV Program.

AN/APX-123 IFF Transponder devices were delivered to KAI (South Korea) within the scope of Basic Trainer Aircraft Program, and to TAI (Turkish Aerospace Industries) within the scope of the ATAK Program.

The meetings for the Preliminary Design Review and the Critical Design Review for the RF Data Link for Long Range Antitank Missile System (UMTAS) Project both took place. Also, the acceptance stage was finalized for the first Functional Prototypes of the RF Data Link devices.

The delivery of the X-Band Flyaway SATCOM Terminal, within the scope TASMUS-G Project, was successfully carried out. The MILGEM X-Band SATCOM Terminal Factory Acceptance Test was also successful. The Harbor and Sea Acceptance Tests will be completed in 2011 according to the MILGEM Project schedule.

Design activities continued for the Project concerning the On-Board Processing EHF (Extremely High Frequency) Satellite Transponder and Testbed Development. This project aims to provide more secure satellite communication at high frequencies for the TAF and is an R&D Project, supported by the Scientific and Technological Research Council of Turkey (TUBITAK). Bilkent University and ASELSAN are collaborating on the related design activities.

The GOKTURK Reconnaissance and Surveillance Satellite Program went into effect on July 19th 2010. Within the scope of the ground segment of the program, ASELSAN will be responsible for the provision of the S/X Band Antenna System and the meteorological forecast station, development of image processing, exploitation software, user interface software and mobile ground station shelter, as well as the integration and commissioning activities.

Within the scope of the GOKTURK-2 Reconnaissance and Surveillance Satellite Program supported by TUBITAK, a contract was signed between ASELSAN and TUBITAK UZAY on October 4th. ASELSAN is responsible for the provision of the S/X Band Ground Station Antenna System, baseband, switching and archiving units, integration and commissioning.

Within the scope of Naval Communications; detailed design, procurement and production activities related to Turkish Corvette (MILGEM-1) and the second ship of the Turkish Corvette (MILGEM-2) Projects, New Type Patrol Boat Project, Torpedo Boat Project, Landing Craft Tank Project (LCT) and Yavuz Class Frigate Modernization Project were carried out. Furthermore, the acceptance tests for Turkish Corvette (MILGEM-1) Project and for the first and second ship of New Type Patrol Boat Project were completed successfully.

Microelectronics Guidance And Electro-Optics Division

Özcan KAHRAMANGİL

Vice President

The Microelectronics, Guidance and Electro-Optics Division at ASELSAN covers the design, development, production, platform integration, program management and life cycle support of Thermal Sighting Systems, Laser Systems, Image Intensifier Night Vision Systems, Guidance Systems, Inertial Navigation Systems, Avionic Systems and Microelectronics.

Land Systems

Within the scope of the Turkish National Main Battle Tank Production (ALTAY) Program, development and prototype production activities for the New Generation Fire Control System, Electrical Gun and Turret Drive Units, Tank Command Control Communication and Information System, Driver's Vision System, Tank Laser Warning Receiver System and Remote Weapon Station are currently underway. The New Generation Fire Control System includes gunner and commander periscopes with each capable of taking over the other's fire control functions by way of the redundant architecture. Furthermore, in 2010, negotiations took place with the Turkish Undersecretariat for Defense Industries for the development of a Battlefield Target Identification System and Active Protection System. These systems will be integrated into the ALTAY Program.

The integration of the Next Generation Fire Control System, Electrical Gun Turret Drives, Weapon Station and Tank Laser Warning System to Leopard 2A4 MBT was initiated. It is projected that the integration tasks on the MBT will be finished by the end of 2011 and it is planned that live firing trials will be performed in the same year. Once the integration is complete, the Leopard 2A4 will be the most advanced Leopard 2. Foreign countries have shown keen interest in the Leopard 2A4 modernization programs. In fact, ASELSAN has become one of the four main contractor candidates for the modernization of Finnish Defense Forces' Leopard 2A4s Midlife Upgrade RFQ.

Land Navigation Systems: In 2010, deliveries of the Kasırga Weapon System and 155 mm Fırtına Howitzer were made, and development activities for the AN/TPQ-36 V9 Radar Modernization, ADOP and 105 mm Air Portable Light Howitzer Projects were continued.

The ATS-10 Armored Vehicle Thermal Sighting System integration for the BTR-80 Armored Combat Vehicle in the inventory of Turkish Armed Forces was completed. The ATS-20 Armored Vehicle Thermal Sighting System was delivered to for integration to the Advanced Armored Personnel Carrier Vehicle,

also in the inventory of Turkish Army. Within the scope of another contract, the ATS-20 Armored Vehicle Thermal Sighting System was modified for Scorpion Armored Vehicles.

Several contracts were signed with the Turkish Armed Forces for equipment including Python and Boa Thermal Weapon Sights, ASIR Thermal Cameras, Falconeye Electro-Optic Sensor Systems and Viper Laser Designators and the related deliveries were completed.

Among other activities that took place in 2010 for various other contracts were the deliveries of Image Intensified Night Vision equipment. A contract for Aviator Night Vision Goggles was signed with the Turkish Armed Forces. Development projects for the Monocular Night Vision Goggle, 4x and 6x Night Vision Weapon Sights and Night Vision Binocular were initiated to produce original ASELSAN products. The development phase of the A100 Monocular Night Vision Goggle was completed and qualification related work is currently underway.

Negotiations have taken place with Azerbaijan and Jordan regarding the establishment of a joint venture company on the development and production of Night Vision Systems. A protocol has been signed for the production of a Monocular Night Vision Goggle with Azerbaijan. Negotiations with Jordan are still underway.

The SCOUT Hand-Held Electro-Optic Sensor System and Guard Hand-Held Thermal Imager deliveries to the Turkish Armed Forces were completed. Negotiations for the SCOUT have taken place with the Turkish Army and a contract will be signed in 2011. Meanwhile, two SCOUT systems were provided for field tests and feedback was received regarding the performance and operation of the systems. Improvements have been made accordingly.

Negotiations related to the Thermal and Night Vision Systems continued with various countries. Within this context, quotes were provided for Python and Boa Thermal Weapon Sights to Pakistan and Saudi Arabia. Contracts will be signed in 2011. SCOUT and FALCONEYE systems were demonstrated to delegates from Qatar at the ASELSAN facility and proposals were submitted for these systems. Contracts were signed with Azerbaijan for Aviator's Night Vision Goggles and GUARD Hand-Held Thermal Imager.

Avionic Systems

Critical design meetings were held concerning the subcontract for the ATAK Project, which consists of the development and integration of Avionics and Weapon Systems using national resources for T-129 Attack, Reconnaissance/Surveillance Helicopters. The design activities of the indigenous units were completed. The units were produced and the qualification tests were carried out. The System Integration Laboratory (SIL) was set up and the preparation for SIL tests was started. More Early Delivery Helicopters (EDH) were added to the subcontract.

Within the framework of the T-38 Aircrafts Avionic Modernization (ARI) Project, which consists of the development of the Avionic Central Control Computer (ACCC) and Operational Flight Program (OFP) for T-38 training aircrafts, tests were carried out and all environmental tests were completed. ACCC with integration software, mounting trays and ACCC with OFP were delivered to the Turkish Aerospace Industries (TAI). The flight tests were processed. In addition, regarding the contract with TAI about supplying CHDD-268 multi-functional display systems, production activities continued.

Regarding the AVCI Project, which consists of the indigenous design and development of a Helmet Integrated Cueing System, the detailed design activities were completed and a Critical Design Review meeting was held.

As for the ASELPOD Project, which consists of the development and prototype production of indigenous targeting pods as well as their integration into F-16 and F-4E/2020, work related to the prototype development and the integration of the ASELPOD Systems was completed. Ground Vibration Tests were conducted and the resulting data was analyzed.

Within the scope of the Turkish Airborne Reconnaissance Program, the System Requirements Review and Preliminary Design Review phases were completed. A Critical Design Review meeting for the PRESS system was held in ELOP.

The verification phase activities continued on the Laser Warning Receiver (LWR) system being developed for the Helicopter Electronic Warfare Suit (HEWS) Project. Pilot systems were produced and preparations for serial production took place.

Regarding ASELSAN's Project for Modernizing the Avionic Systems of AS-532 Cougar and UH-1H Helicopters, serial production continued.

The critical design activities were completed within the scope of the Gendarmerie Helicopters Modernization Program for the avionic modernization of S-70 Sikorsky and AB-205 Helicopters. The integration activities of the prototype helicopters went on.

Regarding the design and development of the Mission Computer System for the Turkish Indigenous MALE UAV Project, in which the UAV is designed to utilize only national resources, an engineering Mission Computer unit was delivered to TAI and the flight safety tests within the scope of the qualification tests were completed.

An ASELFLIR-300T Airborne Thermal Sight System unit and a Support Equipment set were delivered to TAI under the Turkish Indigenous MALE UAV Project mentioned above. The material procurement activities and the sub-assembly production activities are underway for the remaining deliveries.

Regarding the Project concerning ASELFLIR-300T and LN100G INS/GPS Integration into TIHA (Turkish UAV) Systems, all LN 100G INS/GPS and ASELFLIR-300T system deliveries were completed. The deliveries of the UAVs and ASELFLIR-300T Systems as well as the related ground systems were also completed.

An Image Analysis and Automatic Target Recognition System (HASAT) Project undertaken went into effect. Research and development work related to algorithm design is underway in collaboration with Middle East Technical University (METU) on work packages for which ASELSAN is responsible.

As regards the 2.75" Laser Guided Rocket Project, technical support continued for the work package, which is under ASELSAN's responsibility.

In terms of the Seahawk Helicopters Procurement Program, for which ASELSAN will be supplying the avionic equipment to the Sikorsky Aircraft Corporation, the relevant equipment was delivered.

Within the scope of MELTEM-3 Program signed between Alenia (Italy) and the Turkish Undersecretariat for Defense Industries, the specified MFD-268E2 was delivered.

Under the F-16 Modernization Project, LN-260 EGI Embedded GPS/INS Systems were delivered by ASELSAN.

Within the scope of the C-130 Modernization Project, LN-260 EGI Embedded GPS/INS Systems were delivered.

Regarding the international procurement program for Trainer Aircraft, LN-100G GPS/INS systems and CHDD-268 multi-functional display systems were delivered to Korea Aerospace Industries, Ltd.

Regarding the Işık Project, which consists of the modernization of the navigation and communication subsystems of RF-4E reconnaissance fighter aircrafts, the remaining deliveries were made, thus completing

all related deliveries. The last milestone, 'Program Management and Technical Support', will be completed by the end of 2011 and the warranty period will begin.

The 'Program Management and Technical Support' phase has also begun for the Şimşek Project, which involves the modernization of the navigation and communication subsystems of F-4E fighter aircrafts. The warranty period has begun.

The HELSIM-II Cougar Project, signed between HAVELSAN and ASELSAN, has gone into effect and all related deliveries have been completed.

Regarding the JSF Program, production work continued on the optics of the Electro-Optical Targeting System with LOCKHEED MARTIN Corporation, the JSF Main Contractor, and with Northrop Grumman, one of the main suppliers.

Regarding the Utility Helicopter Program, which involves the procurement of Utility, CSAR and Firefighting Helicopters, negotiations with the candidate helicopter manufacturers Sikorsky and Agusta Westland have gone on, and proposals for Sikorsky and Agusta Westland have been submitted to the Prime Contractor, TAI.

Regarding the Laser System Development Project, a Partnership Proposal prepared by ASELSAN-Bilkent-Koç Universities was submitted to the Ministry of Defense.

Another proposal was submitted by ASELSAN for a project concerning the development of a Small Diameter Bomb.

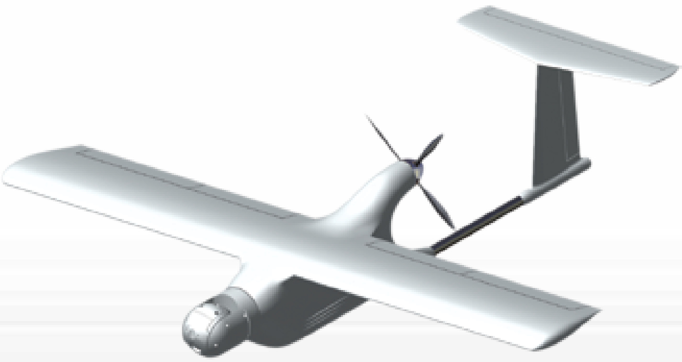
Naval Systems

The Sea Acceptance Tests of the first boat were completed for the New Type Patrol Boat Project, consisting of the integration and support regarding the electronics and war systems of New Type Patrol Boats.

Regarding the YUNUS Project, which refers to the integration and installation of underwater/abovewater surveillance and detection systems, the Critical Design and Research Phase was completed.

The Land Base Test Station activities as well as the related tests were completed for the Coast Guard Search and Rescue Ships Electronic/Combat Systems Supply and Integration Project. The Harbor Acceptance Tests of the first ship and the Factory Acceptance Tests of second and third ships are currently underway.

Regarding the MILGEM Corvette Project, the Factory Acceptance, Harbor Acceptance and Sea Acceptance Tests of the Gyro System were completed. The design modifications and production of the ASELFLIR-300D and Laser Warning System were made according to the requirements of the MILGEM platform.



Regarding the Gyro Project, the systems and LN270 (Inertial Navigation System) testing equipment were delivered, and the integration activities of the BURAK and ENGIN Type Ships were completed.

Acceptances of first ships were completed under the Half-Life Modernization of Yavuz Class Frigates, a project consisting of the modernization of the Sea Guard TMK F/C Radars and providing E/O tracking capability. All work on the third ship is complete, and the acceptance tests will take place in early 2011. It is expected that the last ship will be delivered in March 2011. With regard to the Landing Craft Tank (LCT) Ships Procurement Project, the production of the Gyro System, which will be delivered to first ship, was completed and the Factory Acceptance Tests will be initiated.

As for the Project related to the development of an Electronic Support System Capable of Target Detection in IR and Laser Bands, a protocol was signed between ASELSAN and the Ministry of Defense.

The ADIK Shipyard was selected as the Main Contractor by the Turkish Undersecretariat for Defense Industries for the Landing Ship Tank (LST) Project. The Electro-Optic Director, Inertial Navigation System, IRST and Laser Warning systems will be supplied by ASELSAN. The contract negotiations with the shipyard have started and are still underway.

An electronics and combat system solution proposal was submitted to DEARSAN Shipyard upon their request for boats to be exported.

A proposal for electro-optical systems was submitted to the Central Finance and Contracts Unit for Coast Guard Boats within the scope of the EU Border Security Project and ASELSAN was awarded the contract.

An MoU was signed between ASELSAN and Carl Zeiss on possible cooperation areas regarding ASELSAN's thermal camera and laser range finder to be integrated on Carl Zeiss periscopes. With this MoU, ASELSAN and Carl Zeiss state their intention to cooperate in the AY Class Submarine Modernization Project, New Type Submarine Project and other future international programs.

ASELSAN's previous proposal for the MTA Seismic Research Ship Project was revised and submitted to the customer.

A proposal for an Electro-Optical Director and Inertial Navigation System was submitted to Yonca-Onuk Shipyard to export boats to the UAE, Malaysia and Egypt.

Another proposal by ASELSAN was submitted under the project for the Modernization of the Barbaros Class Frigates, related to the replacement of existing electro-optical cameras with ASELSAN's products.

Quality Management System Certification

The MGEO Quality Management System was recertified in accordance with the AS 9100 "Quality Management Systems-Aerospace Requirements", AQAP-2110 "NATO Quality Assurance Requirements for Design Development and Manufacturing" and AQAP-160 "NATO Integrated Quality Requirements for Software throughout the Life Cycle" standards.

The ISO 9001:2008 "Quality Management Systems-Requirements" certification was obtained.

The recertification process for the TS EN ISO 17025 "General Requirements for the Competence of Testing and Calibration Laboratories" and the extension of accreditation scope were completed. The scope of the certification, which covers electrical and dimensional calibration, was extended to include time and frequency calibration.

Radar, Electronic Warfare and Intelligence Systems Division

Ergun BORA

Vice President

Activities in the field of Radar and Electronic Warfare Systems for land, air and naval platforms, covering a broad frequency band with indigenous and advanced systems spread over many projects for the Turkish Armed Forces were accomplished in 2010. Special efforts were made to increase export in the field of activities. Basic research work for the development of GaN technology, SiGe IC design, radar absorbing materials, frequency selective surfaces was increasingly supported. Moreover, with further investments, the capacity of the in-house microwave hybrid module production facilities was increased. Also, the Environmental Test Laboratory was accredited

Within the scope of the initiative to move REHIS (the Radar, Electronic Warfare and Intelligence System Division) from the ASELSAN Macunköy facility to the Gölbaşı facility; the investment incentive certificate was obtained, the geotechnical ground studies were completed, the general layout of the facility and the internal plans of the construction of the functional departments was completed, and the medium level voltage energy supply and its application projects for the facility was prepared.

The Microwave Hybrid Module Production Center reached 700m2, doubling the area for the Cleanroom Complex. The silver epoxy screen printing system, manual thermosonic bonding devices for gold wire bonding, the automatic optical inspection (AOI) system, the chemical cleaning systems for cleaning the microwave components in the modules and the fine leak testing system for the hermetically sealed microwave modules were set up. Also, by providing additional microwave test set-ups, the capacity of the microwave module production was increased by 50%.

EW Electronic Support & Electronic Attack Systems

In 2010, development, production, integration and testing activities continued for the Naval ESM System for Fast Patrol Boat and MILGEM platforms, the

Stand-off Radar ES/EA System and the V/UHF Jammer System. The Mobile HF Direction Finding and Intelligence System, and the RCIED Active/Passive Jammer System were successfully completed and delivered.

A contract was signed with the Ministry of National Defense for the ELINT System.

Business development and system engineering activities were conducted on the ESM System for New Type and AY Class Submarines, ESM Systems for LST Vessels and the Airborne Stand-off Jammer System.

EW Self Protection Systems

Development, production, platform integration, test and delivery activities were undertaken for ongoing contracts; namely, the Missile Warning System project, Countermeasure Dispensing System and Chaff/Flare Munitions project, MELTEM Maritime Patrol Aircraft EW System project, SPEWS-II F-16 EW project, A400M Aircraft Missile Warning System Co-development project and HEWS Helicopter EW Self Protection System project.

The field tests of the indigenously developed IR Signature Measurement System and the measurement of various target platform signatures were completed and delivered to the Turkish Undersecretariat for Defense Industries (SSM).

The preliminary studies were initiated for EW self protection systems for naval platforms and an active protection system for armoured vehicles.

Business development activities were conducted for the self protection requirements of the Utility Helicopter Program, Heavy Lift Helicopter Program and several other programs.

Radar Systems

Design, development, production, integration and test activities continued on the Synthetic Aperture Radar (SAR), KALKAN 3-D Air Defence Radar, SERDAR Coastal Surveillance Radar, ALPER Naval LPI Radar, Naval 3-D Search Radar, Muzzle Velocity Radar and RF Seekers for various programs.

The first Synthetic Aperture Radar (SAR) images were produced by the indigenously designed SAR System.

A Naval LPI Radar (ALPER) was installed on the first MILGEM corvette following the successful completion of the related design verification and factory acceptance tests.

The development activities concerning the new 3D Mobile Search Radar and Fire Control Radar began for the "Self Propelled Gun System", "Fire Control System" and "Air Defence Missile System" development programs.

Feasibility studies were conducted for the TF2000 CAFRAD System, GOKTURK-3 SAR Satellite Radar Payload, Mortar Location Radar and Long Range Mobile Radar Systems. Business development activities were conducted for various radar systems.

Defense Systems Technologies Division

Fuat AKÇAYÖZ

Vice President

The DST Division offers system solutions pertaining to the development, production, integration and integrated logistical support of Air Defense Weapon Systems, Command Control and Computer Systems, Fire Support Systems, Weapon Systems Modernization, Unmanned Systems, Naval Systems, Underwater Acoustic Systems, Homeland Security as well as defense applications and Motorway Traffic Systems in the civil-professional area.

In 2010; apart from ongoing contract-based design, development, production, integration and integrated logistic support activities, DST made investments in various high technology assets to support its indigenous R&D activities and to enhance its technological infrastructure.

Air Defense Weapon Systems

Throughout 2010, the production and delivery of Pedestal Mounted Stinger systems for the Turkish Armed Forces continued.

Contracts were signed with the Turkish Undersecretariat for Defense Industries (SSM) in March 2010 regarding the development of a 35mm Self Propelled Air Defense Gun System, Fire Direction System, 35mm Fragmented Ammunition and the modernization of 35mm Towed Air Defense Guns.

The Turkish Defense Industry Executive Committee selected ASELSAN as the main contractor in a project concerning the development of Low Altitude and Medium Altitude Air Defense Missile System programs on 6 January 2010. In the Turkish Defense Industry Executive Committee meeting held on 15 June 2010, SSM was authorized to start contract negotiations with ASELSAN.

ASELSAN submitted proposals for the Turkish Long Range Air and Missile Defense System program detailing the potential contribution of ASELSAN to this program.

A contract was signed with Raytheon (USA) in October 2010 concerning the production of an Antenna Mast Group within the scope of the PATRIOT Long Range Air and Missile Defense System for a third country.

The development of the "Submarine Defense Rocket Firing System" was completed. Following the suc-

cessful completion of the factory acceptance tests, the first system was installed on the first "New Type Patrol Boat" of the Turkish Navy.

Fire Support Systems

Development work continued on the Tactical Fire Direction Computer System. While the production and delivery of Fire Control Systems for the FIRTINA Self-Propelled Howitzer continued, a new contract was signed for an additional batch of systems.

The development of the "Weapon Management and Fire Control System" for an artillery multiple rocket launch system ordered by an export customer was completed and the first system was delivered.

Development efforts continued within the scope of contracts signed in November and December 2009 on the "Fire Support Automation Project – Phase 2", "Ammunition Transfer System for FIRTINA Ammunition Resupply Vehicle", "Fire Control System for Air Deployable Towed Howitzer", and "INS Integration to AN/TPQ-36 Radars".

Command Control and Computer Systems

Development and production work on the Air Defense Early Warning and Command Control System (HERIKKS) for the Turkish Land Forces continued, and partial deliveries of certain subsystems were made.

Development work was successfully completed for the integration of the Air Defense Early Warning and Command Control System with the Turkish Land Forces' Battlefield Management System.

The development of the Tank Command, Control and Communication System continued within the scope of the Turkish Main Battle Tank Development Program (ALTAY).

The development and production of various types and models of hand terminals, military computers and ruggedized peripheral equipment continued.

Weapon Systems

All deliveries within the scope of the contract signed with SSM in 2002 for the modernization of the fire control systems of Leopard 1A1 tanks were completed in June 2010.

The development of the Gun/Turret Electrical Drive to be used in Leopard 2A4 and ALTAY tanks continued.

The development of a remote weapon station intended for use on Leopard 2A4 and Altay tanks as well as the Fırtına howitzer and other tactical vehicles continued. The first prototype of the Stabilized Advanced Remote Platform (SARP) system was produced.

The development of the 25/30mm unmanned turret continued, reaching the integration phase.

The Fire Control System for the 76mm Naval Gun developed in 2009 was integrated to the MILGEM Heybeliada Corvette.

The development of a Fire Control System for the 40mm Naval Gun for use on the Turkish Navy's New Type Patrol Boats and the Coast Guard's Search and Rescue Ships was completed. The Factory Acceptance Tests, Harbor Acceptance Tests and Sea Acceptance Tests, including the firing tests, were also completed for the system installed on the first ship built under the New Type Patrol Boat program.

A contract was received and production initiated for the Fire Control Systems of 40mm Naval Guns for use on boats being built by a Turkish Shipyard for an export customer.

Remote Controlled Weapon Systems

The integration of a 40mm Grenade Launcher, 7.62mm Machine Gun and 12.7mm GAU-19/A Gatling Gun for the Stabilized Machine Gun Platform (STAMP) developed for naval platforms was completed. The production, installation and test phases were completed for the supply of 12.7mm Stabilized

Machine Gun Platforms and 25mm Stabilized Guns (STOP) ordered by local and export customers as per contracts signed with them.

A project office was formed in Abu Dhabi to carry out work for contracts regarding the supply of STAMP and STOP systems to the United Arab Emirates (UAE). Furthermore, preparations were made for the establishment of a joint-venture company in the UAE to perform the marketing, production, and maintenance of such systems in the UAE and its neighboring countries.

Unmanned Systems

ASELSAN took part in MAGIC 2010 (Multi Autonomous Ground-Robotic International Challenge), a joint collaborative effort between the US and Australian Army. ASELSAN formed and led Team Cappadocia, with members from METU, Bilkent, and Boğaziçi Universities in Turkey and Ohio State University in the USA.

Team Cappadocia was among the top finalists invited to compete in the challenge, after submitting their Technical Proposal in October 2009 and taking part in the technical demonstration in June 2010. In the finals in November 2010, Team Cappadocia ranked fourth among the competing teams. Work done for the MAGIC 2010 Challenge contributed much to the development of the hardware and algorithms of unmanned ground vehicles.

Naval Combat Systems

ASELSAN is responsible for the development and integration of Weapon Systems, Electronic Warfare (EW) Systems, Self Protection (EW, Acoustic, Infrared) Systems, Radars, Electro-Optic (E/O) Systems, Integrated Communications Systems and Sonar Systems in the MILGEM National Vessel Naval Combat System Integration Project. The related work on the project was carried out successfully during 2010; acceptance tests on the MILGEM Navigation Systems and Weapon Electronics Systems were fully completed. Efforts on the MILGEM Corvette-II Combat System project, taken on in 2009, also continued in 2010.

ASELSAN developed the Landing Craft Tanks as the Combat System Solution of the Landing Craft Tank (LCT) Project. ADIK Shipyard was awarded the project.

In addition to contracts were signed in 2010, ASELSAN carried out work on the following projects with the candidate shipyards and the Turkish Undersecretariat of Defense Industries (SSM) during the year: the Submarine Rescue Mother Ship (MOSHIP) and Rescue and Towing Ship (RATSHIP) Projects; the Landing Platform Dock (LPD) Project; and the Landing Craft Air Cushion (LCAC) Vehicle Project.

ASELSAN came up with "TURKUAZ" upon a special request from SSM for seismic and oceanographic as well as geological and geophysical research while meeting the navigation and communications requirements of the ship.

Contract related negotiations took place with the selected contractor shipyard for New Type of Submarine Project (NTSP) conducted by SSM for the Turkish Navy. ASELSAN products to be provided for the project are as follows: the Communication System, an X-Band Satellite terminal, an Electronic Support Measurement system and Platform Data Distribution Systems.

Regarding the Ay Class Submarine Modernization Project, ASELSAN conducted negotiations and submitted a proposal concerning the development of an Electronic Support Measures System as well as its integration to the platform. In 2010, ASELSAN not only worked on the local projects regarding its AMICOS (ASELSAN Modular Integrated Combat System), but also explored business opportunities abroad based on the engineering experience gained from and the

milestones of field tested applications of the MILGEM program. The following exemplify projects representing various types of AMICOS configuration;

– The international marketing activities for the WATCHDOG system, another example of ASELSAN AMICOS concept used for the protection of commercial vessels against asymmetric surface threats like piracy and terrorism, gained impetus during 2010.

– Projects for Pakistan and Qatar were carried out and related proposals were submitted.

– The Large Patrol Craft (LPC) Combat System was delivered to the authorities in Bangladesh.

– ASELSAN's proposal for the Sensor and Weapon Control (SeWaC) System was submitted for to the Egyptian Armed Forces for their MRTP-33 Boats.

– ASELSAN also provided customized solutions to the United Arab Emirates with respect to the Combat System for their Fast Attack Missile Boat-42 (FAMB-42) and Multi Role Tactical Platform-41 (MRTP-41).

Underwater Acoustic Systems

In the field of Underwater Acoustics and Sonar Systems, studies were initiated for the development and production of advanced technology products such as sonar and torpedo counter measure systems. To this end, various cooperative activities took place with national companies, universities and research institutes. Also, activities initiated for the transfer of some technologies to international companies continued.

Project activities under the Torpedo Counter Measure Systems for Submarines Contract signed between ASELSAN and the Turkish Ministry of Defense continued and the prototypes of the acoustic decoys designed for AY class submarines were delivered to the Turkish Navy. Another related development and production program, the Torpedo Counter Measure Systems for naval surface platforms, was continued as a company founded project, and testing activities were started at sea. The development of a Depth Measurement Sonar (KULAÇ), used as an echo sounder for surface ships and submarines began in the beginning of 2010.

Coastal and Border Security Systems

Development activities continued in the Border Surveillance System Project within the "Security" theme of the 7th Framework Program of the European Commission. This project is being conducted by an international consortium of which ASELSAN is a member. Following the completion of the Architectural Design work package led by ASELSAN, the subsystem design, implementation, integration and testing related activities continued.

Regarding the Coastal Surveillance Radar System Project, for which a tender is expected to be issued by SSM in 2011, business development efforts and negotiations took place to organize a team of Turkish companies under the leadership ASELSAN for the project. Business development and system design activities related to green border security were also carried out. Furthermore, development activities were initiated on Wireless Sensor Networks for critical infrastructure protection and border security applications.

Traffic Systems

ASELSAN'S ongoing projects and a new contract with the Turkish General Directorate of Highways have strengthened the company's leadership in the field of Traffic Systems. The majority of the national Electronic Toll Collection (ETC) system extensions for use by heavy vehicles were completed in 2010. The new contract in effect aims to completely eliminate cash payment on the toll road network. The Fully Automatic Tolling System will enable exclusive electronic payment on the roads with the installation of Electronic Toll Collection and Contactless Card Based Automated Toll Collection lanes on all of the 2,200km of toll highways in Turkey.

ASELSAN ELECTRONICS INDUSTRIES INC.

Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle / Ankara

2010
Financial Information

In Compliance with Capital Markets Board (CMB) Communiqué Series:XI, No:29;

Consolidated Balance Sheet

Consolidated Income Statement

Consolidated Statement of Changes In Equity

Consolidated Cash Flow Statement

Notes to the Consolidated Financial Satements

Independent Auditor's Report

Annual Report of the Board of the Directors

Report of the Board of Auditors

Dividend Distribution Proposal

ASELSAN ELECTRONICS INDUSTRIES INC. AND ITS SUBSIDIARY AUDITED BALANCE SHEET (TL)

In compliance with CMB Communiqué: XI, No: 29

ASSETS	Note	CURRENT PERIOD 31.12.2010			PREVIOUS PERIOD 31.12.2009		
Current Assets				**2.003.805.431**			**1.899.096.369**
Cash and Cash Equivalents	6	600.696.797			642.040.945		
Financial Investments	7	5.927.597			5.950.552		
Trade Receivables	10	307.785.288			194.811.907		
Receivables from Finance Sector Operations	12	0			0		
Other Receivables	11	9.193.047			12.335.427		
Inventories	13	487.500.375			542.762.681		
Biological Assets	14	0			0		
Assets of Construction Contracts in Progress	15	339.506.821			281.994.274		
Advances Given for Purchases	26	153.851.940			125.261.624		
Other Current Assets	27	99.343.175			93.938.569		
(Sub-Total)			**2.003.805.040**			**1.899.095.979**	
Assets Held for Sale	35		**391**			**390**	
Non - Current Assets				**752.113.424**			**585.346.596**
Trade Receivables	10	27.185.166			14.861.982		
Receivables from Finance Sector Operations	12	0			0		
Other Receivables	11	68.316			124.128		
Financial Investments	7	10.003.355			9.963.235		
Investments Accounted for Using the Equity Method	16	0			0		
Biological Assets	14	0			0		
Investment Properties	17	0			0		
Property, Plant and Equipment	18	271.864.353			230.634.396		
Intangible Assets	19	107.490.924			95.669.542		
Goodwill	20	0			0		
Deferred Tax Assets	36	142.722.312			90.232.923		
Advances Given for Purchases	26	180.470.670			137.707.633		
Other Non-Current Assets	27	12.308.328			6.152.757		
TOTAL ASSETS				**2.755.918.855**			**2.484.442.965**

ASELSAN ELECTRONICS INDUSTRIES INC. AND ITS SUBSIDIARY AUDITED BALANCE SHEET (TL)

In compliance with CMB Communiqué: XI, No: 29

LIABILITIES	Note	CURRENT PERIOD 31.12.2010			PREVIOUS PERIOD 31.12.2009		
Current Liabilities				**604.444.995**			**793.420.165**
Financial Liabilities	8	104.040.496			370.019.636		
Other Financial Liabilities	9	0			0		
Trade Payables	10	90.503.597			75.834.200		
Other Payables	11	13.824.015			12.051.868		
Payables from Finance Sector Operations	12	0			0		
Liabilities from Construction Contracts in Progress	15	2.336.400			0		
Government Grants	21	7.883.289			11.643.422		
Current Income Tax Liabilities	36	0			0		
Provision for Accrued Liabilities	22	39.770.740			39.728.918		
Reserve for Employment Termination Benefits	24	9.459.381			7.605.642		
Order Advances Received	26	335.975.186			275.857.749		
Other Current Liabilities	27	651.891			678.730		
(Sub-Total)			**604.444.995**			**793.420.165**	
Liabilities Included in Disposal Group Classified as Held for Sale	35		**0**			**0**	
Non-Current Liabilities				**1.307.436.854**			**1.031.158.264**
Financial Liabilities	8	39.860.947			39.668.729		
Other Financial Liabilities	9	0			0		
Trade Payables	10	2.164.300			3.276.446		
Other Payables	11	5.000			0		
Payables from Finance Sector Operations	12	0			0		
Liabilities from Construction Contracts in Progress	15	7.009.200			0		
Government Grants	21	0			0		
Provision for Accrued Liabilities	22	57.556.280			25.562.286		
Reserve for Employment Termination Benefits	24	63.377.093			52.267.100		
Deferred Tax Liabilities	36	99.442.248			58.584.397		
Order Advances Received	26	1.038.021.786			851.799.306		
Other Non-Current Liabilities	27	0			0		
EQUITY				**844.037.006**			**659.864.536**
Parent Company Shareholders' Equity			**844.145.130**			**661.354.800**	
Paid-in Capital	28	235.224.000			117.612.000		
Inflation Adjustment of Capital	28	132.773.042			132.773.042		
Investment and Share Capital Eliminating Adjustment		0			0		
Premium in Access of par		0			0		
Revaluation Funds		0			0		
Foreign Currency Translation Differences		0			0		
Other Funds	28	900.274			889.350		
Restricted Reserves Set Aside from Profits	28	29.813.447			20.173.095		
Retained Earnings	28	204.714.396			204.542.318		
Net Profit for the Period		240.719.971			185.364.995		
Minority Interest	28		**(108.124)**			(1.490.264)	
TOTAL EQUITY AND LIABILITIES				**2.755.918.855**			**2.484.442.965**

ASELSAN ELECTRONICS INDUSTRIES INC. AND ITS SUBSIDIARY AUDITED COMPREHENSIVE STATEMENT OF INCOME (TL)

In compliance with CMB Communiqué: XI, No: 29

	Note	CURRENT PERIOD 01.01 - 31.12.2010	PREVIOUS PERIOD 01.01 - 31.12.2009
CONTINUING OPERATIONS			
Sales	29	1.189.786.590	1.037.675.524
Cost of Sales (-)	29	(814.455.985)	(730.404.780)
Gross Profit / (Loss) from Commercial Operations		**375.330.605**	**307.270.744**
GROSS PROFIT		**375.330.605**	**307.270.744**
Marketing, Selling and Distribution Expenses (-)	30	(26.847.427)	(27.951.394)
General Administrative Expenses (-)	30	(72.124.806)	(60.654.695)
Research and Development Expenses (-)	30	(33.132.162)	(29.660.494)
Other Operating Income	32	12.787.453	6.191.508
Other Operating Expenses (-)	32	(41.392.693)	(39.036.217)
OPERATING PROFIT		**214.620.970**	**156.159.452**
Share of Profit of Equity Accounted Investment		0	0
Finance Income	33	284.426.650	180.523.110
Finance Expenses (-)	34	(269.740.658)	(175.913.013)
PROFIT / (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**229.306.962**	**160.769.549**
Tax Expense from Continuing Operations		**11.631.538**	**23.105.393**
- Provision for Taxation	36	0	0
- Deferred Tax Income / (Charge)	36	11.631.538	23.105.393
PROFIT FROM CONTINUING OPERATIONS		**240.938.500**	**183.874.942**
DISCONTINUED OPERATIONS			
Profit / (Loss) from Discontinued Operations (Net of Income Tax)		0	0
PROFIT FOR THE PERIOD		240.938.500	183.874.942
Other Comprehensive Income			
Changes in fair value fund of financial assets		0	0
Changes in revaluation of property, plant and equipment		0	0
Changes in fair value of hedging instruments		0	0
Exchange differences on translating foreign operations		0	0
Actuarial loss on employee benefit obligations		0	0
Other comprehensive income from equity accounted investments		0	0
Income tax relating to components of other comprehensive income		0	0
OTHER COMPREHENSIVE INCOME FOR THE PERIOD (NET OF TAX)		**0**	**0**
Profit for the Period			
of which attributable to minorty interest		218.529	(1.490.053)
of which attributable to the Group		**240.719.971**	**185.364.995**
Total Comprehensive Profit for the Period			
of which attributable to minorty interest		218.529	(1.490.053)
of which attributable to the Group		**240.719.971**	**185.364.995**
Earnings per Share	37	**1,02**	**1,58**
Diluted Earnings per Share	37	**1,02**	**1,58**
Earnings per Share for Continuing Operations	37	**1,02**	**1,58**
Diluted Earnings per Share for Continuing Operations	37	**1,02**	**1,58**

ASELSAN ELECTRONICS INDUSTRIES INC. AND ITS SUBSIDIARY AUDITED SHAREHOLDERS' STATEMENT OF CHANGES IN EQUITY (TL)

In compliance with CMB Communiqué: XI, No: 29

	Note	Capital	Capital Restatements Differences	Restricted Reserves Set Aside from Profits	Retained Earnings	Net Income	Other Funds	Minority Interest	Total Shareholders' Equity
Balances at 01.01.2009	**28**	**117.612.000**	**132.773.042**	**18.417.228**	**203.504.951**	**12.189.105**	0	**(18.431)**	**484.477.895**
Transfers to Reserves	**28**	0	0	1.480.993	0	(1.480.993)	0	0	**0**
Transfers to Previous Years Income / (Loss)	**28**	0	0	0	4.827.512	(4.827.512)	0	0	**0**
Dividend Paid		0	0	0	0	(5.880.600)	0	0	**(5.880.600)**
Net Income for the Period	**37**	0	0	0	0	183.874.942	0	0	**183.874.942**
Effect of Shareholding Increase in Subsidiary	**28**	0	0	274.874	(3.790.145)	0	889.350	15.620	**(2.610.301)**
Increase in Capital of Minority Interest		0	0	0	0	0	0	2.600	**2.600**
Minority Interest	**28**	0	0	0	0	1.490.053	0	(1.490.053)	**0**
Balances at 31.12.2009		**117.612.000**	**132.773.042**	**20.173.095**	**204.542.318**	**185.364.995**	**889.350**	**(1.490.264)**	**659.864.536**
Balances at 01.01.2010	**28**	**117.612.000**	**132.773.042**	**20.173.095**	**204.542.318**	**185.364.995**	**889.350**	**(1.490.264)**	**659.864.536**
Increase in Share	**28**	117.612.000	0	0	0	(117.612.000)	0	0	**0**
Transfers to Reserves	**28**	0	0	9.633.112	0	(9.633.112)	0	0	**0**
Transfers to Previous Years Income / (Loss)	**28**	0	0	0	490.003	(490.003)	0	0	**0**
Dividend Paid		0	0	0	0	(57.629.880)	0	0	**(57.629.880)**
Net Income for the Period	**37**	0	0	0	0	240.938.500	0	0	**240.938.500**
Effect of Shareholding Increase in Subsidiary	**28**	0	0	7.240	(317.925)	0	10.924	137.261	**(162.500)**
Increase in Capital of Minority Interest	**28**	0	0	0	0	0	0	1.026.350	**1.026.350**
Minority Interest	**28**	0	0	0	0	(218.529)	0	218.529	**0**
Balances at 31.12.2010		**235.224.000**	**132.773.042**	**29.813.447**	**204.714.396**	**240.719.971**	**900.274**	**(108.124)**	**844.037.006**

ASELSAN ELECTRONICS INDUSTRIES INC. AND ITS SUBSIDIARY AUDITED CASH FLOW STATEMENT (TL)

In compliance with CMB Communiqué: XI, No: 29

	Note	CURRENT PERIOD 01.01 - 31.12.2010		PREVIOUS PERIOD 01.01 - 31.12.2009	
CASH FLOW FROM OPERATING ACTIVITIES					
Profit before tax and minority share on income	37		240.719.971		185.364.995
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	18-19		42.959.798		43.364.432
Employee termination benefits provision	24		12.963.732		10.516.818
Provision for doubtful trade receivables	10		(44.913)		769.033
Provision for guarantee expenses	22		8.024.883		8.513.494
Provision for delayed penalties and fines	22		3.154.753		1.618.596
Provision for expected losses of construction contracts in progress	22		22.033.805		29.149.604
Provision for legal cases	22		425.231		391.116
Provision for decrease in value of stocks	13		(6.538.919)		2.612.321
Change in other provision	22		(1.602.857)		1.218.619
Tax provision	36		(11.631.538)		(23.105.393)
Interest expense			9.062.506		5.384.749
Minority interest	28		1.382.139		(1.471.833)
Cash flow generated from operations before changes in working capital			**320.908.591**		**264.326.551**
Changes in working capital			66.494.322		(22.651.082)
- Change in trade receivables	10	(125.251.652)		(102.072.765)	
- Change in other receivables	11	3.198.192		(2.752.458)	
- Change in inventories	13	61.801.225		(52.924.065)	
- Assets of construction contracts in progress	15	(57.512.547)		98.509.230	
- Advances given for purchases	26	(71.353.353)		(93.751.712)	
- Change in other current assets	27-35	(5.404.607)		40.940	
- Change in other non-current assets	27	(6.155.571)		(85.140)	
- Change in trade payables	10	13.557.251		7.958.015	
- Change in other payables	11	1.716.837		(5.921.994)	
- Government grants	21	(3.760.133)		9.091.861	
- Liabilities from Construction Contracts in Progress	15	9.345.600		0	
- Order advances received	26	246.339.917		120.639.440	
- Change in other current liabilities	27	(26.837)		659.379	
- Change in other non - current liabilities	27	0		(2.041.813)	
Net cash provided by used in operating activities			**387.402.913**		**241.675.469**
Taxes paid			0		0
Interest paid			(9.122.435)		(4.304.091)
CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES			**378.280.478**		**237.371.378**
CASH FLOWS FROM INVESTING ACTIVITIES					
Changes in short term financial assets	7		22.955		(1.132.242)
Acquisition/disposal of property, plant and equipment,intangible assets and investment properties	18		(72.343.281)		(38.166.663)
Acquisition/disposal of intangible assets	19		(23.667.856)		(48.930.223)
Changes in long term financial assets	7		(40.120)		0
Effect of shareholding increase in subsidiary	28		(299.761)		(2.625.921)
NET CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES			**(96.328.063)**		**(90.855.049)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Changes in financial liabilities	8		(265.726.993)		376.036.692
Dividend paid			(57.569.570)		(5.874.131)
NET CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES			**(323.296.563)**		**370.162.561**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS			**(41.344.148)**		**516.678.890**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD			642.040.945		125.362.055
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			**600.696.797**		**642.040.945**

1. ORGANIZATION AND NATURE OF OPERATIONS

Aselsan Electronics Industries Inc. ("the Company", "the Parent Company") was established in order to engage principally 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 was established at the end of 1975 as a corporation by Turkish Armed Forces Foundation. The Company commenced its production activities in Macunköy facilities in early 1979. The Company has been organized in four main divisions: The Communication and Information Technologies (HBT), Radar, Electronic Warfare and Intelligence Systems (REHİS) and Defense Systems Technologies (SST) and Microelectronics, Guidance & Electro-Optics Division (MGEO) based on the investment and production requirements of projects carried out. The Company carries out its manufacturing and engineering activities in Macunköy and Akyurt facilities and the Head office is based in Ankara, Macunköy facilities.

The Company is registered with the Capital Markets Board (CMB) and its shares are quoted at the İstanbul Stock Exchange since 1990. As of 31.12.2010, 15,30% (31.12.2010: 15,30%) of the shares are publicly quoted (Note 28).

The Company, and its consolidated subsidiary Microwave Electronics Systems Inc. (Mikes Inc.), operating in the same sector with the Company, are 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 is set out below:

Name of the Company	Operation	31.12.2010 Shareholding (%)	31.12.2009 Shareholding (%)
Microwave Electronics Systems Inc.	Projects on research and development on micro wave	96,36	95,73

Other financial assets stated in Note 7 were not consolidated on the grounds that their impact on the Group's financial statements and financial position is not significant, hence do not meet the Group's consolidation criteria or else the Group has an insignificant ownership interest.

The average number of the personnel of the Group based on categories is set out below:

	01.01.- 31.12.2010 Unit	01.01.- 31.12.2009 Unit
University graduates (engineer)	2.258	1.980
University graduates (other)	339	331
Technical personnel	1.301	1.257
Black coated personnel	217	220
Workers	200	212
	4.315	4.000

The registered address of Parent Company is "Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle/Ankara." The registered address of the subsidiary is "Çankırı Yolu 5. Km 06750 Akyurt/Ankara."

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis of Accounting Standards Applied

The Company and its subsidiary located in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira (TL) in accordance with Turkish Commercial Code ("TCC"). and tax legislation. The accompanying consolidated financial statements prepared from the statutory records of the Group are modified with certain out-of-book adjustments and reclassifications to comply with Generally Accepted Accounting Standards issued by the CMB.

"The Communiqué No: XI/29 published by the CMB in respect of Financial Reporting in the Capital Markets" is effective for the first interim financial statements subsequent to 01.01.2008. In accordance with that Communiqué, the financial statements will be prepared in accordance with the International Financial Reporting Standards (IAS/IFRS) as adopted by the European Union. However, IAS/IFRS will continue to be applied until the differences between the IAS/IFRS and those adopted by the European Union will be declared by the Turkish Accounting Standards Board (TASB). Within this framework, the Turkish Accounting /Financial Reporting Standards (TAS/TFRS) which are published by the TASB and which are in compliance with the adopted standards will be applied.

As the differences between the IAS/IFRS as endorsed by the European Union and the TAS/TFRS have not been declared as of the date of this report, the accompanying financial statements and notes are prepared in accordance with IAS/IFRS as promulgated by the CMB Communiqué No: XI/29, with the required formats announced by the CMB.

The financial statements are prepared in local currency (TL) under the historical cost convention as modified by the financial instruments at fair value based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with CMB Communiqué No: XI/29.

The Group's consolidated balance sheet as of 31.12.2010 and consolidated comprehensive income statement for the year ended 31.12.2010 prepared in accordance with CMB Communiqué No: XI/29 were approved by the Board of Directors on 10.03.2011 with the decree of Nr.683. Group management and certain regulatory bodies do not have any power to amend financial statements prepared in accordance with local regulations after the issue date.

The financial statements of the consolidated subsidiary are prepared as of the date of the consolidated financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with the accounting policies adopted by the Parent Company.

2.2. Measurement and Presentation Currency
Functional and presentation currency of the Group is TL.

2.3 The New Standards, Changes and Interpretations of Current Standards
In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) that are effective as at 31.12.2010 and that are relevant to its operations.

The new standards, amendments, changes and interpretation of current standards effective as of 31.12.2010

The accounting policies, which are basis of presentation of consolidated financial statements, are consistent with those of the previous financial year except for the new standards and interpretation summarized below. The following new and amended IFRS and IFRIC interpretations are adopted in the periods beginning on 01.01.2010:

IFRIC 17 “Distributions of Non-cash Assets to Owners”,

IAS 39 “Financial Instruments: Recognition and Measurement” (Amended) – eligible hedged items,

Improvements to IFRS (May 2008),

IFRS 2 (Revised), “Share Based Payments” -Vesting conditions
The amendments to IFRS 2, “Share Based Payments”, share based payments paid in cash by the group,

Improvements to IFRS (April 2009),

These standards, amendments, improvements and interpretations do not have any effect on the financial statements of the Group.

The revised IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements” (Amended) published by the IASB on 10.01.2008 introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss rather than by adjusting goodwill. The amended IAS 27 requires that a change in ownership interest of subsidiary is accounted for as an equity transaction. Therefore, such a change neither has an impact goodwill, nor gives rise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. By accounting the change in the shareholding percentage of Group in its subsidiary within equity, the Group has applied IAS 27 (Revised).

The new and amended standards and interpretations effective for the financial periods beginning after 31.12.2010

The new and amended IFRS and IFRIC interpretations, which are published but not effective as at the date of the approval of the financial statements and not early adopted by the Group, are as follows:

IFRS 9 "Financial Instruments –Phase 1 financial assets, classification and measurement", is effective for annual periods beginning on or after 01.01.2013. Phase 1 of IFRS 9 Financial Instruments introduces new requirements for classifying and measuring financial assets. This standard has not yet been endorsed by the EU. The Group is assessing the impact of the new standard.

IAS 24 (Revised) "Related Party Disclosures" is effective for annual periods beginning on or after 01.01.2011. This revision related to the judgment which is required so as to assess whether a government and entities known to the reporting entity to be under the control of that government are considered as a single customer. In assessing this, the reporting entity shall consider the extent of the economic integration between those entities. Early application is permitted and adoption shall be applied retrospectively. The Group does not expect that this amendment will have an impact on the financial statements of the Group.

IAS 32 (Revised) ''Classification on Rights Issues'', is effective for annual periods beginning on or after 01.02.2010. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is to be applied retrospectively. The Group does not expect that this amendment will have any impact on the financial statements of the Group.

IFRIC 14 (Amended) ''Prepayments of a Minimum Funding Requirement'', is effective dor annual periods beginning on or after 01.01.2011. The purpose of this amendment was to permit entities to recognize as an asset some voluntary prepayments for minimum funding contributions. Earlier application is permitted and must be applied retrospectively. The Group does not expect that this amendment will have any impact on the financial statements of the Group.

IFRIC 19 ''Extinguishing Financial Liabilities with Equity Instruments'', is effective for annual periods beginning on or after 01.07.2010. This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The Group does not expect that this amendment will have any impact on the financial statements of the Group.

Improvements to IFRSs (published at May 2010):

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various beginning on 01.07.2010. Early application is permitted in all cases and this annual improvements project has not yet been endorsed by the European Union.

Improvements to IFRSs below are not expected to have an impact on the financial statements of the Group;

IFRS 3: Contingent consideration that arose from business combinations with acquisition dates precede the adoption of revised IFRS 3.
IFRS 3: Measurement of non-controlling interests
IFRS 3: The replacement of the acquire's share-based payment transactions (whether obliged or voluntarily)
IAS 1: Clarification to the statement of changes in equity
IAS 27: Clarification of the consequential amendments from IAS 27 "Consolidated and Separate Financial Statements" made to IAS 21, IAS 28 and IAS 31
IFRIC 13: Customer Loyalty Programs: The fair value of award credits
IAS 34 Interim Financial Reporting: Guidance to illustrate how to apply disclosure principles and additional disclosure requirements.

The impact of the improvements to IFRS below on the financial statements is being assessed by the Group

IFRS 7 "Financial Instruments Disclosures", effective for annual periods beginning on or after 01.01.2011. This improvement gives clarifications of disclosures required by IFRS 7 and emphasized the interaction between quantitative and qualitative disclosures and the nature and extend of risks associated with financial instruments.

Amendments to IFRSs below are not expected to have an impact on the financial statements of the Group

IFRS 7 "Financial Instruments: Disclosure as part of its comprehensive review of Off Balance Sheet Activities" (Amended), is effective for annual periods beginning on or after 01.07.2011. The purpose of this amendment is to allow users of financial statements to improve their understanding of transfer transaction of financial assets (e.g. securitizations), including understanding the possible effects of additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments broadly align the relevant disclosure requirements of IFRSs.

IAS 12 "Deferred Tax: Recovery of Underlying Assets" (Amendment), is mandatory for annual periods beginning on or after 01.01.2012. IAS 12 has been updated to include i) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and ii) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

2.4. Prior Period Comparative Information and Restatement of Prior Periods

To enable the determination of financial condition and performance trends, the Group prepares the financial statements comparative to the previous period. 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.

2.5. Changes in Accounting Estimates and Corrections of 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.

Significant Accounting Judgments and Estimates
The preparation of financial statements require management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Those estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date and the significant judgments with the most significant effect on amounts recognized in the financial statements are set out below:

a) Deferred tax asset is recognized to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable deferred tax asset is recognized for all unused tax losses and for all temporary differences. The Group has recognized deferred tax asset based on expectation that future taxable profit will be available, considering the income projections made (Note 36).

b) Reserve for employment termination benefit was determined by using actuarial assumptions (discount rate, future salary increases and employee turnover rate). As of 31.12.2010 and 31.12.2009 the reserve for employment termination benefit are TL 63.377.093 and TL 52.267.100, respectively.

c) The guarantee expense includes compensation for possible costs to be incurred in the maintenance of products and systems delivered by the Group for defects occurring after delivery within periods defined in contracts. The average warranty period of the projects executed by the Group is 2 years. The guarantee reserve is computed by the use of a guarantee reserve rate, which takes into consideration the amount of sales under warranty. The guarantee reserve is revised every period by reviewing the proportion of sales under warranty and the incurred warranty expenses. In determining the warranty reserve, the Group considered past trends of incurred warranty expenses against sales under warranty made (Note 22).

d) The measurement of contract revenue and expense, affected by a variety of uncertainties that depend on the outcome of the future events, is based on estimates of the stage of completion of the contract activity and technical assessments conducted for the projects. Provisions for possible losses and penalties that may arise from contracts in progress are made in the light of technical evaluations performed by the technical departments, available on the project and anticipated project outcome. Expected excess of total contract costs over total contract revenue for the contract is recognized as an expense and a provision thereon is computed based on estimates made in the light of available information as of balance sheet date (Note 22).

e) In determining the useful lives of property, plant and equipment the technical assessments of the work units were considered.

f) In amortizing the capitalized development costs the following criteria were used:
Capitalized development costs pertaining to contractual agreements were recognized as expense the delivery stages of the products determined by the contracts. Capitalized development costs that were not attributed to contractual agreements were amortized over the period of contract performance, generally from the date the commercial production of the product has become viable. As of 31.12.2010 and 31.12.2009 development costs amounting to TL 103.439.828 and

TL 293.702.089 were recognized in construction contract costs and intangible assets, respectively. (Note 19)

2.6. Summary of Significant Accounting Policies
Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash at banks and on hand and cash-in-transit. Cash and cash equivalents consist of short-term highly liquid investments including time deposits generally having original maturities of three months or less.

Foreign currency bank deposits valued at the end of period rate. Recorded value is estimated market value of other cash and bank deposits on the balance.

Financial Instruments

In accordance with IAS 39 financial instruments are classified into one of the following categories: (a) Financial assets at fair value through profit or loss, this category has two sub-categories: (i) Designated: Designated as one to be measured at fair value with fair value changes in profit or loss on initial recognition and (ii) Held for trading: all derivatives (except those designated hedging instruments) and financial assets acquired or held for the purpose of selling in the short-term or for which there is a recent pattern of short-term profit taking are held for trading; (b) Held-to-maturity investments; (c) Loans and receivables; (d) Available-for-sale financial assets; (e) Financial liabilities at fair value through profit or loss, this category has two subcategories: (i) Designated by the entity as a liability at fair value through profit or loss upon initial recognition (ii) Held for trading and (f) Financial liabilities measured at amortized cost using the effective interest method.

Financial assets included in the current assets which are purchased to obtain profit from short-term deviations in prices are classified as financial assets at fair value through profit or loss. 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, financial assets available for sale 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.

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.

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 comprehensive income statement on a straight-line basis over the period of the lease.

Trade Receivables and Impairment

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortized cost. Short-term trade receivables with no stated interest rate are measured at invoice amount unless the effect of imputing interest accrual is significant.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect the receivables on due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the other income account.

Inventories

The cost of inventories is determined on the basis of the monthly moving weighted average method. The financing elements (implicit due date differences) are deducted from the cost of sales and inventories. Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Assets and Liabilities of Construction Contracts in Progress
Due to the scope and nature of the work required to be performed on long-term contracts, the date of commencement and completion of the contract will cover more than one accounting period. Billings of long-term contracts undertaken for similar or closely interrelated assets may occur at different time intervals during the contract based on the scheduled delivery plan or may be at the end of the contract term. Long-term contracts are recorded on a percentage of completion basis based on assumptions developed by management to measure progress toward completing the contract.

Long-term contract revenue and contract costs are recognized as revenue and expense in the comprehensive income statement in the accounting periods in which the work to which they relate is performed.

Under IAS 11 "Construction Contracts", that prescribes the accounting treatment of revenue and costs associated with construction contracts, a construction contract is considered as contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognized as revenue and expenses, respectively by reference to the stage of completion of the contract activity. The outcome can be estimated reliably when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the entity, both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably and the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. If the above conditions are satisfied, contract costs and revenues are recognized in financial statements by using a percentage of completion rate based on stage of the completion of the contract.

Revenue for construction contracts is recognized under the percentage of completion method by using two methods based on the type of construction contracts undertaken, to measure contract performance. In some contracts, considering there is a continuous delivery schedule, revenue and cost are recognized in the related accounting period, based on contract performance taking into consideration, deliveries made. In these contracts delivery rates are used to determine the percentages of completion, which reflects, the physical completion stage of the contracts. Progress achieved on the contracts between the last delivery date and the reporting date is reviewed and if progress achieved over this period is judged to be substantial, then contract revenue and expense incurred in contract performance are reflected in the financial statements. The acceptable level of the progress on the project is determined by the average estimated contract cost corresponding to each accounting period considering the total duration of the contracts. When the outcome of the contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable; and contract costs are recognized as an expense in the period in which they are incurred. When the outcome of contract estimated reliably, revenue and cost were recognized in financial statements on the basis of a profit margin estimated by technical personnel.

For other construction contracts in progress, estimating contract revenue and costs requires technical evaluation of the projects carried out by the project managers. The delivery under these contracts takes place at the completion stage of the contract and there is no scheduled delivery in the intervals. These contracts are mostly long-term, therefore the estimated completion stage based on the technical assessments is used to measure progress for contract accounting. The project management determines the percentage of completion based on analysis of the stage of contract completion. The contract revenue and cost are recognized in comprehensive income statement based on estimates of percentage of completion rates.

If it is probable that total contract costs will exceed total contract revenue, any expected excess of total contract costs over total contract revenue for the contract is recognized as an expense in the financial statements. In the event of an uncertainty with respect to the approval of the customer or if the percentage of completion cannot be reliably measured, revenue shall be recognized only to the extent of contract costs incurred.

Contract costs shall comprise costs that relate directly to the specific contract, costs that are attributable to contract activity in general and can be allocated to the contract; and such other costs as are specifically chargeable to the customer under the terms of the contract. The undertaken development costs are important for determining costs under contracts. The undertaken development costs in the related contracts that were directly associated with contracts, were used for calculating on the basis of the percentage of completion rate and delivery (Note 15).

General administration, marketing, selling and distribution and financial expenses are not capitalized and are reflected in the comprehensive income statements.

Costs incurred and recorded revenues are evaluated on contract basis. Advances received under contract are recorded in “Short-Term or Long-Term Order Advances Received”. In estimating project revenue on a percentage of completion basis, advances received for contracts are offset and the excess of advances is shown under “unbilled trade receivables from contracts in progress.”

Obligations about on going construction contracts, within the scope of the contract terms provide for the use of sub-contractors, consists of the invoices billed to customers according to date order by prime contractor and also deferred incomes already had invoices to coming periods. In estimating project revenue on a percentage of completion basis, when income progress payments appears this invoices are linked to income statement of the current period.

When the contract terms provide for the use of sub-contractors, some part of advances received are paid out to the subcontractors based on the rates stated in the contracts.

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. As of 31.12.2010 and 31.12.2009, the Group did not hold any investment properties.

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.

The assets’ residual values and estimates of useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations are different, changes made are accounted for as changes in accounting estimate in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". As of 31.12.2010 the Management has reviewed the remaining economic useful lives of property, plant and equipment and made some changes thereon. As a result of changes made in estimates there was a reduction in the current year depreciation by TL 664.615.

Depreciation is provided on a straight-line basis based on the approximate economic useful lives or assembly date taken into consideration. The useful lives of the machinery and equipment, furniture and fittings, vehicles and other tangible assets are set out below:

	Current Period	Previous Period
	Useful lives	Useful lives
Buildings	10-50 years	10-50 years
Land improvements	15-17 years	15-17 years
Machinery and equipments	3-30 years	3-21 years
Vehicles	4-8 years	4-7 years
Furniture and fixtures	2-20 years	2-14 years
Other tangible assets	3-17 years	3-14 years

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 comprehensive 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 are carried at acquisition cost at first year, and then at historical cost less accumulated amortization and impairment at following years.

Intangible assets purchased prior to 01.01.2005 are recorded with the cost value regulated by the inflation effects as of 31.12.2004, with the redemption value and with the accrued depreciation of following periods.

Amortization of intangible assets is allocated on a systematic pro-rata basis using the straight-line method. Intangible assets are amortized using the straight-line method over their estimated useful economic lives. Useful lives of intangible assets as follows:

	Useful lives
Rights	2-6 years
Other intangible assets	3-10 years

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. Other research and 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 (1-17 years).

Business Combinations

(i) Accounting for Business Combinations

The acquisition of subsidiary is accounted for using the purchase method. The results of the acquiree are included from the date of combination. The acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at the acquisition date are recognized separately. Goodwill arising in a business combination is initially measured at its cost being the excess of the cost of business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities.

As of 31.12.2010 and 31.12.2009, the Group did not consolidate two of its subsidiaries on the grounds of immateriality based on financial statements, based on the Framework for the Preparation and Presentation of Financial Statements and the materiality threshold established by the Group.

The Parent Company acts as the main subcontractor in a project undertaken by AselsanNet Limited Company, an unconsolidated subsidiary.

The effect of consolidation is considered to be low taking into account subcontracts undertaken with the Parent Company and total activities volume of AselsanNet Limited Company.

Considering the activities and present tasks, the effect of Aselsan Bakü, is considered to be immaterial on the consolidated financial statements.
As of 31.12.2010 and 31.12.2009 the Group did not consolidate AselsanNet and Aselsan Bakü, considering that their activities volume and contractual commitments will not have significant impact. However, for the subsequent periods the Group will consider the effect of consolidating these subsidiaries, if there is a significant increase in their activities volume and contractual commitments based on the scope of the Group's consolidation criteria.

The Parent Company does not have a binding obligation with respect to the unconsolidated subsidiaries other than the share capital contributed as well as commitments and receivables arising in the normal course of conducting their business (Note 38).

(ii) Goodwill
In accordance with IFRS 3 " Business Combinations" Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities. Goodwill recognized in a business combination is not amortized, instead it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

If the acquisition cost is lower than the fair value of the identifiable assets, liabilities and contingent liabilities acquired, the difference is accounted for as income in the related period.

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.

In accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" it is fundamental to the income approach that government grants be recognized as income on a systematic and rational basis over the periods necessary to match them with the related costs. Accordingly, if costs incurred during the period exceed the incentive income, the incentive is accounted for as period revenue; any excess of incentive over period cost is accounted for as deferred income and is amortized to income over the project period. Government grants, whether by cash or deduction from a liability to government, are similarly disclosed in the financial statements.

Right to government grant could be earned as compensation for expenses and losses incurred in the prior periods. These incentives should be accounted during the period in which the grant becomes collectible, with required disclosures made on financial statement impact.

Provisions, Contingent Liabilities and Contingent Assets

Provisions
Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent Liabilities and Assets
Contingent liabilities are not recognized in the financial statements. They are disclosed only, unless the possibility of an outflow of resources embodying economic benefits is probable. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Reserve for Employment Termination Benefits
In accordance with existing social legislation, the Group is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In the accompanying financial statements, the Group has reflected a liability based upon estimated inflation rates and factors derived using the Group's experience of personnel terminating their service and being eligible to receive retirement pay and discounted by using an appropriate discount rate. The obligation for past service cost relating to accrued employee vacation rights is recognized in the balance sheet as the present value of the obligation.

Furthermore, effective from 01.01.2009, the Group has started to recognize the cost of providing additional retirement bonuses comprising two months gross salary to employees who have completed 20 years of service and earned the right to retirement benefits. The liability recognized in the balance sheet represents the present volume of the obligation.

Pension Plans
The Group does not have any pension plans.

Revenue Recognition
Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied: (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Net sales are presented by netting off the returns, discounts and commissions.

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.

<u>Production made to order contracts</u>: In these types of contracts, the specifications of the goods to be produced are predetermined and by considering existing inventories, production plans are being settled and when deemed necessary, research and development activities are being conducted. Orders are completed in conformity with contract specification and terms and goods delivery to customers is affected acceptance following quality controls. Billing is made based upon customer's acceptance. Revenue is recognized on the basis of delivery and invoice accrual. In addition to considering the physical completion rates to measure progress of construction contracts, revenue and costs of contracts in progress are recorded on the basis of progress achieved, by considering among other factors, if costs have been incurred above a reasonably judged level, and if so, by estimating a profit margin. Reasonable level of progress is determined by considering the duration of the contract, based on average contract costs corresponding to each one accounting period. If no reliable estimates can be made of profit margins, then revenue is recorded by the same amount by reference to costs incurred above a

reasonable level. For construction contracts, whereby billings occur with one invoice raised at contract completion, the contract accounting is based on technical completion rates assessments.

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 one month period and revenue is recognized upon invoicing raised to customer together with allocation made for the associated service cost. The maintenance services based on contracts perform to the customers periodically, that services are reflected in financial statements by reference to accrued revenue.

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 a part of a project and can be inventoried by passing through 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.

Impairment of Assets Excluding Goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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's fair value 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. The impairment loss is an expense in the comprehensive income statement.

The impairment loss of an asset is reversed if the increase in recoverable amount is linked to an event that occurs after the following period that impairment loss has occurred. The impairment loss of other assets is reversed if the assumptions used in the determination of the recoverable amount change. The increase in the value of the assets caused by the cancellation of impairment loss should not exceed the carrying amount of the asset had the impairment not been recorded.

Borrowing Costs
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.

Foreign Currency Transactions
Income and expenses arising from foreign transactions are translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Turkish Lira using the buying rates of the Central Bank at balance sheet dates. Exchange gains or losses arising from settlement and translation of foreign currency items are included in the consolidated statement of income. Exchange gains and losses primarily arise from order the advances received denominated in foreign currencies. In accordance with IAS 1 "Presentation of Financial Statements", such foreign exchange gains and losses are shown separately in finance income and finance expense in the comprehensive income statement, without netting them off in view of their relevance to the financial statements.

The exchange rates used by the Group as of 31.12.2010 and 31.12.2009.

	31.12.2010	31.12.2009
USD	1,5460	1,5057
EURO	2,0491	2,1603

Assets Held for Sale and Discontinued Operations

a) Assets Held for Sale
Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

b) 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. As of 31.12.2010 and 31.12.2009, the Group has no discontinued operations.

Current and Deferred Tax Income
The tax expense for the period comprises current and 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 income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

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.

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.

Under Turkish Legislation, companies can increase their share capital by making a pro-rata distribution of shares (bonus shares) to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares in existence during the year has been adjusted in respect of bonus share issued without a corresponding change in resources, by giving them a retroactive effect for the year in which they were issued and for each earlier year, as if the event had occurred at the beginning of the earliest period reported.

Trade Payables
Trade payables are carried at amortized values which reflect the fair value of goods and services purchased.

Related Parties
Parties are considered related to the Group in accordance with IAS 24 "Related Party Disclosures" if;

(a) directly, or indirectly through one or more intermediaries, the party:
    (i) controls, is controlled by, or is under common control with the Group (this includes parent, subsidiaries and fellow subsidiaries);
    (ii) has an interest in the Group that gives it significant influence over the Group; or
    (iii) has joint control over the Group;
(b) the party is an associate of the Group;
(c) the party is a joint venture in which the Group is a venturer;
(d) the party is member of the key management personnel of the Group as its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

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.

Events After the Balance Sheet Date

Events after balance sheet date include all events up to the date when financial statements are authorized for issue, even if those events occur after the public announcements of profit or of other selected financial information.

If events that need to be corrected occur after the balance sheet date, the Group will adjust the financial statements.

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.

Operating Segments

An operating segment is a component of an entity: (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. If operating segments are suitable for the description of reportable segments, they can be reported separately. If the operating segment or group of operating segments exceeds quantitative thresholds that are defined in IFRS 8 "Operating Segments", operating segments identified as reportable segment.

Statement of Cash Flow

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

Derivative Financial Instruments

Derivative financial instruments, including forward foreign exchange contracts, are initially recognized in the balance sheet at initial cost (including transaction cost) and are subsequently re-measured at their fair value. All derivate 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 comprehensive income statement.

3. BUSINESS COMBINATIONS

The Parent Company increased its shareholding in its subsidiary, Mikes Inc., to 95,73% from 96,36% on 20.03.2009. The cost of acquiring additional interest in the subsidiary was TL 162.500 and it is paid by the Parent Company on 26.01.2010. The difference between adjusting the shareholding in the subsidiary as a result of acquiring additional interest and the cost of the acquisition was accounted within equity (Note 28).

4. JOINT VENTURES

None (31.12.2009: None).

5. SEGMENT REPORTING

The main customer of the Group is “The Ministry of National Defense” and main field of activities of the Group are “The Communication and Information Technologies”, “Radar, Electronic Warfare and Intelligence Systems” and “Defense Systems Technologies” and “Microelectronics, Guidance & Electro-Optics”. The Group does not consider them to be a separate business component, due to the fact that they have similar economic characteristics in respect of the nature of their products and services, the nature of the production processes involved, the type or class of customer for their products and services and that there is no profit center based reporting and segment profitability reporting information currently affected by the Group, for which distinct financial information is available that is regularly reviewed by the chief operating decision maker. The management organized the business of the Group around projects, whereby different operating divisions may be responsible for the same project and usually information on projects is reviewed by the chief operating decision maker. Based on the review of operations and form of organization, the Group has not reported separately information about each operating division, according to IFRS 8 “Operating segments”. New operating divisions are generally established as distinct operating segments in response to increases in the volume of operations undertaken by the Group as a way to increase the management organizational effectiveness, rather than functional differences.

6. CASH AND CASH EQUIVALENTS

	31.12.2010	31.12.2009
Cash	65.737	40.521
Checks received	-	29.628
Banks - TL demand deposits	139.353	177.338
Banks - Foreign currency demand deposits	6.204.110	67.632
Banks - TL time deposits	270.767.150	532.603.546
Banks - Foreign currency time deposits	322.228.763	107.756.549
Income accruals	1.291.684	1.365.731
Total	600.696.797	642.040.945

Foreign currency demand deposits comprised:		
USD	1.892.372	26.292
EURO	4.309.376	17.545
GBP	2.362	23.795
Total	6.204.110	67.632

Foreign currency time deposits comprised:		
USD	277.759.180	76.547.662
EURO	44.469.583	31.208.887
Total	322.228.763	107.756.549

The Group has TL 322.228.763 of foreign currency time deposits as of 31.12.2010 at various banks, with a varying maturity between January and March 2011, at interest rates between 0,10% and 3,75%.

The Group has TL 270.767.150 of Turkish Lira time deposits as of 31.12.2010 at various banks, with a varying maturity between January and February 2011, at interest rates between 7,75% and 9,50%.

The Group has TL 107.756.549 of foreign currency time deposits as of 31.12.2009 at various banks, with a maturity between January and February 2010, at interest rates between 0,20% and 3,65%.

The Group has TL 532.603.546 of Turkish Lira time deposits as of 31.12.2009 at various banks, with a maturity between January and December 2010, at interest rates between 6,30% and 10,85%.

7. FINANCIAL INVESTMENTS

a) Financial assets at fair value through profit or loss

	31.12.2010	31.12.2009
Eurobonds	5.927.597	5.950.552
Total	5.927.597	5.950.552

As of 31.12.2010 and 31.12.2009, Eurobonds consist of securities with a varying maturity between February 2014 and February 2034 and at interest rate between 5,00% and 8,00%.

As of 31.12.2010 and 31.12.2009, financial assets classified in fair value through profit or loss category were valued on the basis of the unit market prices declared by T.R. Ziraat Bank at the balance sheet date.

b) Financial assets available-for-sale

As of 31.12.2010 and 31.12.2009, the Group's shares in equity participations and unconsolidated subsidiaries classified as financial assets available for sale are as follows:

Company	Share (%)	31.12.2010	Share (%)	31.12.2009
Aselsan Bakü (*)	100,0	3.059.234	100,0	3.059.234
AselsanNet (*)	95,0	950.000	95,0	950.000
Roketsan	15,0	5.134.992	15,0	5.134.992
Tülomsaş (***)	--	--	<1	600.595
Airport Mngmnt. and Aviation Ind. Inc.	<1	86.953	<1	86.953
Aspilsan	1,0	147.462	1,0	131.461
Mikroelektronik R&D Design and Trading Ltd. (**)	85,0	624.714	--	--
Total		10.003.355		9.963.235

(*) 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 Parent Company. These investments that do not have a quoted market price in an active market and whose fair value can not be reliably measured are measured at cost less impairment losses, if there is objective evidence of permanent impairment.

(**)The Parent Company acquired 85% shareholding of Mikroelektronik Research and Development Design and Trading Inc. operating in the field of microelectronics, for the purpose of supplying project necessities. The Parent Company paid the participation amount of TL 624.714 on 05.07.2010.

(***)The Parent Company transferred its shareholding amounting to TL 404.960 in Tülomsaş Inc. to Turkish State Railways at par, based on the resolution of Higher Planning Council and Board of Turkish State Railways decision.

8. FINANCIAL LIABILITIES

Breakdown of short-term financial liabilities

	31.12.2010	31.12.2009
Short-term financial liabilities	102.716.469	368.605.215
Other financial liabilities	1.324.027	1.408.320
Short-term financial lease payables	-	6.101
Total	104.040.496	370.019.636

Breakdown of long-term financial liabilities

Other financial liabilities	39.860.947	39.668.729
Total	39.860.947	39.668.729

The fair values of short-term borrowings are almost the same with their carrying value due to classified as short term.

The fair values of long-term financial liabilities are almost the same with their carrying value as they were measured at amortized cost value using the interest rates prevailing at the balance sheet date.

As of 31.12.2010, TL 5.314.498 of the short-term interest free financial borrowings were obtained for payments of social security premium and customs dues, with a maturity of January 2011. The loan of TL 97.000.000 due in January 2011 were obtained mainly for funding finance operations and to provide working capital requirement at interest rates between 7,40%-7,65%.

As of 31.12.2009, TL 4.975.469 of the short-term interest free financial borrowings were obtained for payments of social security premium and customs dues, with a maturity of January 2010. The loan of TL 300.000.000 and 63.000.000 due in January 2011 were obtained mainly for funding finance operations and to provide working capital requirement at interest rates between 7,77%-7,88%.

TL 2.534.974 of other short-term and long-term liabilities were obtained interest free from Technology Development Foundation of Turkey to finance. The remaining part of other long-term financial liabilities comprises loan amounting to USD 25.000.000 that was obtained by the subsidiary from the Undersecretary of Defense Industry at interest rate of 3,50%.

TL 2.026.229 of other short-term and long-term liabilities were obtained interest free from Technology Development Foundation of Turkey to finance. The remaining part of other long-term financial liabilities comprises loan amounting to USD 25.000.000 that was obtained by the subsidiary from the Undersecretary of Defense Industry at interest rate of 3,50%.

As of 31.12.2010, the breakdown of other financial liabilities and their repayment terms comprised:

Other financial liabilities-short-term	1.324.027
Other financial liabilities-long-term	39.860.947
Total	41.184.974

	USD	TL
Payable in 2011	856.420	1.324.025
Payable in 2012	430.421	665.431
Payable in 2013	2.171.983	3.357.885
Payable in 2014	3.915.682	6.053.644
Payable in 2015	3.880.578	5.999.373
Payable in 2016	3.846.154	5.946.154
Payable in 2017	3.846.154	5.946.154
Payable in 2018	3.846.154	5.946.154
Payable in 2019	3.846.154	5.946.154
Total		41.184.974

As of 31.12.2009, the breakdown of other financial liabilities and their repayment terms comprised:

Other financial liabilities – short-term (net)	1.408.320
Other financial liabilities – long-term (net)	39.668.729
Total	41.077.049

	USD	TL
Payable in 2010	935.326	1.408.320
Payable in 2011	633.414	953.732
Payable in 2012	407.324	613.308
Payable in 2013	2.159.663	3.251.805
Payable in 2014	3.914.534	5.894.114
Payable in 2015	3.846.154	5.791.154
Payable in 2016	3.846.154	5.791.154
Payable in 2017	3.846.154	5.791.154
Payable in 2018	3.846.154	5.791.154
Payable in 2019	3.846.154	5.791.154
Total		41.077.049

The breakdown of finance lease payables

Short-term finance lease payables – net	31.12.2010	31.12.2009
Financial lease payables	-	6.144
Financial lease cost (-)	-	(43)
Total	-	6.101

9. OTHER FINANCIAL LIABILITIES

None (31.12.2009: None).

10. TRADE RECEIVABLES AND PAYABLES

a) Short-term trade receivables	31.12.2010	31.12.2009
Trade receivables	94.588.477	99.658.337
Unbilled receivables from construction contracts in progress (*)	177.835.085	85.002.641
Due from related parties (Note 38)	21.372.126	10.751.034
Unbilled receivables from construction contracts in progress-Related parties (Note 38) (*)	15.647.988	383.522
Notes receivables	-	39.418
Discount on trade and notes receivables	(1.659.931)	(1.061.046)
Other trade receivables	1.543	38.001
Doubtful trade receivables	1.819.535	1.864.448
Allowance for doubtful receivables (-)	(1.819.535)	(1.864.448)
Total	307.785.288	194.811.907

As of 31.12.2010, maturities of short and long-term trade receivables vary between January 2011 and May 2013 and the fair value of trade receivables was measured based on effective annual interest rates between 0,25% and 1,47% for foreign currency denominated receivables and between 6,36% and 6,60% for TL denominated receivables. Maturity of contracts performed by the Group is generally longer than one year.

As of 31.12.2009, maturities of short and long-term trade receivables vary between January 2010 and January 2012 and the fair value of trade receivables was measured based on effective annual interest rates are between 0,21% and 0,99% for foreign currency denominated receivables and between 6,49% and 7,90% for TL denominated receivables. Maturity of contracts performed by the Group is generally longer than one year.

Movement of provision for doubtful receivables:	01.01.-31.12.2010	01.01.-31.12.2009
Opening balance as of January 1	1.864.448	1.095.415
Provision for the period (Note 31)	1.281	776.781
Provisions released (**)	(46.194)	(7.748)
Closing balance as of December 31	1.819.535	1.864.448

(**) Provisions released comprise released and used amount of receivable in the current year.

b) Long-term trade receivables

	31.12.2010	31.12.2009
Trade receivables	7.307.569	3.566.932
Unbilled receivables from construction contracts in progress (*)	20.373.776	11.630.038
Due from related parties (Note 38)	139.320	5.182
Doubtful trade receivables	(635.499)	(340.170)
Total	27.185.166	14.861.982

(*) Aggregate amount of contract costs incurred and progress billings made relating to construction 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 construction 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.

The breakdown of trade receivables per sectors:

Public sector	254.330.443	144.920.767
Private sector	40.632.490	23.473.466
Foreign companies	40.007.521	41.279.656
Total	334.970.454	209.673.889

Trade receivables from public sector include receivables from the Ministry of National Defense, and related defense and national enterprises. Usually no guarantees are obtained from customers. Other than the contractual agreements entered into by the parties all works are carried out by the Group based on contract, which are binding in nature.

As of 31.12.2010, the Group does not have any receivable, past due but not impaired.

31.12.2009	Trade receivables
Between 1-30 days	2.597.373
Between 1-3 months	396.579
Secured receivables	-
Total	2.993.952

Sector	EURO	GBP	USD	TL	Total TL
Public sector	-	-	-	-	-
Private sector	-	-	518.708	2.149.099	2.930.118
Foreign companies	-	-	42.395	-	63.834
Total					2.993.952

The Group's management believes overdue but not impaired receivables are generally collectible given that they arise from contractual agreements undertaken, management past experiences and the continuing involvement of the Group with the related private sector customers. Accordingly, the Group has not recorded any impairment provision for these receivables.

c) Short-term trade payables	31.12.2010	31.12.2009
Trade payables	73.434.360	72.416.008
Due to related parties (Note 38)	16.956.507	3.692.655
Notes payables	103.224	103.224
Discount on notes and trade payables	(398.918)	(578.283)
Other trade payables	408.424	200.596
Total	90.503.597	75.834.200

d) Long-term trade payables		
Trade payables	2.378.122	3.131.856
Notes payables	137.636	240.860
Discount on notes and trade payables	(351.458)	(96.270)
Total	2.164.300	3.276.446

As of 31.12.2010, maturities of trade payables vary between January 2011 and April 2014. The effective annual interest rates are between 0,1 0% and 1,47% for foreign currency denominated payables and between 6,36% and 6,65% for TL denominated payables.

As of 31.12.2009, maturities of trade payables vary between January 2010 and December 2010. The effective annual interest rates are between 0,68% and 0,99% for foreign currency denominated payables and between 7,15% and 8,60% for TL denominated payables.

11. OTHER RECEIVABLES AND PAYABLES

a) Other short-term receivables	31.12.2010	31.12.2009
VAT, Social Security Premiums, receivables (*)	9.007.427	8.961.603
Research and development incentive receivables (**)	-	3.333.693
Other receivables	37.327	30.392
Deposits and guarantees given	26.105	9.739
Due from personnel	122.188	-
Total	9.193.047	12.335.427

(*) As of 31.12.2010, tax receivable of TL 9.007.427 (31.12.2009: TL 8.961.603) comprise VAT receivable, which is anticipated to be offset against other taxes payables during the course of 2011.

(**) Research and development incentive receivables contain incentives that will be received from TÜBİTAK.

b) Other long-term receivables		
Deposits and guarantees given	68.316	124.128
Total	68.316	124.128

c) Other short-term payables	31.12.2010	31.12.2009
Social security premiums payable	5.067.461	4.204.034
Taxes and dues payable	6.233.857	6.601.093
Short-term other liabilities	182.616	162.665
Deposits and guarantees received	950	6.535
Other short-term liabilities to the related parties (Note 38)	21.092	16.513
Due to personnel	2.151.737	944.194
Due to personnel related parties (Note 38)	17.000	-
Due to shareholders (Note 38)	149.302	116.834
Total	13.824.015	12.051.868

d) Other long-term payables		
Deposits and guarantees received	5.000	-
Total	5.000	-

12. RECEIVABLES AND PAYABLES FROM FINANCE SECTOR OPERATIONS

None (31.12.2009: None).

13. INVENTORIES

	31.12.2010	31.12.2009
Raw materials	294.496.763	283.369.669
Semi finished goods	131.523.120	190.126.685
Work in process	40.483.324	49.771.244
Other inventories	2.510.683	2.963.694
Trade goods	1.554.925	1.407.163
Goods in transit	16.931.560	15.124.226
Total	487.500.375	542.762.681

Goods in transit include inventories whose ownership rights and risks are retained by the Group upon shipment by the seller, which usually involve FOB or similar export types.

Movement for allowance for diminution in value of inventories:	01.01.-31.12.2010	01.01.-31.12.2009
Opening balance as of January 1	275.305	2.887.626
Provisions released	(275.305)	(2.887.626)
Provision for the period	6.814.224	275.305
Closing balance as of December 31	6.814.224	275.305

As of 31.12.2010, the inventory is insured at the amount of TL 1.310.383.302. (31.12.2009: TL 820.094.055)

14. BIOLOGICAL ASSETS

None (31.12.2009: None).

15. ASSETS OF CONSTRUCTION CONTRACTS IN PROGRESS

	31.12.2010	31.12.2009
Cost of construction contracts	339.506.820	281.994.274
Total	339.506.820	281.994.274

As of 31.12.2010 the costs of contracts are set out below:

Remaining period of contracts	Percentage of completion (%)	Cost incurred to date	Contract expense recognized in the comprehensive income statement	Contract revenue recognized in the comprehensive income statement	Remaining contract costs incurred
Between 0 and 3 years	%0-%35	119.866.713	15.264.185	36.103.891	104.602.528
	%36-70	332.326.325	246.336.175	320.953.252	85.990.150
	%71-100	269.333.263	228.140.808	338.564.414	41.192.455
Between 0 and 3 years		**721.526.301**	**489.741.168**	**695.621.557**	**231.785.133**
Between 4 and 6 years	%0-%35	183.770.725	105.892.840	128.830.153	77.877.885
Between 4 and 6 years		**183.770.725**	**105.892.840**	**128.830.153**	**77.877.885**
7 years and above	%0-%35	78.347.683	48.503.880	82.663.228	29.843.803
7 years and above		**78.347.683**	**48.503.880**	**82.663.228**	**29.843.803**
Total		**983.644.709**	**644.137.888**	**907.114.938**	**339.506.821**

As of 31.12.2010, order advances amounting to TL 1.236.787.896 relating to contracts in progress were received from customers and order advances amounting to TL 283.532.290 relating to construction contracts in progress were given to subcontractors.

Relating to construction contracts in progress, TL 2.336.400 of short-term and TL 7.009.200 of long-term liabilities represent the deferred income corresponding for the project expenditure needed to be incurred for the update of the system requirements within the scope of projects.

As of 31.12.2009 the costs of contracts are set out below:

Remaining period of contracts	Percentage of completion (%)	Cost incurred to date	Contract expense recognized in the comprehensive income statement	Contract revenue recognized in the comprehensive income statement	Remaining contract costs incurred
Between 0 and 3 years	%0-%35	149.226.207	34.752.456	56.833.565	114.473.751
	%36-70	211.507.068	184.729.316	243.645.711	26.777.752
	%71-100	299.093.966	276.078.513	418.691.788	23.015.453
Between 0 and 3 years		**659.827.241**	**495.560.285**	**719.171.064**	**164.266.956**
Between 4 and 6 years	%0-%35	119.775.406	25.679.790	34.396.405	94.095.616
Between 4 and 6 years		**119.775.406**	**25.679.790**	**34.396.405**	**94.095.616**
7 years and above	%0-%35	65.246.904	41.615.202	67.060.898	23.631.702
7 years and above		**65.246.904**	**41.615.202**	**67.060.898**	**23.631.702**
Total		**844.849.551**	**562.855.277**	**820.628.367**	**281.994.274**

As of 31.12.2009, order advances amounting to TL 1.008.289.086 relating to the construction contracts in progress were received from customers and order advances amounting to TL 241.655.195 relating to contracts were given to subcontractors.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

None (31.12.2009: None).

17. INVESTMENT PROPERTIES

None (31.12.2009: None).

18. PROPERTY, PLANT AND EQUIPMENT

Movement of property, plant and equipment for the period 01.01.2010-31.12.2010 is stated below:

	Land	Infrastructure and Land Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment (*)	Special Costs	Construction in Progress	Total
Cost										
As of 01.01.2010	13.723.107	9.055.070	107.270.855	327.369.576	3.357.406	65.686.150	26.907.344	1.947.562	14.497.024	569.814.094
Additions	5.275.052	-	4.494	30.145.111	95.073	6.249.943	-	514	31.095.631	72.865.818
Disposals	-	-	(3.338.253)	(2.281.580)	(485.699)	(1.856.137)	-	-	(144.073)	(8.105.742)
Transfers(**)	298.093	1.164.553	3.072.576	4.980.704	0	889.183	5.066.506	500.054	(15.534.578)	437.091
As of 31.12.2010	19.296.252	10.219.623	107.009.672	360.213.811	2.966.780	70.969.139	31.973.850	2.448.130	29.914.004	635.011.261
Accumulated depreciation										
As of 01.01.2010	-	5.383.400	37.328.144	225.418.379	1.739.533	54.524.061	14.159.581	626.600	-	339.179.698
Additions	-	322.622	3.545.611	18.088.447	427.533	4.417.791	3.776.891	534.429	-	31.113.324
Disposals	-	-	(2.415.754)	(2.217.156)	(445.504)	(1.835.396)	-	-	-	(6.913.810)
Transfers	-	-	-	(54.356)	-	(177.948)	-	-	-	(232.304)
As of 31.12.2010	-	5.706.022	38.458.001	241.235.314	1.721.562	56.928.508	17.936.472	1.161.029	-	363.146.908
Net book value	19.296.252	4.513.601	68.551.671	118.978.497	1.245.218	14.040.631	14.037.378	1.287.101	29.914.004	271.864.353

(*) The other property, plant and equipment include pattern and apparatus amounting to TL 13.986.557 manufactured by the Group.

(**) Transfers were made from property, plant and equipment to intangible assets and assets held for sale.

(***) As a result of the revised useful lives of certain tangible assets, TL 664.615 of additional depreciation charge was reflected in the financial statements for the year ended 31.12.2010.

Movement of property, plant and equipment for the period 01.01.2009– 31.12.2009 is stated below:

	Land	Infrastructure and Land Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Property, Plant and Equipment (*)	Special Costs	Construction in Progress	Total
<u>Cost</u>										
As of 01.01.2009	13.723.107	8.892.847	102.078.694	317.703.382	2.027.199	66.561.205	20.634.586	1.612.392	14.897.178	548.130.590
Additions	-	-	5.481	19.967.601	1.433.229	3.291.204	-	45.404	16.346.216	41.089.135
Disposals	-	(27.627)	(789.373)	(12.289.561)	(102.670)	(4.201.459)	(12.367)	-	(2.150.303)	(19.573.360)
Transfers(**)	-	189.850	5.976.053	1.988.154	(352)	35.200	6.285.125	289.766	(14.596.067)	167.729
As of 31.12.2009	13.723.107	9.055.070	107.270.855	327.369.576	3.357.406	65.686.150	26.907.344	1.947.562	14.497.024	569.814.094
<u>Accumulated depreciation</u>										
As of 01.01.2009	-	5.098.262	33.626.715	219.699.149	1.605.994	54.299.102	11.141.588	207.027	-	325.677.837
Additions (***)	-	303.555	3.940.467	17.685.566	191.385	4.420.652	3.023.822	419.573	-	29.985.020
Disposals	-	(18.417)	(239.038)	(11.934.272)	(57.846)	(4.179.828)	(5.829)	-	-	(16.435.230)
Transfers	-	-	-	(32.064)	-	(15.865)	-	-	-	(47.929)
As of 31.12.2009	-	5.383.400	37.328.144	225.418.379	1.739.533	54.524.061	14.159.581	626.600	-	339.179.698
Net book value	13.723.107	3.671.670	69.942.711	101.951.197	1.617.873	11.162.089	12.747.763	1.320.962	14.497.024	230.634.396

(*) Other property, plant and equipment include patterns and apparatus amounting to TL 12.675.701 manufactured by the Group.

(**) Transfers were made from property, plant and equipment to intangible assets and assets held for sale.

(***) As a result of the revised useful lives of certain tangible assets, TL 550.516 of additional depreciation charge was reflected in the financial statements for the year ended 31.12.2009.

19. INTANGIBLE ASSETS

Movement of intangible fixed assets for the period 01.01.2010 – 31.12.2010 is stated below:

	Rights	Goodwill	Contractual Development Costs (*)	Non-Contractual Development Costs (*)	Other Intangible Fixed Assets (**)	Total
Cost:						
As of 01.01.2010	18.159.988	56.600	25.825.670	92.196.441	25.827.628	162.066.327
Additions	34.395	-	201.022.316	57.999.261	6.995.568	266.051.540
Disposals	(3.101)	-	(232.564.855)	(20.731.950)	(59.478)	(253.359.383)
Transfers(***)	(81.616)	-	30.174.301	(30.924.301)	23.506	(808.110)
As of 31.12.2010	18.109.666	56.600	24.457.432	98.539.451	32.787.224	173.950.374
Accumulated amortization						
As of 01.01.2010	17.480.924	-	-	27.031.012	21.884.848	66.396.784
Additions	390.514	-	-	7.303.124	4.152.836	11.846.474
Disposals	(3.102)	-	-	(11.726.033)	(23.628)	(11.752.763)
Transfers	(32.024)	-	-	-	979	(31.045)
As of 31.12.2010	17.836.312	-	-	22.608.103	26.015.035	66.459.450
Net book value	273.354	56.600	24.457.432	75.931.348	6.772.189	107.490.924

(*) Development costs consist of operating expenses directly attributable to the product developments.
(**) Other intangible fixed assets include computer software package.
(***) Transfers were made form intangible assets to tangible assets.

Movement of intangible fixed assets for the period 01.01.2009 –31.12.2009 is stated below:

	Rights	Goodwill	Contractual Development Costs (*)	Non-Contractual Development Costs (*)	Other Intangible Fixed Assets (**)	Total
Cost:						
As of 01.01.2009	17.651.330	56.600	44.010.768	30.197.320	22.103.569	114.019.587
Additions	761.307	-	194.148.548	49.247.412	558.439	244.715.706
Disposals	(15.082)	-	(193.206.073)	(3.550.823)	320.463	(196.451.515)
Transfers (***)	(237.567)	-	(20.863.728)	20.504.401	379.442	(217.452)
As of 31.12.2009	18.159.988	56.600	24.089.515	96.398.310	23.361.913	162.066.326
Accumulated amortization						
As of 01.01.2009	16.587.394	-	-	18.547.397	18.766.065	53.900.856
Additions	973.966	-	-	9.314.678	3.090.771	13.379.415
Disposals	(15.081)	-	-	(831.063)	(37.343)	(883.487)
Transfers	(65.355)	-	-	-	65.355	-
As of 31.12.2009	17.480.924	-	-	27.031.012	21.884.848	66.396.784
Net book value	679.064	56.600	24.089.515	69.367.298	1.477.065	95.669.542

(*) Development costs consist of operating expenses directly attributable to the product developments.
(**) Other intangible fixed assets include computer software package.
(***) Transfers were made form intangible assets to tangible assets.

The allocation of the depreciation and amortization charge is as follows:

	31.12.2010	31.12.2009
Marketing, selling and distribution expenses	713.086	210.609
General administrative expenses	4.411.706	4.125.092
Research and development expenses	7.959.335	9.968.396
Depreciation and amortization charge allocated to contract costs and inventories	5.646.681	8.276.433
Depreciation and amortization charge allocated to cost of goods sold	24.680.116	20.783.902
	43.410.924	43.364.432

As of 31.12.2010, the fixed assets are insured at the amount of TL 857.450.750 (31.12.2009: TL 1.121.738.790)

20. GOODWILL

None (31.12.2009: None)

21. GOVERNMENT GRANTS

The Group has no investment incentive as of 31.12.2010 and 31.12.2009. Deferred grants income included in the short-term liabilities is as follows:

	31.12.2010	31.12.2009
Government grants and incentives	7.883.289	11.643.422
Total	7.883.289	11.643.422

Government grants and incentives represent amounts received by the Group in relation to the continuing projects as of the balance sheet date, reduced by the cost incurred for the completed parts of the project.

Government incentives were accrued in relation to the continuing contracts on the basis of the research and development grant approval letters received from TÜBİTAK.

The Group receives capital fund support from “Support and Price Stability Fund” of the Central Bank of Turkey with the intermediation of TÜBİTAK and Technology Development Foundation of Turkey upon the approval of the Ministry of Foreign Trade, falling 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”

The research and development expenditure deduction rate used as a tax benefit has been increased from 40% to 100% in accordance with the amended article 10 of the Tax Law numbered 5520 as a result of the amendment in article 35 of Law No. 5746 with respect to the Support of Research and Development Activities. The aforementioned law was enacted as of 01.04.2008 after its issue in the Official–Gazette dated 12.03.2008, numbered 26814. Research and development expenditure may be used as a tax deduction in the determination of the taxable income. If taxable income levels are not sufficient to absorb all available tax deductions, any unused research and development tax deduction is allowed to be carried forward to the next tax period. The carry-forward tax credits may be revalued with the revaluation rates determined by the tax laws and regulations (Note 36).

22. PROVISIONS

a) Short-term provisions

	31.12.2010	31.12.2009
Provision for delay penalties and fines	244.869	3.050.844
Provision for legal cases	1.238.204	812.973
Provision for guarantee expenses	32.510.373	24.485.490
Provision for costs	89.568	2.024.528
Provision for royalty	633.025	399.341
Provision for employee health insurance cost	2.383.472	2.285.052
Provision for expected losses of construction contracts in progress (*)	2.671.229	6.670.690
Total	39.770.740	39.728.918

(*) Provision for expected losses on short-term contracts in progress has been computed based on estimates of contract costs to complete and the expected timing of outflows of economic benefits is by the end of 2011.

Movements of provisions during the period:

Movement of provision for overdue penalty is as follows:

	01.01.- 31.12.2010	01.01.- 31.12.2009
Provision at the beginning of the period	3.050.844	4.515.620
Charge for the period	110.344	1.479.903
Provision released	(2.916.319)	(2.944.679)
Provision at period end	244.869	3.050.844

Provision for expected losses of construction contracts in progress has been computed based on estimates of contract costs to complete. The expected timing of outflows of economic benefits is by the end of 2011.

The previous year's provision for overdue penalty charges of TL 2.100.498 concerning one project was reversed in the current period offset by means of agreement reached with the customer upon application made by the Group to avoid any such penalties.

Movement of provision for legal cases is as follows:

	01.01.- 31.12.2010	01.01.- 31.12.2009
Provision at the beginning of the period	812.973	421.857
Charge for the period (Note 31)	455.231	396.116
Provision expired	(30.000)	(5.000)
Provision at period end	1.238.204	812.973

Movement of provision for guarantee expenses is as follows:

Provision at the beginning of the period	24.485.490	15.971.995
Charge for the period	16.705.717	14.606.048
Provision expired	(8.680.834)	(6.092.553)
Provision period end	32.510.373	24.485.490

Movement of provision for royalty expenses is as follows:

Provision at the beginning of the period	399.341	514.444
Charge for the period	633.025	399.341
Provision expired	(399.341)	(514.444)
Provision at period end	633.025	399.341

Movement of provision for expected losses of construction contracts in progress is as follows:

Provision at the beginning of the period	6.670.690	-
Net effect of reclassification	(1.173.760)	-
Charge for the period	159.860	6.670.690
Provision expired	(2.985.561)	-
Provision at period end	2.671.229	6.670.690

b) Long-term provisions

	31.12.2010	31.12.2009
Provision for expected losses of construction contracts in progress (*)	48.512.180	22.478.914
Provision for delay penalties and fines (**)	9.044.100	3.083.372
Total	57.556.280	25.562.286

(*) Provision for expected losses of construction contracts in progress has been computed based on estimates of contract costs to complete. The expected timing of outflows of economic benefits is by the end of 2012.

(**) Provision for overdue penalty arises from delay of delivery. That amounts will be offset from payments of delivery according to the articles of contracts by 2011.

Movement of provision for expected losses of construction contracts in progress is as follows:

	01.01.-31.12.2010	01.01.-31.12.2009
Provision at the beginning of the period	22.478.914	-
Net effect of reclassification	1.173.760	-
Charge for the period	29.566.864	22.478.914
Provision expired	(4.707.358)	-
Provision at period end	48.512.180	22.478.914

Movement of provision for overdue penalty is as follows:

Provision at the beginning of the period	3.083.372	-
Charge for the period	5.960.728	3.083.372
Provision at period end	9.044.100	3.083.372

c) Lawsuits and other legal proceedings involving the Group and which are in progress comprised

On the basis of the legal representation obtained from the Group's legal counsel, the lawsuits and other legal proceedings filed by and/or against the Group as of 31.12.2010 are set out below:

		Subjects of lawsuits	Amount (TL)
a)	Lawsuits filed by the Group (*)	Claims for VAT, receivables, tax, cancellation and physical compensation	4.262.193
b)	Legal seizure proceedings filled by the Group (**)	Various invoice, cheques and receivables arising from contracts	3.013.494
c)	Lawsuits filed against the Group	Various claims for physical and moral indemnity lawsuits, receivable lawsuits	848.064
d)	Lawsuits with an adverse outcome for the Group	Indemnity lawsuits (for return to work claims) filed by the personnel who were dismissed from the Group's employment	100.000

(*) As of 31.12.2010, a lawsuit was filed by the Group for TL 604.212 (31.12.2009: TL 999.892) for the cancellation of the VAT accrued in the various periods by Esenboğa Customs Directorate. TL 228.781 (31.12.2009: TL 412.039) of such amount relates to lawsuits in progress and the remaining TL 375.431 (31.12.2009: TL 587.853) represented the interest charge on the lawsuit. According to the representation obtained from the legal counsel of the Group, these lawsuits are continuing as of report date. The Group management did not make any provision for these lawsuits as a favorable outcome is expected in the future.

One of the lawsuits filed by the Group and which is still in progress comprise an employee malfeasance lawsuit filed for an amount of TL 1.040.852.

As of 31.12.2010, a lawsuit was filed for TL 2.046.868 (31.12.2009: TL 2.046.868) against Ankara Yenimahalle Tax Office in order to claim the refund of corporation tax.

(**) The Group made a provision of TL 1.819.535 (31.12.2009: TL 1.864.448) for several lawsuits filed by the Group for the recovery of invoiced billings (Note 10). A provision of TL 1.043.425 was made with respect to the legal proceeding filed by the subsidiary for the recovery of TL 1.870.660 (USD 1.210.000) and the remaining balance was collected.

Necessary provisions were set forth in the accompanying financial statements for the lawsuits involving monetary indemnity claims where the Group was a defendant.

d) Guarantees received by the Group is as follows

	31.12.2010	31.12.2009
Letters of guarantee received from customers	2.834.916	52.273
Letters of guarantee received from suppliers	392.051.619	350.542.464
Guarantees received as notes from customers	11.657	11.657
Guarantees received as notes from suppliers	1.270.311	3.077.956
Guarantees received as cheques from suppliers	53.050	52.269
Mortgages received from customers	149.600	149.600
Total	396.371.153	353.886.219

e) Guarantee given

As of 31.12.2010 and 31.12.2009 the Group's guarantee, pledge and mortgage (GPM) position table is as follows:

GPMs given by the Group	31.12.2010	31.12.2009
A. GPMs given on behalf of the Group's legal personality	2.671.344.891	2.411.666.528
B. GPMs given in favor of subsidiaries included in full consolidation	-	-
C. GPMs given by the Group fort he liabilities of third parties in order to run ordinary course of business	-	-
D. Other GPMs	-	-
i. GPMs given in favor of parent company	-	-
ii. GPMs given in favor of Group companies not in the scope of B and C above	-	-
iii. GPMs given in favor of third party companies not in the scope of C above	-	-
Total	2.671.344.891	2.411.666.528

As of 31.12.2010 and 31.12.2009 the Group's GPMs TL equivalents of the foreign currencies are as follows:

	31.12.2010	31.12.2009
USD	1.756.890.970	1.635.123.527
EURO	549.363.353	496.552.190
TL	352.568.345	279.771.785
Other	12.522.223	219.026
Total	2.671.344.891	2.411.666.528

f) Commercial letters of credit

USD	183.612.716	185.991.714
EURO	32.419.135	45.001.478
GBP	141.719	283.438
CHF	5.254.938	5.413.930

23. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

None (31.12.2009: None)

24. RESERVE FOR EMPLOYMENT TERMINATION BENEFITS

a) Short-term benefits	31.12.2010	31.12.2009
Overtime and annual vacation provision	9.459.381	7.605.642
Total	9.459.381	7.605.642

Movement of provision for overtime and annual vacation is as follows:

	01.01.-31.12.2010	01.01.-31.12.2009
Provision at the beginning of the period	7.652.242	5.898.543
Charge for the period	(5.758.446)	(5.880.287)
Provision expired	7.565.585	7.587.386
Provision at period end	9.459.381	7.605.642

b) Long-term benefits	31.12.2010	31.12.2009
Employment termination benefits provision	63.377.093	52.267.100
Total	63.377.093	52.267.100

Movement of provision for retirement pay is as follows:

	01.01.- 31.12.2010	01.01.- 31.12.2009
Provision at the beginning of the period	52.267.100	43.457.381
Service cost	10.241.390	7.483.079
Interest cost	3.872.507	1.780.495
Provision paid	(3.003.904)	(453.855)
Provision at period end	63.377.093	52.267.100

Under Turkish Labor 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 TL 2.623,23 effective from 01.01.2011 has been taken into consideration in calculating the reserve for employment termination benefits as of 31.12.2010 (31.12.2009: TL 2.427,03).

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:

	31.12.2010	31.12.2009
Discount rate (%)	4,66	6,26
Personnel voluntary working rate (%)	99,00	98,70

25. RETIREMENT BENEFITS

None (31.12.2009: None).

26. ORDER ADVANCES GIVEN AND RECEIVED

a) Order advances given-short-term	31.12.2010	31.12.2009
Order advances given	136.950.610	99.424.882
Order advances given to related parties (Note 38)	16.901.330	25.836.742
Total	153.851.940	125.261.624

b) Long-term order advances given		
Order advances	152.927.723	108.925.021
Order advances given to related parties (Note 38)	27.542.947	28.782.612
Total	180.470.670	137.707.633

c) Short-term order advances received	31.12.2010	31.12.2009
Order advances received (*)	325.155.961	247.405.717
Order advances received from related parties (Note 38)	10.819.225	28.452.032
Total	335.975.186	275.857.749

(*) Advances were received in relation to 46 customers (31.12.2009: 31 customers) , the total amount of highest 10 customers was equivalent to 93,51% of total advances received (31.12.2009: 88,35%).

d) Long-term order advances received		
Order advances received (**)	990.483.984	808.589.518
Order advances received (Note 38)	47.537.802	43.209.788
Total	1.038.021.786	851.799.306

(**) Advances were received in relation to 31 customers (31.12.2009: 27 customers), the total amount of highest 10 customers was equivalent to 96,65% of total advances received (31.12.2009: 97,77%).

27. OTHER ASSETS AND LIABILITIES

a) Other current assets	31.12.2010	31.12.2009
Prepaid expenses	11.582.604	8.227.246
Deferred VAT (*)	82.297.221	84.141.268
Other VAT	1.057.718	64.233
Prepaid taxes and funds	3.977.422	1.149.253
Advances given for business purposes	188.872	156.535
Other	239.338	200.034
Total	99.343.175	93.938.569

(*) In accordance with General VAT Communiqué No.112, issued in the Official Gazette dated 12.02.2009, the delivery of goods and services to National Security Organizations (The Ministry of National Defense, Undersecretary of Defense Industry and similar institutions) were exempted from VAT in effect from 01.03.2009. These amounts are not collectible in cash, but may be offset to other taxes payable of the Group.

b) Other long-term assets		
Prepaid expenses	1.978.386	2.384.401
Advances given for tangible assets	9.547.818	3.563.928
Advances given for intangible assets	550	-
Other	781.574	204.428
Total	12.308.328	6.152.757

c) Other current liabilities		
Accrued expenses	651.891	678.730
Total	651.891	678.730

28. SHAREHOLDERS' EQUITY

The shareholder structure as of 31.12.2010 and 31.12.2009 is summarized as follows:

Shareholders	Share (%)	31.12.2010	Share (%)	31.12.2009
Turkish Armed Forces Foundation	84,58	198.958.487	84,58	99.479.243
Other shareholders	0,12	271.846	0,12	135.923
Quoted shares	15,30	35.993.667	15,30	17.996.834
Historical Capital	100,00	235.224.000	100,00	117.612.000
Effect of Restatement of Shareholders' Equity		132.773.042		132.773.042
Adjusted Capital		367.997.042		250.385.042

The registered capital of Group is TL 235.224.000 composed of 23.522.400.000 shares, with a nominal value of kuruş 1 per share. 14.241.744.000 shares belong to Group A and 9.280.656.000 shares belong to Group B and all shares are registered. Shares are divided into Group A and Group B shares. Group A shares consist of preferred registered shares. It has been resolved that members of board of directors will be elected among the holders of Group A shares or among the candidates nominated by them.

In addition, if new shares are issued, the percentage of Group A shares will be maintained.

According to the board decision dated 29.04.2010, numbered 663, the Parent Company increased its capital from TL 117.612.000 to TL 235.224.000 through transfer of the profit of the year 2009.

According to decision taken in the Annual General Meeting dated 06.04.2010, the Subsidiary increased its capital by TL 13.000.000 to TL 39.000.000.

The cumulative restatement differences arising from the restatement of the shareholders equity components are recorded in "Favorable Share Capital Restatement Difference Account" and those arising from the restatement of other equity components are included in cumulative "Retained Earnings and Losses". The equity restatement differences are as follows:

	31.12.2010	31.12.2009
Capital	132.773.042	132.773.042
Legal reserves (*)	532.189	528.737
Extraordinary reserves (*)	856.117	850.564
Total	134.161.348	134.152.343

(*) Restatement of Shareholders' equity relating to legal reserves and extraordinary reserves increased due to increase on share of the Parent Company on shareholding of subsidiary.

Restricted Reserves Set Aside From Profits		
Legal reserves	29.813.447	20.173.095
Total	29.813.447	20.173.095

The legal reserves consist of first and second reserves, appropriated in accordance with the TCC. The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of first legal reserves and dividends.

The details of retained profits/(loss) is as follows:

	31.12.2010	31.12.2009
Extraordinary reserves	203.858.279	203.691.754
Inflation adjustment of extraordinary reserves	856.117	850.564
Total	204.714.396	204.542.318

Dividends

According to the resolution of the CMB dated 27.01.2010 and numbered 02/51 in respect of profit distributions, there will be no minimum profit distribution requirement (31.12.2008: 20%) for publicly quoted companies from their profits earned in 2009 and any profit distribution will be made in accordance with the specific guidelines of the CMB announced in the Communiqué No: IV/27 in respect of " Rules and Procedures to be Adhered to by Publicly Quoted Companies Subject to the Provisions and Regulations of the CMB in respect of Dividend and Advance on Dividend Distributions."

Following the resolution of the CMB dated 09.01.2009 and numbered 1/6 in respect of profit appropriation rules, publicly quoted companies may compute their distributable profits based on the financial statements prepared in accordance with the CMB Communiqué No: XI/29 "Financial Reporting in the Capital Markets" provided such profits are also available in their statutory accounts.

According to the TCC companies are obliged to appropriate legal reserves prior to any profit distribution. The legal reserves consist of first and second reserves, appropriated in accordance with the TCC. The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in capital.

Based on the consolidated financial statements prepared in accordance with Capital Market Communiqué No: XI/29 "Financial Reporting Standards Issued by CMB", the net profit for the period of the Company amounted to TL 240.719.971. The net profit of the Company as per the statutory records amounted to TL 209.118.994. Based on the consolidated financial statements prepared in accordance with Capital Market Communiqué No: XI/29 "Financial Reporting Standards Issued by CMB", the Company has a net distributable profit amounting to TL 230.324.077. For the period after deducting the first contractual legal reserves in the amount of TL 10.455.950 and adding donations in amount of TL 60.056 during the current year. As of report date, dividends to be distributed for the year 2010 will become finalized after being approved at the General Assembly Board.

Minority Interest

	31.12.2010	31.12.2009
As of 01.01.2010	(1.490.264)	(18.431)
The effect of increase on the share of subsidiary (*)	1.026.350	15.620
Minority interest in net income / (loss)	218.529	(1.490.053)
Increase in capital of minority shares	137.261	2.600
Ending balances	(108.124)	(1.490.264)

	01.01.- 31.12.2010	01.01.- 31.12.2009
Minority interest in net income / (loss)	218.529	(1.490.053)

(*) In the extraordinary general assembly of Mikes Inc. dated 09.10.2009 within the scope of the share capital increase decision taken from TL 13.000.000 to TL 26.000.000, it was announced that the subsidiary, AselsanNet Company would not participate in the said increase. According to an article in the main contract which states that the preemptive rights with respect to new share issue resides with the majority shareholder, the Parent Company was offered the increase shareholding. The privilege was utilized by the Parent Company thereby increasing its shareholding to 96.36% on 26.01.2010. According to Revised IAS 27, the resulting net effect of TL 10.924 was recognized as other funds within equity.

29. SALES AND COST OF SALES

a) Sales Revenue	01.01.- 31.12.2010	01.01.- 31.12.2009
Domestic sales	1.113.602.576	943.278.541
Export sales	76.935.409	102.971.544
Other revenues	2.724.841	7.711.108
Sales returns (-)	(2.899.808)	(16.285.669)
Sales discounts	(576.428)	-
Total	1.189.786.590	1.037.675.524
b) Cost of sales (-)		
Cost of goods sold (-)	(647.703.248)	(600.929.671)
Cost of merchandises sold (-)	(42.028)	(2.040.990)
Cost of other sales (-)	(166.710.709)	(127.434.119)
Total	(814.455.985)	(730.404.780)

TL 2.724.841 (31.12.2009: TL 7.711.108) of other revenues totaling to TL 2.721.593 (31.12.2009: TL 7.671.096) comprise accrued incentives relating to research and development activities that the Group is reasonably entitled to receive and the rest includes accrued fair incentive income.

30. MARKETING, SELLING AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES

	01.01.- 31.12.2010	01.01.- 31.12.2009
Marketing, selling and distribution expenses (-)	(26.847.427)	(27.951.394)
General administrative expenses (-)	(72.124.806)	(60.654.695)
Research and development expenses (-)	(33.132.162)	(29.660.494)
Total	(132.104.395)	(118.266.583)

31. OPERATING EXPENSE BREAKDOWN

a) Marketing selling and distribution expenses (-)	01.01.- 31.12.2010	01.01.- 31.12.2009
Labor cost	(8.353.498)	(11.184.726)
Stamp tax and duties	(6.045.819)	(5.358.774)
Overseas travel expense	(1.459.732)	(1.584.163)
Fair and exhibition expenses	(728.301)	(2.577.958)
Shipping and delivery costs	(315.937)	(198.981)
Advertisement expense	(716.063)	(596.389)
Insurance cost	(235.685)	(280.242)
Export sales commission expense	(1.117.830)	(758.749)
Depreciation and amortization expense	(713.086)	(210.609)
Packaging expenses	(267.960)	(211.675)
Domestic travel expense	(316.224)	(514.409)
Promotion expense	(521.131)	(427.135)
Other	(6.056.161)	(4.047.584)
Total	(26.847.427)	(27.951.394)

b) General administrative expenses (-)		
Labor cost	(49.913.023)	(41.597.160)
Depreciation and amortization expense	(4.411.706)	(4.125.092)
Maintenance and repair expense	(2.119.834)	(2.057.458)
Electricity expense	(2.816.628)	(2.237.074)
Personnel transportation expense	(1.459.579)	(1.063.579)
Training and seminar expense	(451.240)	(294.833)
Insurance expense	(859.354)	(776.554)
Consulting expense	(866.496)	(1.015.983)
Personnel food expense	(796.430)	(635.978)
Small furniture, fixtures	(571.235)	(370.537)
Provision for lawsuit	(50.833)	(396.116)
Rent expenses	(491.538)	(595.257)
Provision for doubtful trade receivables	(1.281)	(776.781)
Other	(7.315.629)	(4.712.293)
Total	(72.124.806)	(60.654.695)

c) Research and development expenses (-)	01.01.- 31.12.2010	01.01.- 31.12.2009
Material cost	(3.791.312)	(1.970.748)
Labor cost	(16.631.529)	(15.301.133)
Depreciation and amortization expense	(7.959.335)	(9.968.396)
Other	(4.749.986)	(2.420.217)
Total	(33.132.162)	(29.660.494)

32. OTHER OPERATING INCOME/ EXPENSES

a) Other operating income	01.01.- 31.12.2010	01.01.- 31.12.2009
Provisions reversed	9.794.385	2.190.654
Social Security Institution disability indemnity income	850.420	438.312
Rent income	-	247.395
Gain on sales of fixed assets	326.608	37.112
Insurance income arising from damages	399.534	210.057
Fund amount related to 2003 income tax return (*)	48.498	497.523
Letter of guarantee indemnified	-	128.539
Revenues from free of charge costs of materials and investment income	346.809	-
Other	1.021.199	2.441.916
Total	12.787.453	6.191.508

(*) In accordance with Article 13 of Corporation Tax Law numbered 5520 issued by the Revenue Administration, concerning the amount of funds relating to 2003 taxation year that were previously paid by taxpayers, but were not offset and not made the subject of any refund, it has been possible to claim the offset and refund of such amounts not to exceed 10% of the income and corporation taxes levied on the related income and corporate tax returns filed. In this context, the Parent Company earned the right to offset the income tax withholdings amounting to TL 48.498 (31.12.2009: TL 497.523) calculated at the rate of 10% on the bank deposit interest income and long-term construction contracts.

b) Other operating expense (-)		
Provision for expected losses of construction contracts in progress	(29.726.723)	(29.149.604)
Provision for lawsuits	(445.231)	-
Previous period expense and losses	(195.627)	(99.721)
Tangible assets damage cost	(79.380)	(231.384)
Loss on sales of fixed assets	(326.708)	(1.390.738)
Overdue penalty	(9.896.848)	(7.670.421)
Special communication tax	(154.036)	(142.355)
Donations and grants	(60.056)	(12.240)
Other expense and losses	(508.084)	(339.754)
Total	(41.392.693)	(39.036.217)

33. FINANCIAL INCOME

	01.01.- 31.12.2010	01.01.- 31.12.2009
Interest income	27.264.863	9.508.710
Fair value gains of financial assets	167.525	1.104.754
Foreign exchange gains	254.245.540	166.568.130
Unearned financial income	2.252.032	2.507.882
Dividend income	154.654	509.522
Other financial income	342.036	324.112
Total	284.426.650	180.523.110

34. FINANCIAL EXPENSE

	01.01.- 31.12.2010	01.01.- 31.12.2009
Foreign exchange losses	(257.411.900)	(171.474.948)
Unearned financial expense	(3.096.156)	(2.584.842)
Short-term borrowing interest expense	(7.878.003)	(1.528.083)
Long-term borrowing interest expense	(1.318.279)	(325.140)
Fair value losses of financial assets	(36.320)	-
Total	(269.740.658)	(175.913.013)

35. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

As of 31.12.2010 and 31.12.2009, there are no discontinued operations.

Movement of assets held for sale for the period 01.01.-31.12.2010 is as follows:

	Assets held for sale
Cost	
As of 01.01.2010	322.479
Additions	-
Disposals	(239.786)
Transfers	239.790
As of 31.12.2010	322.483
Accumulated depreciation	
As of 01.01.2010	(322.089)
Addition (Transfers)	232.305
Disposals	(232.308)
As of 31.12.2010	(322.092)
Net book value as of 31.12.2010	391

Assets held for sale represent fixtures and equipment that have no remaining useful lives, that the Group management decided to dispose through sale.

Movement of assets held for sale for the period 01.01.-31.12.2009 is as follows:

	Assets held for sale
Cost	
As of 01.01.2009	466.358
Additions	-
Disposals	(193.602)
Transfers	49.723
As of 31.12.2009	322.479
Accumulated depreciation	
As of 01.01.2009	(460.479)
Additions	(47.929)
Disposals	186.319
As of 31.12.2009	(322.089)
Net book value as of 31.12.2009	390

36. TAX ASSETS AND LIABILITIES

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between the financial statements reported in accordance with CMB Accounting Standards (CMB Communiqué No: XI/29) and statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for CMB 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 and liabilities provided at 31.12.2010 and 31.12.2009 using the enacted tax rates are as follows:

	Total Temporary Differences		Deferred Tax (Asset)/ Liability	
Deferred tax assets:	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Allowance for discount on trade receivables	(2.454.365)	(1.457.488)	(490.873)	(291.497)
Cost of construction contracts and provision for expected losses of construction contracts in progress	(433.639.592)	(261.480.421)	(86.727.917)	(52.296.083)
Accounting for research and development incentive income	(1.243.733)	(8.283.632)	(248.747)	(1.656.726)
Allowance for doubtful receivables	(1.043.880)	(1.016.225)	(208.776)	(203.245)
Allowance for inventories	(6.814.224)	(275.305)	(1.362.845)	(55.061)
Provision for project delay penalties	(9.288.969)	(6.835.106)	(1.857.794)	(1.367.021)
Guarantee expense provision	(30.679.163)	(24.485.489)	(6.135.833)	(4.897.097)
Fair value adjustment on financial assets	(57.163)	(56.251)	(11.433)	(11.250)
Employment termination benefits provision	(58.203.904)	(47.823.404)	(11.640.781)	(9.564.681)
Provision for bonuses payable as termination benefits	(5.173.188)	(4.443.696)	(1.034.638)	(888.739)
Provision for unused annual vacation and overtime pay	(11.290.591)	(7.605.642)	(2.258.118)	(1.521.128)
Assets held for sale	(8.761)	(1.383)	(1.752)	(277)
Carry forward research and development tax credits (*)	(139.355.296)	(70.058.019)	(27.871.059)	(14.011.604)
Carry-forward unused tax losses (**)	(14.021.593)	(16.942.728)	(2.804.319)	(3.388.546)
Provision for lawsuits	(336.116)	(396.116)	(67.223)	(79.223)
Income accruals	(1.018)	(3.726)	(204)	(745)
Deferred tax liabilities:	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Allowance for unearned interest on notes and trade payable	928.994	776.242	185.799	155.247
Accounting for progress billings under long-term contracts	438.230.264	240.985.381	87.646.053	48.197.077
Adjustment on inventory	1.981.367	1.996.941	396.273	399.388
Revaluation of tangible and intangible assets	55.435.311	48.666.243	11.087.061	9.733.249
Fair value adjustment on financial assets	635.308	495.469	127.062	99.094
Other	-	1.712	-	342
Deferred tax assets	(713.611.556)	(451.164.631)	(142.722.312)	(90.232.923)
Deferred tax liabilities	497.211.244	292.921.988	99.442.248	58.584.397
Deferred tax assets, net	**(216.400.312)**	**(158.242.643)**	**(43.280.064)**	**(31.648.526)**

(*) The research and development expenditure deduction rate used as a tax benefit has been increased from 40% to 100% in accordance with the amended article 10 of the Tax Law numbered 5520 as a result of the amendment in article 35 of Law No. 5746 with respect to the Support of Research and Development Activities. The aforementioned law was enacted as of 01.04.2008 after its issue in the Official Gazette dated 12.03.2008, numbered 26814. Research and development expenditure may be used as a tax deduction in the determination of the taxable income. If taxable income levels are not sufficient to absorb all available tax deductions, any unused research and development tax deduction is allowed to be carried forward to the next tax period. The carry-forward tax credits may be revalued with the revaluation rates determined by the tax laws and regulations.

In the context of such tax benefits, out of a total of TL 676.848.231 TL (Parent Company: TL 658.742.901; Subsidiary Company: TL 18.105.331) of research and development expenditure deduction available as of 31.12.2010, a total deduction of TL 458.546.683 TL was used by the Parent Company from the tax base in the 31.12.2010 and 31.12.2009 year-end tax returns, as the tax credit earned was above the taxable income after deductions and exemptions. Tax credit used in 2009 and 2010 fiscal years were TL 217.814.518 and TL 218.511.737, respectively.

As of 31.12.2010, the amount of research and development deduction carried forward to the next fiscal period totaled TL 218.301.549 of which TL 200.196.218 pertained to the parent company and TL 18.105.331 to the subsidiary. No deferred tax asset has been recognized for the carry-forward of unused research and development deduction of the subsidiary due to the uncertainty as to when future taxable profit will be available against which the such unused tax credits can be utilized.

As of 31.12.2010 and 31.12.2009, the Parent Company, provided a deferred tax asset on the carry-forward research and development tax credits by considering future expected taxable incomes and the proportion of tax credits utilized to date (current and prior period).

(**) A deferred tax asset arising from unused tax losses of the subsidiary has been recognized to the extent that the entity will have sufficient taxable profit against which the unused tax losses can be utilized, based on the three year income projections prepared by the entity.

The expiration schedule of carry forward tax losses is as follows:

Expiring in 2013	3.658.963
Expiring in 2014	10.362.630
Total	14.021.593

Technopark incentives:

In accordance with the provisions of Law No. 4691 "Technology Development Regions", the incomes earned by the income and corporate tax payers from software and research and development activities conducted in these regions were exempted from income and corporation tax. The exemptions relating to Technopark incentives are effective until 31.12.2013.

As of 31.12.2010, deferred tax assets was provided for the carry forward unused tax credits to the extent future taxable profit will be available against which the unused tax credits can be utilized.

Taxation:	01.01.- 31.12.2010	01.01.- 31.12.2009
Current corporate tax expense	-	-
Deferred tax expense/(income)	11.631.538	23.105.393
Total	11.631.538	23.105.393

Corporate tax:

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in these consolidated financial statements, have been calculated on an individual-entity basis.

Corporation tax rate for the year 2010 is 20% (2009: 20%). Corporation tax is applied to the total income of the companies after adjusting for certain disallowable expenses, exempt income, investment and other allowances. No further tax is payable unless the profit is distributed (except withholding tax at the rate of 19,80% on the investment incentive allowance utilized within the scope of the Income Tax Law transitional article 61).

In accordance with Tax Law No.5024 "Law Related to Changes in Tax Procedural Law, Income Tax Law and Corporate Tax Law" published in the Official Gazette on 30.12.2003 to amend the tax base for non-monetary assets and liabilities, effective from 01.01.2004 income and corporate taxpayers are required to prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the TL. In accordance with the Law in question, the cumulative inflation rate for the last 36 months and the inflation rate for the last 12 months must exceed 100% and 10% respectively (TSI WPI increase rate). Since these conditions in question were not fulfilled during the years between 2006 and 2010 no inflation adjustments were performed.

Dividends paid to non-resident corporations which have a place of business in Turkey or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% (2009: 20%) on their corporate income. Advance tax is declared by the 14 th and is payable by the 17 th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

As of 31.12.2010, the taxable income of the Parent Company and of the Subsidiary before any deductions and exemptions computed in accordance with the tax laws and regulations was TL 234.086.952 and TL 2.921.135, respectively. As of 31.12.2010, the Parent Company did not have any current income tax liability due to the available deductions and exemptions from the tax base of TL 434.283.169 and the available tax losses of the Subsidiary of TL 16.942.738.

There are numerous exemptions in the Corporate Tax Law concerning the corporations. These are explained as follows:

Domestic participation exemption:
Dividends obtained from Turkish resident corporations (except dividends from investment funds participation certificates and investment partnerships shares) are exempt from corporate tax.

Preferential right certificate sales and issued premiums exemption:
Gains from issued premiums derived from the sale of shares at nominal values during incorporations and the capital increase of joint stock companies are exempt from corporate tax.

Foreign company participation exemption:
If the conditions below are fulfilled, participation revenues obtained from abroad and those transferred to Turkey by the date when the corporate tax declaration regarding the taxation period in which they are obtained is filed shall not be subject to corporate tax in Turkey. Conditions are those that the Turkish resident company holds at least a 10% stake for a continuous period of a year in the non-resident company, the total tax burden of the non resident company is at least 15% (for insurance and financing leasing companies the tax burden should be equal to at least the corporate tax burden in Turkey) and the profit is transferred to Turkey in cash till the corporate tax declaration date.

Real property, investment equity, preferential rights, usufruct shares, founding shares, sales exemption:
75% of the gains derived from the sale of investment equity, real property, preferential rights, usufruct shares and founding shares which have remained in assets for more than two full years are exempt from corporate tax. To be entitled to the exemption, the relevant gain is required to be held in a fund account in the liabilities and it must not be withdrawn from the entity for a period of five years. The sales value has to be collected until the end of the second calendar year following the year the sale was realized.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous period.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns until the 25 th of the fourth month following the end of the related financial year. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Transfer pricing:

Article 13 of Corporation Tax Law No: 5520 introduces new arrangements about the transfer pricing came into force as of 01.01.2007. Significant changes took place in the arrangements related to the transfer pricing following the respective article based on the transfer pricing guidance of EU and OECD. In this framework, the entities are required to use the prices or amounts to be determined according to the peers for the purpose of sales or service buy and sale transactions carried out with affiliated persons.

The principle of suitability with the peers means that the price or amount to be used for the purpose of goods or service buy and sale carried out with the affiliated persons is suitable for the price or amount that would have arisen if there had been no relation between them. The entities will determine the prices or amounts suitable for the peers that will be applied for the purpose of transactions carried out with the affiliated persons by using the methods laid out in the respective law according to the nature of the transaction. The records, tables and documents related to the calculation of the prices or amounts determined in accordance with the principle of suitability with the peers must be kept by the entities as the evidencing documents. Also, the entities will draw up a report containing the information and documents related to the transactions carried out with the affiliated persons during a fiscal year.

37. EARNINGS PER SHARE

	01.01.- 31.12.2010	01.01.- 31.12.2009
Weighted average number of issued shares	235.224.000	117.612.000
Net income attributable to shareholders	240.719.971	185.364.995
Earnings per share	1,02	1,58

38. DUE FROM/ DUE TO RELATED PARTIES

a) Due from related parties	31.12.2010	31.12.2009
Aselsan Bakü	124.366	130.079
AselsanNet	1.412.451	4.479.885
Havelsan	12.608.118	1.368.621
Roketsan	17.875.755	3.199.920
Turkish Armed Forces Foundation	1.115.397	-
Tusaş	4.023.347	1.941.891
İşbir Electric	-	19.342
Total (Note 10)	37.159.434	11.139.738

b) Advances given to related parties (short-term)	31.12.2010	31.12.2009
AselsanNet	15.508.480	10.285.101
Aspilsan	430.787	516.278
İşbir Electric	60.112	169.917
Roketsan	528.561	13.825.498
Tusaş	120.000	220.000
Ehsim	253.390	819.948
Total (Note 26)	16.901.330	25.836.742

c) Advances given to related parties (long-term)		
AselsanNet	-	2.544.928
Havelsan	1.260.598	-
Roketsan	26.282.349	26.237.684
Total (Note 26)	27.542.947	28.782.612

d) Due to related parties		
Aselsan Bakü	557.988	230.227
AselsanNet	4.636.710	1.759.666
Aspilsan	57.905	8.328
Axa Insurance	36.741	34.999
Havelsan	-	1.188.215
İşbir Electric	40.132	487.733
Roketsan	11.648.123	-
Due to shareholders	17.000	-
Due to personnel	149.302	-
Total (Note 10-11)	17.143.901	3.709.168

e) Advances received from related parties (short-term)		
Roketsan	3.322.692	7.848.309
Turkish Armed Forces Foundation	1.145.453	13.875.368
Tusaş	6.351.080	5.671.305
Havelsan	-	1.057.050
Total (Note 26)	10.819.225	28.452.032

f) Advances received from related parties (long-term)		
Havelsan	16.179.497	20.923.641
Roketsan	22.839.589	8.460.591
Turkish Armed Forces Foundation	-	1.276.673
Tusaş	8.518.716	12.548.883
Total (Note 26)	47.537.802	43.209.788

g) Sales to related parties	01.01.- 31.12.2010	01.01.- 31.12.2009
Aselsan Bakü	5.506	88.872
AselsanNet	3.786.097	6.321.499
Aspilsan	56.528	267
Havelsan	23.866.542	2.920.333
Roketsan	33.677.409	6.034.881
Turkish Armed Forces Foundation	36.054.839	5.465.273
Tusaş	14.180.586	4.076.627
İşbir Electric	-	16.392
Total	111.627.507	24.924.144

h) Purchases from related parties		
Aselsan Bakü	575.566	461.975
AselsanNet	19.861.028	7.888.353
Aspilsan	1.684.280	1.527.464
Axa Insurance	204.238	235.053
Havelsan	3.088	312.646
İşbir Electric	611.086	1.590.595
Turkish Armed Forces Foundation	222.970	194.730
Mikroelektronik	1.062.562	-
Tusaş	502.991	136.307
Roketsan	25.409.760	-
Total	50.137.569	12.347.123

As of 31.12.2010, salaries and similar benefits provided to the executive management amounts to TL 2.887.183 (31.12.2009: 2.591.514 TL).

39. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

In implementing a financial risk management model for the Group, "Assets Liabilities Management Model" was taken as the basis and foreign currency, interest rate and liquidity risks were identified as the major financial risks.

To manage the various balance sheet financial risks, foreign currency, interest rate and liquidity risks, which can have an impact on the assets and liabilities of the Group are defined, measured, monitored and reported. Therefore the negative effects that the fluctuations in financial markets can have on the financial performance of the Company are minimized. Derivative financial instruments are also used to reduce risks to minimum levels.

Off-balance sheet financial risks originate from the different currencies of cash inflows and outflows that are associated with the projects and the deviations from the planned cash flow dates. In order to monitor off-balance sheet financial risk management financial risk management techniques are used in order to maintain the expected profitability of the projects.

Financial risk management are also applied by subsidiaries and investments within the framework of risk management policies and procedures approved by management.

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. The Group predominantly works with the public sector and projects undertaken with both the public and private sectors are based on contract and advance payment system. The project financing requirements are met by securing an advance payment at the onset of the project, supplemented by interim payments at different milestones of the projects and collections for deliveries made under the project. Receivables are generally expected to be highly collectible as the majority of them are from the public sector and arise from contractual agreements. Therefore the Group does not foresee any major credit risk with respect to its receivables. Moreover, receivables are continuously followed up in order to minimize the credit risk.

As of 31.12.2010 and 31.12.2009, analysis of credit risk of the Group is set out below:

	Receivables					
	Trade receivables		Trade receivables			
31.12.2010	Related party	Other party	Related party	Other party	Bank amounts	Other
Maximum exposure to credit risk at the reporting date (A+B+C+D+E)	37.159.434	297.811.020	-	9.261.363	600.631.060	5.927.597
- Secured portion of maximum credit risk with collateral	-	-	-	-	-	-
A. Carrying amount of financial assets that are not overdue and not impaired	37.159.434	297.811.020	-	9.261.363	600.631.060	5.927.597
B. Carrying amount of financial assets whose terms were renegotiated, otherwise are overdue and impaired	-	-	-	-	-	-
C. Carrying amount of assets that are overdue but not impaired	-	-	-	-	-	-
- Carrying amount secured with collateral	-		-	-	-	-
D. Carrying amount of assets that are impaired	-		-	-	-	-
- Overdue (gross carrying amount)	-	1.819.535	-	-	-	-
- Impairment	-	(1.819.535)	-	-	-	-
- Carrying amount secured with collateral	-		-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment	-	-	-	-	-	-
- Carrying amount secured with collateral	-	-	-	-	-	-
E. Factors that include off balance sheet credit risks	-	-	-	-	-	-

31.12.2009	Receivables					
	Trade receivables		Trade receivables			
	Related party	Other party	Related party	Other party	Bank amounts	Other
Maximum exposure to credit risk at the reporting date (A+B+C+D+E)	11.139.738	201.528.103	-	12.459.555	641.970.796	5.950.552
- Secured portion of maximum credit risk with collateral	-	-	-	-	-	-
A. Carrying amount of financial assets that are not overdue and not impaired	11.139.738	198.534.151	-	12.459.555	641.970.796	5.950.552
B. Carrying amount of financial assets whose terms were renegotiated, otherwise are overdue and impaired	-	-	-	-	-	-
C. Carrying amount of assets that are overdue but not impaired	-	2.993.952	-	-	-	-
- Carrying amount secured with collateral	-	-	-	-	-	-
D. Carrying amount of assets that are impaired	-	1.864.448	-	-	-	-
- Overdue (gross carrying amount)	-	(1.864.448)	-	-	-	-
- Impairment	-	-	-	-	-	-
- Carrying amount secured with collateral	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment	-	-	-	-	-	-
- Carrying amount secured with collateral	-	-	-	-	-	-
E. Factors that include off balance sheet credit risks	-	-	-	-	-	-

Liquidity Risk

Liquidity risk covers not having financing resources available to fund potential liabilities that are due, not having available funds to support potential increases in assets and as a result of transactions conducted in illiquid markets.

Liquidity risk is managed by taking the considering the short-term liabilities, highly liquid assets, expected cash flows and the balance sheet maturity ladder. In this context the Group manages the funding liquidity requirements by maintaining sufficient levels of cash and cash equivalent assets, giving particular attention to financing the Group’s activities without having recourse to bank loans and maintaining sources of funding varied by keeping banking credit limits available to fund unexpected cash requirements.

As of 31.12.2010, maturities of non-derivative financial liabilities are as follows:

Contractual maturities	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 months(I)	Between 3-12 months (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Financial liabilities	102.716.469	102.716.469	102.716.469	-	-	-
Other financial liabilities(*)	41.184.974	41.204.659	1.044.415	281.063	1.229.181	38.650.000

Expected maturities	Book value	Expected total cash out flow (=I+II+III+IV)	Less than 3 months(I)	Between 3-12 months (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Trade payables	92.667.897	93.418.273	77.524.775	13.377.740	2.515.758	-

(*) Other financial liabilities comprised of interest free funds received from Technology Development Foundation of Turkey for project finance.

As of 31.12.2009, maturities of non-derivative financial liabilities are as follows:

Contractual maturities	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 months(I)	Between 3-12 months (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Financial liabilities	368.605.216	368.605.216	368.605.216	-	-	-
Other financial liabilities(*)	41.077.049	41.122.466	472.203	939.033	2.068.730	37.642.500
Financial lease liabilities	6.101	6.184	6.184	-	-	-

Expected maturities	Book value	Expected total cash out flow (=I+II+III+IV)	Less than 3 months(I)	Between 3-12 months (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Trade payables	79.110.646	79.785.199	908.110	75.504.373	3.372.716	-

(*) Other financial liabilities comprised of interest free funds received from Technology Development Foundation of Turkey for project finance.

Fair value measurement hierarchy table

The Group measures fair value of financial instruments according to the source of financial instrument and classifies them under three levels by using a three level hierarchy. According to this, first level financial instruments are valued by an active market price, second level are valued by valuation techniques involving by direct or indirect observable input and third level are valued by valuation techniques which do not include direct or indirect observable input.

As of 31.12.2010 and 31.12.2009, the Group's financial assets measured at fair value are set out below:

31.12.2010

Financial assets at fair value through profit or loss	**Level 1**	**Level 2**	**Level 3**
Eurobonds	5.927.597	-	-

31.12.2009

Financial assets at fair value through profit or loss	**Level 1**	**Level 2**	**Level 3**
Eurobonds	5.950.552	-	-

As of 31.12.2010 and 31.12.2009, the Group does not have any financial liability measured at fair value.

Market Risk

The Group is exposed to market risk arising from changes in interest rates, foreign currency or in the fair value of financial assets and other financial contracts that may affect the Group adversely. The major risks for the Group are currency risk and interest rate risk, which result from operating activities.

a) Foreign currency risk and related sensitivity analysis

The Group is exposed to foreign currency risk arising from the translation of foreign currency denominated assets and liabilities to TL currency. The Group has short foreign currency position arising from the foreign currency denominated advances received. The Group monitors the foreign currency risk by performing analysis of its foreign currency position.

	31.12.2010	31.12.2009
Foreign currency denominated assets	803.386.138	448.995.800
Foreign currency denominated liabilities	952.248.071	821.823.130
Net foreign currency position	(148.861.933)	(372.827.330)

FOREIGN CURRENCY POSITION							
	31.12.2010						
	TL equivalent (functional currency)	USD	EURO	Yen	GBP	CHF	Other
1. Trade receivables	193.962.029	100.262.929	19.011.049	-	-	-	-
2a. Monetary financial assets (include cash and bank deposit)	334.852.414	182.413.436	25.786.384	-	989	-	-
2b. Non-monetary financial assets	99.653.285	42.331.363	15.899.790	38.550	72.859	857.173	44.957
3. Other	201	130	-	-	-	-	-
4. Current Assets (1+2+3)	**628.467.929**	**325.007.858**	**60.697.223**	**38.550**	**73.848**	**857.173**	**44.957**
5. Trade receivables	27.209.216	16.709.903	671.371	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-	-	-
6b. Non-monetary financial assets	140.731.810	56.413.004	26.117.469	-	-	-	-
7. Other	6.977.183	3.069.054	1.088.542	-	793	-	-
8. Non Current Assets (5+6+7)	**174.918.209**	**76.191.961**	**27.877.382**	**-**	**793**	**-**	**-**
9. Total Assets (4+8)	**803.386.138**	**401.199.819**	**88.574.605**	**38.550**	**74.641**	**857.173**	**44.957**
10. Trade payables	36.907.283	8.077.394	9.170.213	1.614.633	298.053	2.972.653	-
11. Financial liabilities	1.322.219	855.252	-	-	-	-	-
12a. Other monetary liabilities	48.345	31.271	-	-	-	-	-
12b. Other non-monetary liabilities	100.622.520	38.751.913	19.858.869	-	8.061	-	-
13. Current Liabilities (10+11+12)	**138.900.367**	**47.715.830**	**29.029.082**	**1.614.633**	**306.114**	**2.972.653**	**-**
14. Trade payables	1.961.266	1.019.172	188.193	-	-	-	-
15. Financial liabilities	39.860.948	25.783.278	-	-	-	-	-
16 a. Other monetary liabilities	9.044.100	5.850.000	-	-	-	-	-
16 b. Other non-monetary liabilities	762.481.390	357.927.444	102.057.275	-	-	-	-
17. Non-Current Liabilities (14+15+16)	**813.347.704**	**390.579.894**	**102.245.468**	**-**	**-**	**-**	**-**

	TL equivalent (functional currency)	USD	EURO	Yen	GBP	CHF	Other
18. Total Liabilities (13+17)	**952.248.071**	**438.295.724**	**131.274.550**	**1.614.633**	**306.114**	**2.972.653**	**-**
19. Off balance sheet foreign currency denominated derivatives net assets/(liabilities) position (19a-19b)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
19a. Off balance sheet foreign currency denominated derivatives assets amount	**-**	**-**	**-**	**-**	**-**	**-**	**-**
19b. Off balance sheet foreign currency denominated derivatives liabilities amount	**-**	**-**	**-**	**-**	**-**	**-**	**-**
20. Net foreign currency denominated assets /(liabilities) position (9-18+19)	**(148.861.933)**	**(37.095.905)**	**(42.699.945)**	**(1.576.083)**	**(231.473)**	**(2.115.480)**	**44.957**
21. Monetary accounts net foreign currency denominated assets /(liabilities) position (=1+2a+5+6a-10-11-12a-14-15-16a)	**466.879.498**	**257.769.901**	**36.110.398**	**(1.614.633)**	**(297.064)**	**(2.972.653)**	**-**
22. Fair value of hedging financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
23. Hedged foreign currency denominated assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
24. Hedged foreign currency denominated liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
25. Export	**75.532.199**	**40.576.156**	**7.378.836**	**-**	**-**	**-**	**-**
26. Import	**323.482.256**	**116.099.266**	**62.365.375**	**303.088**	**4.889.019**	**2.317.582**	**1.035.325**

FOREIGN CURRENCY POSITION							
	31.12.2009						
	TL equivalent (functional currency)	USD	EURO	Yen	GBP	CHF	Other
1. Trade receivables	133.101.383	47.009.837	28.846.833	-	359	-	-
2a. Monetary financial assets (include cash and bank deposit)	113.911.861	52.106.856	16.400.857	-	9.959	-	-
2b. Non-monetary financial assets	-	-	-	-	-	-	-
3. Other	76.490.208	24.346.561	17.561.917	38.550	314.170	783.560	5.805
4. Current Assets (1+2+3)	**323.503.452**	**123.463.254**	**62.809.607**	**38.550**	**324.488**	**783.560**	**5.805**
5. Trade receivables	14.788.695	9.436.643	268.454	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-	-	-
6b. Non-monetary financial assets	108.665.158	57.896.785	9.947.678	-	-	-	-
7. Other	2.038.495	1.086.308	186.295	-	-	-	-
8. Non Current Assets (5+6+7)	**125.492.347**	**68.419.736**	**10.402.427**	**-**	**-**	**-**	**-**
9. Total Assets (4+8)	**448.995.800**	**191.882.990**	**73.212.034**	**38.550**	**324.488**	**783.560**	**5.805**
10. Trade payables	23.764.423	9.829.937	1.911.026	9.900	127.279	3.115.705	15.563
11. Financial liabilities	1.414.461	935.246	2.880	-	-	-	-
12a. Other monetary liabilities	350.489	232.775	-	-	-	-	-
12b. Other non-monetary liabilities	109.306.369	48.605.022	16.711.812	-	8.061	-	-
13. Current Liabilities (10+11+12)	**134.835.742**	**59.602.980**	**18.625.718**	**9.900**	**135.340**	**3.115.705**	**15.563**
14. Trade payables	3.063.499	2.034.601	-	-	-	-	-
15. Financial liabilities	39.668.822	26.345.767	-	-	-	-	-
16 a. Other monetary liabilities	-	-	-	-	-	-	-
16 b. Other non-monetary liabilities	644.255.067	307.388.442	83.979.211	-	-	-	-
17. Non-Current Liabilities (14+15+16)	**686.987.388**	**335.768.810**	**83.979.211**	**-**	**-**	**-**	**-**

	TL equivalent (functional currency)	USD	EURO	Yen	GBP	CHF	Other
18. Total Liabilities (13+17)	**821.823.130**	**395.371.790**	**102.604.929**	**9.900**	**135.340**	**3.115.705**	**15.563**
19. Off balance sheet foreign currency denominated derivatives net assets/(liabilities) position (19a-19b)	-	-	-	-	-	-	-
19a. Off balance sheet foreign currency denominated derivatives assets amount	-	-	-	-	-	-	-
19b. Off balance sheet foreign currency denominated derivatives liabilities amount	-	-	-	-	-	-	-
20. Net foreign currency denominated assets /(liabilities) position (9-18+19)	**(372.827.330)**	**(203.488.799)**	**(29.392.895)**	**28.650**	**189.148**	**(2.332.145)**	**(9.758)**
21. Monetary accounts net foreign currency denominated assets /(liabilities) position (=1+2a+5+6a-10-11-12a-14-15-16a)	**193.540.244**	**69.175.011**	**43.602.238**	**(9.900)**	**(116.961)**	**(3.115.705)**	**(15.563)**
22. Fair value of hedging financial instruments	-	-	-	-	-	-	-
23. Hedged foreign currency denominated assets	-	-	-	-	-	-	-
24. Hedged foreign currency denominated liabilities	-	-	-	-	-	-	-
25. Export	101.887.040	56.254.365	7.096.517	-	360	-	-
26. Import	309.529.130	128.433.142	40.973.703	296.720	6.086.689	7.879.130	1.326.997

As of 31.12.2010, short-term and long-term advances received of TL 863.103.909 (31.12.2009: TL 753.561.436) included within liabilities in the balance sheet do not represent a monetary liability. Such advances relate to amounts collected denominated in TL and foreign currency under contracts entered into with the Group's customers. These advances are used for acquiring material, investment goods, incurring general expenditure and similar requisitions and are closed by the offset of invoices issued under the terms of the contracts undertaken.

The Group incurs certain foreign currency denominated expenditure for goods and materials imported for the contractually agreed works. Moreover, to mitigate the Group's foreign currency exposure and maintain a balanced foreign currency position, a substantial portion of the contracts are entered into in foreign currency, foreign currency advances are collected from customers at the beginning of the project as well as at several milestones and completion stage of the projects.

Foreign Currency Risk

The basic principal in foreign currency management is to minimize the effects of exchange rate fluctuations without having a deficit or surplus foreign currency position.

In order to measure the foreign currency risk exposure of the Group, foreign currency positions are monitored at regular intervals; foreign currency gains and losses that would arise from the fluctuations in the exchange rates and the possible effects of currency exposure are computed and analyzed. Within this context, foreign currency positions of the Group for the upcoming financial periods are estimated by considering possible changes that may occur in assets and liabilities, which are sensitive to foreign currency rates. The applicable derivative instruments and transaction volumes that can be used are determined after making estimates for the foreign currency position, by taking the existing market conditions and the expectations into consideration. To hedge the currency risk exposure, if there is an open foreign currency position, the Group enters into currency buy option transaction and if there is a long position, the Group enters into a currency sell option as foreign currency hedging instrument.

The following table illustrates the sensitivity of profit and equity in regards to the Group's financial assets and financial liabilities and the USD/TL exchange rate:

Foreign currency sensitivity table				
31.12.2010				
	Profit/Loss		Equity	
	Strengthening of foreign currency	Weakening of foreign currency	Strengthening of foreign currency	Weakening of foreign currency
Change of USD exchange rate against TL by 10%:				
1- USD denominated net assets/liabilities	(5.735.027)	5.735.027	-	-
2- Hedged amount against USD risk (-)	-	-	-	-
3- Net effect of USD (1+2)	**(5.735.027)**	**5.735.027**	**-**	**-**
Change of EURO exchange rate against TL by 10%:				
4- EURO denominated net assets/liabilities	(8.749.646)	8.749.646	-	-
5- Hedged amount against EURO risk (-)	-	-	-	-
6- Net effect of EURO (4+5)	**(8.749.646)**	**8.749.646**	**-**	**-**
Change of other currencies against TL by 10%:				
7- Other foreign currency denominated net assets/liabilities	(406.016)	406.016	-	-
8- Hedged amount against other foreign risk (-)	-	-	-	-
9- Net effect of other foreign currency (7+8)	**(406.016)**	**406.016**	**-**	**-**
Total (3+6+9)	**(14.890.689)**	**14.890.689**	**-**	**-**

Foreign currency sensitivity table				
31.12.2009				
	Profit/Loss		Equity	
	Strengthening of foreign currency	Weakening of foreign currency	Strengthening of foreign currency	Weakening of foreign currency
Change of USD exchange rate against TL by 10%:				
1- USD denominated net assets/liabilities	(30.639.309)	30.639.309	-	-
2- Hedged amount against USD risk (-)	-	-	-	-
3- Net effect of USD (1+2)	**(30.639.309)**	**30.639.309**	**-**	**-**
Change of EURO exchange rate against TL by 10%:				
4- EURO denominated net assets/liabilities	(6.349.747)	6.349.747	-	-
5- Hedged amount against EURO risk (-)	-	-	-	-
6- Net effect of EURO (4+5)	**(6.349.747)**	**6.349.747**	**-**	**-**
Change of other currencies against TL by 10%:				
7- Other foreign currency denominated net assets/liabilities	(288.113)	288.113	-	-
8- Hedged amount against other foreign risk (-)	-	-	-	-
9- Net effect of other foreign currency (7+8)	**(288.113)**	**288.113**	**-**	**-**
Total (3+6+9)	**(37.277.168)**	**37.277.168**	**-**	**-**

b) Interest position table and related sensitivity analysis

<u>Interest rate risk</u>

In determining the interest rate risk, gap analysis is performed to monitor the difference between interest rate sensitive financial assets and financial liabilities. For that purpose the Group uses a balance sheet maturity table. The Group is not exposed to any major risk arising from interest rate sensitive financial liabilities as the Group does not have any major indebtedness arising from credit relationship entered with any financial institution counterparty. As part of its fund management policy, the interest risk of interest bearing assets is calculated by performing sensitivity analysis. The sensitivity of interest sensitive assets in response to changes in market interest rates is computed based on the average maturities and average interest sensitive assets; the interest rate risk arising from the securities portfolio held as part of fund management function is monitored within expectations of market rates by closely watching the financial markets.

The interest rate position table is as follows:

Interest rate position table		
	31.12.2010	31.12.2009
Fix interest bearing financial instruments		
Financial assets	530.785.968	598.114.842
Financial liabilities	137.050.580	400.648.601
Variable interest bearing financial instrument		
Financial assets	5.927.597	5.950.552
Financial liabilities	-	-

As of 31.12.2010, interest bearing assets and liabilities consist of financial investments. If the interest rates applied to Group increase/(decrease) by 1 point, the net income will increase/(decrease) by TL 59.276 (31.12.2009: TL 59.506).

Price risk

The Group usually enters into fixed price contracts, therefore, is not exposed to any major price risk.

Capital Management

The primary objective of the Group's capital management objectives is to monitor capital structure through healthy financial performance management in order to maintain sustainable profits.

The capital structure of the Group include paid in capital, capital restatement differences, restricted reserves set aside from profits, retained prior years incomes and net profit for the period.

Main liability items on the Group's balance sheet are the short-term and long-term advances received for project orders for contracts awarded. Collecting advance payments from customers under long-term contracts for the works undertaken is the Group's policy and the characteristic of the sector. As the majority of the advances received from customers were applied to fixed assets and stocks purchases for contract performance, advances received were not included among the liabilities in the determination of the gearing ratio of the Group. As of 31.12.2010, the gearing ratio of the Group is computed as 64% (31.12.2009: 106%). Gearing ratio decreased in the current period mainly due to the decline in the bank loans used by the Group.

40. FINANCIAL INSTRUMENTS: DISCLOSURES (FAIR VALUE DISCLOSURES AND HEDGE ACCOUNTING DISCLOSURES)

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best determined by a quoted market price, if one exists. Judgment is necessarily required to estimate the fair value and to interpret market data. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

The Group considers that carrying amounts reflect fair values of the financial instruments.

Monetary assets - The fair value of the foreign currency assets which are converted by the year end foreign exchange rates are considered to approximate their respective carrying values. Short-term monetary assets are considered to approximate their respective carrying values due to their short-term nature and low level of credit risk.

Monetary liabilities - The fair value of the foreign currency liabilities which are converted by the year end foreign exchange rates are considered to approximate their respective carrying values. Trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

As of 31.12.2010 and 31.12.2009, categories of financial instruments are as follows:

31.12.2010	Amortized financial assets	Present at fair value	Loans and receivables	Available for sale	Amortized financial liabilities	Book value	Fair value	Note
Financial assets								
Cash and cash equivalents	-	-	600.696.797	-	-	600.696.797	600.696.797	6
Financial investments	-	-	-	-	-	-	-	7
Trade receivables	-	5.927.597	-	10.003.355	-	15.930.952	15.930.952	10
Financial liabilities								
Financial payables	-	-	-	-	143.901.443	143.901.443	143.901.443	8
Trade payables	-	-	-	-	92.667.897	92.667.897	92.667.897	10

31.12.2009	Amortized financial assets	Present at fair value	Loans and receivables	Available for sale	Amortized financial liabilities	Book value	Fair value	Note
Financial assets								
Cash and cash equivalents	-	-	642.040.945	-	-	642.040.945	642.040.945	6
Financial investments	-	5.950.552	-	9.963.235	-	15.913.787	15.913.787	7
Trade receivables	-	-	209.673.889	-	-	209.673.889	209.673.889	10
Financial liabilities								
Financial payables	-	-	-	-	409.688.365	409.688.365	409.688.365	8
Trade payables	-	-	-	-	79.110.646	79.110.646	79.110.646	10

41. SUBSEQUENT EVENTS

41.1 The Parent Company has entered into an agreement with International Golden Group (IGG) to establish a joint venture capital company in the United Arab Emirates. The joint venture partnership which will start its operations in the first half of the year 2011 will be 49% owned by the Parent Company and 51% of its shares will be held by the International Golden Group. The joint venture company will be restructured in order to serve the needs of the United Arab Emirates and the Gulf region countries.

41.2 The Parent Company has entered into an agreement with Kazakhstan Engineering Company to establish a joint venture capital company that will be 49% owned by the Parent Company, 50% owned by Kazakhstan Engineering Company and 1% of owned by the Undersecretary of Defense Industry. The joint venture partnership which will start its operations in the beginning of the year 2012. The joint venture company will be restructured in order to serve the needs of Kazakhstan and the neighboring countries.

42. OTHER MATTERS THAT MAY HAVE A MATERIAL EFFECT ON, OR PREVENT THE CLEAR UNDERSTANDING OF THE CONSOLIDATED FINANCIAL STATEMENTS

None (31.12.2009: None).

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

(CONVENIENCE TRANSLATION OF A REPORT AND FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

To The Board Of Directors
Aselsan Elektronik Sanayi ve Ticaret A.Ş.

Introduction

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 31.12.2010, and the consolidated comprehensive 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 Markets 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 Markets 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. 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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5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, the accompanying financial statements present fairly, in all material respects consolidated financial position of Aselsan Elektronik Sanayi ve Ticaret A.Ş. as of 31.12.2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Reporting Standards issued by Capital Markets Board.

İstanbul, 10.03.2011

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

ENGİN
BAĞIMSIZ DENETİM VE SERBEST
MUHASEBECİLİK MALİ MÜŞAVİRLİK A.Ş.

Jale Akkaş
Engagement Partner

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ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD OF 1 JANUARY-31 DECEMBER 2010

(In Compliance with Capital Markets Board (CMB) Communiqué: XI, No: 29)

1. Report period, company title, names and surnames of the chairpersons and members of the boards of directors and auditors as well as of the managing directors who served within the period; limits of their authority; and the periods of service (with starting and ending dates)

Members of the Board of Directors and Auditors

Information about the members of the Board of Directors and the Board of Auditors, who were – according to the provisions of the Articles of Association of the Company – elected by the General Assembly among the owners of Group-A preferred stocks or the candidates who were nominated by them, for a period of three years are as follows.

Members of the Board of Directors			
Name Surname	**Duty**	**Date of the General Assembly at which he/she was Elected**	**Date of Duty End**
Hasan MEMİŞOĞLU *	Chairperson/Managing Director	-	-
Mehmet ÇAVDAROĞLU	Chairperson/Managing Director	March 2008	December 2010
Necmettin BAYKUL	Deputy Chairperson/Managing Director	March 2010	March 2013
Birol ERDEM	Member	March 2010	March 2013
Ahmet ŞENOL	Member	March 2010	March 2013
Aslan KILIÇARSLAN	Member	March 2008	March 2011
M.Ayhan GERÇEKER	Member	March 2010	March 2013
Osman Kapani AKTAŞ	Member	March 2010	March 2013

*Mr. Mehmet ÇAVDAROĞLU, the chairperson of the board of directors, has resigned from his position on 31.12.2010. Mr. Hasan MEMİŞOĞLU was elected as the new chairperson to be offered in the next general assembly, according to the article no: 315 of the Turkish Commercial Code (TCC).

Members of the Board of Auditors			
Name Surname	**Duty**	**Date of Appointment**	**Date of Duty End**
Mehmet TİMUR	Member of the Board of Auditors	March 2010	March 2013
İsmail DİKMEN	Member of the Board of Auditors	March 2010	March 2013
Atilla GÜLER	Member of the Board of Auditors	March 2010	March 2011

Members of the Board of Directors have powers that are stated in TCC and in Article 13 of the Articles of Association of the Company.

Members of the Board of Auditors have powers that are stated in TCC and in Article 17 of the Articles of Association of the Company.

Changes of Members of the Board of Directors and Auditors in the period of 1 January – 31 December 2010:

In the General Assembly dated 30 March 2010, Necmettin BAYKUL and Birol ERDEM were elected to replace with Mehmet İhsan ONGUN and Mehmet BALİ, whose duty terms are expired. Osman Kapani AKAŞ was elected to replace with Münir ERTEN, who has resigned from his position on 29 March 2010. Ahmet ŞENOL and Mustafa Ayhan GERÇEKER were re-elected again for 3 more years.

For the members of Board of Auditors, İsmail DİKMEN was elected for 3 years to replace with Melih Sahir BİÇER, whose duty term was expired. Mehmet TİMUR was elected for 3 more years and Atilla GÜLER was elected for one year to continue in their duties in the Board of Auditors.

2. Main factors that affect the enterprise's performance; significant changes in the environment in which the enterprise operates; the policies the enterprise shall pursue against these changes; investments and dividends policies undertaken by the enterprise in order to strengthen its performance

Aselsan Inc. operates in the field of defense industry. Global tendencies as well as the domestic dynamics affect the defense expenses of Turkey. Even though her defense expenses vary in time, Turkey has, especially in the recent years, been one of the significant countries in defense equipment purchases. From the year 2000 and onwards, Turkey appropriated one third of the defense budget for the purchase and modernization of defense equipment programs.

When deciding the amounts of dividends, the company's equity capital ratio, sustainable growth rate, market value and cash flows are taken into consideration and; the profit distribution proposal prepared according to these is submitted for the approval in the General Assembly. There are no cumulative preferred shares in the company.

3. Financial resources and the risk management policies of the enterprise

a. Financial resources

The major financial resource of the Company consists of advance/interim proceeds are received under the signed contracts and the accumulated earnings (self-financing). In 2010, cash requirements have been met from the existing cash resources or the cash flows and; no loan has been taken for the cash requirements.

b. Risk management

Financial risk and management policy

In implementing a financial risk management model for the Company, "Assets Liabilities Management Model" was undertaken as the basis and foreign currency, interest rate and liquidity risks were identified as the major financial risks.

For the management of the financial risks of the balance sheet, foreign currency, interest rate and liquidity risks, which can have an impact on the assets and liabilities of the Company are defined, measured, monitored and reported. Therefore the negative effects of the fluctuations in financial markets on the financial performance of the Company have been minimized. Derivative financial instruments are also used to reduce risks to minimum levels.

Off-balance sheet financial risks originate from the different currencies of cash inflows and outflows that are associated with the projects and the deviations from the planned cash flow dates. In order to monitor off-balance sheet financial risk management, financial risk management techniques are used in order to maintain the expected profitability of the projects.

Financial risk management is also applied by subsidiaries and affiliates within the framework of risk management policies and procedures approved by their own management.

(1) Foreign currency risk and management policy

The basic principal in foreign currency management is to minimize the effects of exchange rate fluctuations without having a deficit or surplus in the foreign currency position.

In order to measure the foreign currency risk exposure of the Group, foreign currency positions are monitored at regular intervals; foreign currency gains and losses that would arise from the fluctuations in the exchange rates and the possible effects of currency exposure are computed and analyzed. Foreign currency risk arising from the foreign currency position is hedged with derivative instruments by considering the cost and benefits of hedging the risk exposure. Within this context, foreign currency positions of the Group for the upcoming financial periods are estimated by considering possible changes that may occur in assets and liabilities, which are sensitive to foreign currency rates. The applicable derivative instruments and transaction volumes that can be used are determined after making estimates for the foreign currency position, by taking the existing market conditions and the expectations into consideration. To hedge the currency risk exposure, a currency buy option transaction is entered into if there is an open foreign currency position, and a currency sell option is entered into if there is a long position.

(2) Interest risk and management policy

In determining the interest rate risk, gap analysis is performed to monitor the difference between interest rate sensitive financial assets and financial liabilities. For that purposes the Company uses a balance sheet maturity table. The Company is not exposed to any major risk arising from interest rate sensitive financial liabilities as the Company does not have any major indebtedness arising from credit relationship entered with any financial institution counterparty. As part of its fund management policy, the interest risk of interest bearing assets is calculated by performing sensitivity analysis. The sensitivity of interest sensitive assets in response to changes in market interest rates is computed based on the average maturities and average interest sensitive assets; the interest rate risk arising from the securities portfolio held as part of fund management function is monitored within expectations of market rates by watching the financial markets closely.

(3) Liquidity risk and management policy

Liquidity risk covers the risk of not having financing resources available to fund liabilities that are due, not having available funds to support potential increase in assets and the transactions conducted in illiquid markets.

Liquidity risk is managed by determining the cash portfolio term structure by taking into account any short-term liabilities, high liquidity assets, expected cash flows and the balance sheet maturity ladder. In this context, the Group manages the funding liquidity requirements by maintaining sufficient levels of cash and cash equivalent assets, giving particular attention to financing Group activities without demanding any bank loans and maintaining sources of funding varied by keeping credit limits available to fund unexpected cash requirements.

Capital Risk Management

For the capital risk management purposes, debt-equity ratios are taken into consideration for reducing financial risks and costs to minimum levels. The aim of the Company is to assure regular dividend income for its shareholders and provide a stable growth of the Company through funds generated by the Company's activities.

The company aims to maintain a balanced capital structure by cash and/or share capital based on dividend payments and new share issue.

4. Matters that do not take place in the financial statements but which would be helpful for the users

As of 31.12.2010, the company has long term orders at a value of USD 3.8 Billion, for the period of 2011 – 2018.

5. Important events that did occur starting from the time the accounting period 01.01.2010–31.12.2010 has ended until the date of the general assembly at which the related financial statements would be discussed

a) The contract worth USD 700 Million, which is signed by the Company, TUSAŞ (Prime Contractor) and the Undersecretary of Defense Industry in September 2007 named as The Integration and Supply of Avionics, Weapon and Battle Systems for the ATAK Helicopters, is increased to USD 743,8 Million. The increase has been contributed by the addition of 9 more ATAK Helicopters under the contract, signed on 08.11.2010 The delivery will be carried out between 2010 and 2013.

b) In 11.11.2010 the Company has signed a framework agreement with MBDA Italy and MBDA France, who are in EUROSAM consortium. MBDA Italy and MBDA France are going to be the main contractors of the project T-LORAMIDS (Long Range Air and Missile Defense System). The details will be shaped when the Undersecretary of Defense Industry and the main contractors have signed the contract.

c) The Company has received a contract order worth EURO 4,9 Million to integrate a Remote Controlled Stabilized Platform to the Coast Guard Boats of a foreign customer. The delivery will be carried out between 2011 and 2013.

d) A contract worth USD 6,5 Million has signed with the Turkish Coast Guard Command within the scope of the project SAHMUS (VHF Wide Range Quantitative Safe Battle System). The delivery will be carried out between 2011 and 2012.

e) The Company has entered into an agreement with International Golden Group (IGG) to establish a joint venture capital company in the United Arab Emirates. The joint venture partnership which will start its operations in the first half of the year 2011 will be 49% owned by the Parent Company and 51% of its shares will be held by the IGG. The joint venture company will be restructured in order to serve the needs of the United Arab Emirates and the Gulf region countries.

f) The Parent Company has entered into an agreement with Kazakhstan Engineering Company to establish a joint venture capital company that will be 49% owned by the Parent Company, 50% owned by Kazakhstan Engineering Company and 1% of owned by the Undersecretary of Defense Industry. The joint venture partnership will start its operations in the beginning of the year 2012. The joint venture company will be restructured in order to serve the needs of Kazakhstan and the neighboring countries.

6. Predictions about the development of the enterprise

The vision of Aselsan Inc. is to become “one of the largest fifty defense industry firms”. A five-year strategic plan is being prepared in accordance with this vision. All activities are carried out in order to attain the set objectives in compliance with the strategic plan. Aselsan Inc. will continue to produce technologies in line with these set objectives, by making use of its qualified human resources which is the bases of productivity, the developed processes, its R&D resources, and its infrastructure and organization that match the level of the worldwide companies.

Aselsan Inc. has been included for the last four years in the list of the most prestigious defense industry – the “Defense News Top 100”, which is published annually by the “Defense News” magazine and Aselsan Inc. aims to continue to climb up the list in the coming years by raising its revenue up to USD 1 Billion.

7. Report on compliance with corporate management principles

Presented as an annex to this document.

8. Research and development activities which were carried out

Starting from the day it had been founded as the leading defense industry establishment which develops high technology solutions for land, air, sea and space platforms, Aselsan Inc. has been deeply committed to R&D activities and technological achievements. It aims to spend an average of 7% of its annual revenues on the R&D activities, which it would support by using its own equity capital. All technological developments in the products/systems for land, sea, air and space platforms in the field of the activities are followed up and; the design, development and production of advanced technology products/systems are taken as the basis to acquire a system that not only uses the technology, but also transfers/sells the technologies that it develops to the other firms it cooperates with. Emphasis is given to basic/applied research, technology development and creativity activities. Opportunities of cooperation in these fields with national and international establishments are used.

Maximum level of effort is exerted to use the technological facilities within our country, in order to increase the share of the national contribution to the projects. For this purpose, the Company gives importance to cooperation made with the universities, R&D establishments, and the use of domestic subcontractors and sub-industries.

Research and development expenditure deduction is applicable on the projects conducted by the Company in accordance with provisions of Corporation Tax Law No. 5520 and The Support of Research and Development Activities Law No: 5746. For the research and development projects which are not conducted for the public sector, approval and support of the Technology and Innovation Support Program Presidency’s (TEYDEB) is obtained. There are four research and development centers within the Company which are Defense Systems Technologies (SST), Radar, Electronic Warfare and Intelligence Systems (REHİS), Microelectronic, Guidance and Electro-

Optical (MGEO), Information Technologies (HBT) Department. In the research and development centers, 1.718 research engineers are employed providing their services.

9. Amendments made to the Articles of Association within the (accounting) period and the reason for them

The articles of association was not changed during the period.

10. The nature and the amount of the capital market instruments that were issued – if any

In the General Assembly dated on 30.03.2010, it was decided to increase its capital from TL 117.612.000 to TL 235.224.000 through transfer of the profit of the year 2009 to the capital by the distribution of free shares to the participants. It was registered to Trade Registry on 26.05.2010 and published in the Turkish Trade Registry Gazette no: 7.574 on 31.05.2010. To represent the increased capital of TL 117.612.000 amounted share was issued and the free right to obtain shareholding was approved on 07.06.2010.

11. The sector in which the enterprise operates and its position within that sector

Aselsan Inc. is the leader industrial establishment which develops high technology system solutions for land, air, sea and space platforms.

Aselsan Inc., which is an establishment of the Turkish Armed Forces Foundation, is the technological center of Turkey in the fields of design, manufacture, system integration, modernization and after sale services of military and civilian communication systems; avionics systems; electronic warfare and intelligence systems; radar systems; command control systems; naval warfare systems; electro-optical systems and products.

Apart from rising to the 86th in the “Defense News Top 100” list in the year 2009 (93rd in the year 2008), Aselsan Inc. rose to the 40th in the ISO 500 from-production-to-sale list (64th in the year 2008), Aselsan Inc. rose to the 49th in Fortune 500 Turkey and to the 35th in the category of privately owned companies (58th in the year 2008). Also, the Company rose to the 49th of “Fortune 500 Turkey” list (92th in the year 2008) and 67th of “Capital 500 Turkey” list. (110th in the year 2008)

Aselsan Inc. was placed on the top in the research conducted by Deloitte Company named “Deloitte Technology Fast 50 Turkey – Big Stars”, same as 2008.

12. Developments in the investments, benefiting from incentives, and if benefitted, the scope of such benefit

Developments in investments: It is advised to have the resources of Aselsan Inc. directed to the fields with higher added value and to more profitable areas, by taking into consideration the worldwide trends, technological developments and the current and future needs of the customers – first and foremost of the Turkish Armed Forces. Investments in Aselsan Inc. are made by taking the requirements of technological plans, strategic plans as well as the projects into consideration.

The Company benefits from the new investment incentives for the business scope and has received three incentive certificates worth of TL 225,4 Million.

Benefitting from incentives: Within the scope of 1501- Industrial R&D Projects Support Program, the Company benefitted from incentives provided by Scientific and Technological Research Council of Turkey (TÜBİTAK), for the projects which have been deemed eligible for incentives and thus were supported**.**

There are four projects within the scope of 1007 "Public Corporations Research and Development Projects Support Program" and there are also four more applications for the programme.

The integration project, signed within the scope of the 7th Framework Programs of the European Union, has started from the date of 01.06.2008. Besides, two projects incentive applications were accepted within the scope of the 7th Framework Programs of the European Union, under the "Circulation of Researchers, Return Gifts; Special Program for Supporting Individuals". Two more projects were started to be supported in the scope of EUREKA International R&D Projects Support Program in July, 2010. At the end of 2010 a project about border security was accepted by IPA (A Support Program before Joining to EU).

Two projects are supported by the SAN-TEZ R&D Support Program, which was founded to support postgraduate and doctoral thesis to make the cooperation of the universities and industry institutional.

13. Qualities of the production units of the enterprise; capacity usage ratios and their development; general capacity usage ratio; developments in the production of the goods and services of the field of activity; explanations that contain comparisons of the quantities, quality, circulation and prices with the figures of the past periods

In the year 2010, the capacity usage ratio has been at the level of 95%. Large part of the production was based on the orders that have been placed. R&D activities are being carried out for the products that are designed according to the needs of the customers. The systems and the product qualities, quantities and prices do vary.

With the use of Corporate Resource Planning (ERP) system, production processes are effectively managed.

14. Prices, sales proceeds and sale conditions of the goods and services in the field of activity as well as the improvements shown in these matters within the year; developments in yield and productivity coefficients, and the reasons for significant improvement in them in comparison with past years

Aselsan Inc. carries out its operations in these basic fields of activities: "Communications and information technologies", "defense system technologies", "radar, electronic warfare and intelligence systems" and "microelectronic guidance and electro-optic."

According to the terms and conditions of the related sale contract, incomes from projects include, production based on the orders, mass production product sales, sales with services, commodities and progress payment contracts. Sales conditions do vary in each particular contract.

TL 1.113,5 million worth of the total sales that Aselsan Inc. have made in the period 01.01-31.01.2010 were domestic sales, whereas TL 76,3 million worth of these sales were overseas sales.

15. The basic ratios regarding the financial status, productivity and solvency, as calculated on the basis of the financial statements and information that has been prepared according to the provisions in the Communiqué of the Capital Markets Board with Series:XI and No:29

BASIC RATIOS / CONSOLIDATED	31.12.2010	31.12.2009
Current Ratio (Current Assets/Current Liabilities)	3,32	2,39
Liquidity Ratio (Current Assets-Inventories/Current Liabilities)	1,53	1,08
Equity Capital/Total Liabilities	0,31	0,27
Short Term Liabilities/Total Liabilities	0,22	0,32
Long Term Liabilities/Total Liabilities	0,47	0,42
Operating Profit/Sales Revenues	0,18	0,15
Profit for the Period (Parent Company Shares) / Sales Revenue	0,20	0,18

16. Measures that are considered in order to improve the financial structure of the enterprise

In the annual budgets and practices of the company, for the period of 2010-2012, the following principles are taken as the basis: Economizing when making all kinds of expenses; close follow up of advance payments and claims; paying attention to maturity dates and currency accord as well as to the risk status of the domestic and foreign vendors in the purchase and sales agreements that would be made.

17. Personnel and workers movements, collective bargaining practices, rights and benefits that are granted to the personnel and to the workers

The table on which the information on the changes made within the year in top management and on those who are currently in office is as follows:

LIST OF TOP DIRECTORS WHO SERVE AT ASELSAN INC.			
	Name - Surname	**Position**	**Date of Appointment**
1	Hasan MEMİŞOĞLU	Chairperson of the Board of Directors /Managing Director	01.01.2011
2	Necmettin BAYKUL	Deputy Chairperson of the BOD /Managing Director	01.04.2010
3	Ahmet ŞENOL	Member of the BOD	01.04.2007
4	Aslan KILIÇARSLAN	Member of the BOD	01.04.2008
5	Mustafa Ayhan GERÇEKER	Member of the BOD	01.04.2007
6	Birol ERDEM	Member of the BOD	01.04.2007
7	Osman Kapani AKTAŞ	Member of the BOD	01.04.2010
8	İsmail DİKMEN	Member of the Board of Auditors	01.04.2010
9	Atilla GÜLER	Member of the Board of Auditors	01.04.2009
10	Mehmet TİMUR	Member of the Board of Auditors	02.04.2001
11	Cengiz ERGENEMAN	General Manager	04.01.2006
12	Fuat AKÇAYÖZ	SST Division Chief Executive Officer	01.02.2006
13	Ergun BORA	REHİS Division Chief Executive Officer	01.01.2008
14	Özcan KAHRAMANGİL	MGEO Division Chief Executive Officer	05.01.2006
15	Faik EKEN	HBT Division Chief Executive Officer	21.01.2006
16	Ahmet DEMİR	Chief Financial Officer	01.02.2005

LIST OF ASELSAN INC. TOP DIRECTORS WHO RESIGNED			
	Name - Surname	**Position**	**Date of Resignition**
1	Mehmet ÇAVDAROĞLU	Chairperson of the BOD /Managing Director	31.12.2010
2	Mehmet İhsan ONGUN	Deputy Chairperson of the BOD /Managing Director	30.03.2010
2	Mehmet BALİ	Member of the BOD	30.03.2010
3	Münir ERTEN	Member of the BOD	29.03.2010
4	Melih Sahir BİÇER	Member of the Board of Auditors	30.03.2010

18. Personnel and labor movements, collective bargaining practices, rights and benefits that are granted to the personnel and the workers

The number of personnel, including candidate engineers, temporary personnel, the disabled and terror victims, who have been hired in the year 2010, is 600; the number of the personnel who left the job is 200 persons. 51 of them due to military service; 45 of the personnel left the job due to retirement; 41 of them due to contract expiry; 16 of them for other jobs; 16 of them for academic studies; 5 of them due to join AselsanNet; 4 of them due to termination of the employment contract and 22 of them due to other reasons.

There is not collective bargaining agreement in the Company.

The rights and benefits that the company offers to the personnel are bonus, mess allowance, marriage allowance, childbirth allowance, funeral benefits, transportation, private health insurance, and kindergarten and childcare facilities.

19. Information on the donations that are within the year 2010

Information on the donations that are made within the year 2010 is presented on the following table:

DONATIONS MADE AND AID PROVIDED BY ASELSAN INC. IN THE YEAR 2010

ESTABLISHMENT	TOTAL AMOUNT		SUBJECT MATTER
Cücük Village Primary School	42.806	TL	Building modification
ITU Foundation	15.000	TL	Project support
Foundation of Hacettepe University Engineering Faculty	2.000	TL	Support to exhibition and competition.
Other	250	TL	Donation to an artist
TOTAL	**60.056**		

20. Information as to if there are any provincial organizations

None.

21. Information on the capital participation shares of the enterprises that are subject to consolidation in the main company (mutual affiliation)

The main field of activities and the capital participation shares of the affiliate company which is included in the consolidation is as follows:

Company Name	Field of Activity	Percentage of Shares (%)
Mikes Mikrowave Electronics Systems Inc.	Microwave research, development projects	96,36

Mikes Inc. does not own any shares of Aselsan Inc.

22. Explanations regarding the main elements of the internal and risk management systems of the group concerning the procedures for the preparation of the consolidated financial statements

Controls in the company are performed by the Internal Audit and Assessment Committee, the Committee in Charge of Audits and the members of the Board of Auditors, in order to reduce the risk of significant mistakes in the financial statements of the group. These organs perform their duties independently from one another and according to the common objectives and targets, by pursuing an internal control system which ensures the reliability of the financial reporting system as well as the required controls in matters such as the effectiveness of the activities and their lawfulness.

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD OF 1 JANUARY-31 DECEMBER 2010
(In Compliance with Capital Markets Board (CMB) Communiqué: XI, No: 29)

Attachment: Report on Compliance with Corporate Management Principles

1. COMPLIANCE WITH CORPORATE MANAGEMENT PRINCIPLES DECLARATION

Compliance Report for the period of activities between 01.01.2010–31.12.2010 as per the Corporate Management Principles, which the Capital Markets Boards (CMB) had announced to the public, and which it required the companies to include in their activity reports is presented hereinafter.

Efforts to ensure compliance with the Corporate Management Principles – where it could not be achieved will – continue in the future, to the extent where that proves to be possible in the sector in which activities are performed.

SECTION I - SHAREHOLDERS

2. Relations with Shareholders Unit

Information on the Investors' Relations and Affiliates Unit that had been set up be in charge of relations of the company with its shareholders are presented herein below:

Ahmet DEMİR (Chief Financial Officer)
Aykan ÜRETEN (Financing Director)
Pınar ÇELEBİ (Treasury and Fund Management Acting Manager)
Bani Betül DİNÇER (Investors Relations and Affiliates Unit /Senior Specialist)
Dilara AKÇAM (Investors Relations and Affiliates Unit / Specialist)

<u>Contact Details</u>
Tel: (312) 592 12 42-43-45-70
e-mail: ortaklar_servisi@aselsan.com.tr

Investors Relations and Affiliates Unit carries out the activities regarding the correct, safe and current keeping of the records on shareholders as well as the exercise of their rights; coordination of public announcements about special cases; answering of shareholders' written requests for information about the company, except for the undisclosed and secret information as well as the commercial secrets; ascertaining of holding of the General Assembly meeting in accordance with the current legislation, articles of associations and the other internal rules of the company, and keeping of the records of the casted votes and sending the results to the shareholders; considering and monitoring of legislation, all matters about public disclosures, including company's disclosure policy; carrying out of the procedures about increase of capital, distribution of profit, and amendment of the articles of association as well as the dematerialization procedures by using Enlightening of the Public Platform of the CMB and; the Corporate Management Principles studies.

Dematerialization of the physical share certificates of about 80 shareholders and the procedures about their receipt of dividends were carried out by the Investors Relations and Affiliates Unit in the year 2010.

3. Exercise of Their Right to Information by the Shareholders

In the year 2010, questions of about 200 shareholders, mainly on how they would claim the bonus shares and the dividends (thereof) that they hadn't claimed within the set time, and what they procedures they should follow for the dematerialization of their share certificates have been orally answered. Special care has been taken to provide full and understandable answers to the shareholders who apply for information.

Company's web site is effectively used for the announcement of the developments that would affect exercise of shareholding rights.
Appointment of a private auditor has not been provided as an individual right in the articles of association of the company, and there has not been any request from the shareholders for the appointment of a private auditor, either.

4. Information on General Assembly

The agenda and the invitation to the 35th Annual General Assembly Meeting of the company which was held on the date of 30.03.2010 to discuss the activities of the year 2009 have been announced in the Trade Registry Gazette of Turkey, on 10.03.2010, and published in two newspaper at the date of 12.03.2010 at national level in Turkey. The meeting was held with the participation of 9 shareholders, who owned 9.980.345.445 shares of the total number of 11.761.200.000 shares represent TL. 117.612.000 issued capital.

There is no requirement as to the period regarding participation of the owners of the registered shares to the General Assembly. Annual reports are made ready for the shareholders to study latest by fifteen days before the general assembly date and; they are given to the shareholders who apply to participate to the general assembly and to those who demand them. Special care is taken to shareholders' right to ask questions in the general assembly meetings on matters that take place in the agenda. The questions that the shareholders ask at the meetings and their suggestions, as well as the answers that are given to them are entered in the minutes of the general assembly.

There is no provision in the articles of association pertaining to taking of important decisions by the general assembly, such as those regarding spin-offs, sale, purchase and lease of significant amount of assets. On the other hand, in Article 13 of the Articles of Association, which is titled "Duties and Powers of the Board of Directors", the following provision takes place: "…before taking decisions that puts the company under heavy burden, such as those the value of which exceeds – per each transaction and/or for that particular year – 20% of the total assets as stated in the latest published balance sheet of the company; on new fixed asset investments and; on new projects, financial and/or commercial debts, approval of the Turkish Armed Forces Foundation will be taken." The Turkish Armed Forces Foundation which had been established to meet the needs of the Turkish Armed Forces and which operates on the basis of the interests of the public does, regarding the important decisions of the company, take special care also to consider and protect the rights of other shareholders.

5. **Voting Rights and Minority Rights**
Shareholders have no preferred voting rights in the company, and there are not any rules pertaining to cumulative voting, either. As the members of the Board of Directors are, according to the provisions in the company's articles of associations, elected among the holders of Group-A registered shares or among the candidates that they nominate, minority shares are not represented in the management.

6. **Dividend Distribution Policy and the Time When Dividends are Distributed**
According to the Capital Markets Law and the other legislation as well as the provisions of the articles of association, and as per the resolutions of the general assembly, in the year of 2010, some proportion of the gross profit in 2009 is TL 57.629.880 (1TL per share is TL 0,49 from the issued capital %49) (just TL 48.985.398 - 1TL per share is TL 0,4165 from the issued capital %100) and TL. 117.612.000 of the profit share are added to the capital by exporting without charge and has been distributed within the timeframe provided in the law, out of the net profits that had been obtained as the result of the operations in year 2009.

There are no privileges granted to (certain) shareholders as to the entitlement to the profits that are obtained by the company. The dividend distribution policy that has been presented to shareholders' information is as follows:

DIVIDEND DISTRIBUTION POLICY

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

There are no privileges in the company regarding entitlement to the company's profit.

7. **Transfer of Shares**
In defense industry in which the company operates, it is very important to identify the controlling shareholders who would have a voice in the company management. For that reason, transfer of Group-A registered shares which represent a part of the capital and that are not traded in İstanbul Stock Exchange is restricted as per the provision of the articles of association which reads as, "Group-A shares cannot be sold or transferred without the approval of the Board of Directors and; in the event all or some of them are sold and transferred to third persons without the approval of the Board of Directors, the Board can, without stating any cause, refrain from registering such sale (in the company books)".

SECTION II – ENLIGHTENING OF THE PUBLIC AND TRANSPARENCY

8. Company's Disclosure Policy

Disclosure policy, about which our shareholders were informed at the Ordinary General Assembly meeting of 30.03.2007, can be accessed on the company's internet web site.

9. Explanations Regarding Special Cases

Explanations have, under the guidelines of the CMB, been made in the year 2010 for 33 special cases. CMB or İstanbul Stock Exchange did not request any explanations and/or additional explanations within the year.

10. Company's Internet Web Site and Its Content

Arrangements have been made to enable access to the following information on the company's web site (www.aselsan.com.tr).

- Members of the Board of Directors/Auditors;
- Trade Registry information;
- Shareholding structure;
- Latest version of the articles of association;
- Preferred shares;
- Explanations regarding special cases;
- Annual reports;
- Corporate management compliance reports;
- Disclosure policies;
- Explanations and public offering circulars;
- General assembly meetings;
- Proxy voting form;
- Frequently asked questions;
- Periodical financial statement and private audit reports.

In the news and announcements section of the main page of the company's internet web site, explanations regarding special cases to İstanbul Stock Exchange as well as information on other matters that concern the investors take place.

11. Disclosure of Real Person(s) Who is/are Ultimate Controlling Shareholder(s)

The Turkish Armed Forces Foundation is the largest shareowner of the company, and owns 84,58% shares of the company. The company does not have a mutual subsidiary relationship with the Turkish Armed Forces Foundation, or with any other company.

12. Public Disclosure of Persons Who Can Have Access to Insider Information

Starting from the year 2004 annual report, the list of the persons who can have access to insider information are annually disclosed to the public in the Corporate Management Principles Compliance Reports that take place in the annual reports.

The list of persons who can have access to insider information as of the beginning of March 2011 are as follows.

1)	Hasan MEMİŞOĞLU	Chairperson of the Board of Directors
2)	Necmettin BAYKUL	Deputy Chairperson of the Board of Directors
3)	Ahmet ŞENOL	Member of the Board of Directors
4)	Birol ERDEM	Member of the Board of Directors
5)	M. Ayhan GERÇEKER	Member of the Board of Directors
6)	Aslan KILIÇARSLAN	Member of the Board of Directors
7)	O. Kapani AKTAŞ	Member of the Board of Directors
8)	Mehmet TİMUR	Member of the Board of Auditors
9)	İsmail DİKMEN	Member of the Board of Auditors
10)	Atilla GÜLER	Member of the Board of Auditors
11)	Cengiz ERGENEMAN	General Manager
12)	Özcan KAHRAMANGİL	MGEO Division Chief Executive Officer
13)	Fuat AKÇAYÖZ	SST Division Chief Executive Officer
14)	Faik EKEN	HBT Division Chief Executive Officer
15)	Ergun BORA	REHİS Division Chief Executive Officer
16)	Ahmet DEMİR	Chief Financial Officer
17)	İnci UYSAL	Internal Audit and Assesment Committee Chairperson
18)	Aykan ÜRETEN	Financing Director
19)	Gönül TETİK	Accounting and Financial Affairs Director
20)	Afşin AKKERMAN	Supply Logistics Director
21)	A.Fatih Bilgi	Information Management Director
22)	Mustafa ERTÜRK	International Marketing Director
23)	Nihat IRKÖRÜCÜ	Human Resources and Support Services Director
24)	Baran ÖZER	Contracts Director
25)	Baki ŞENSOY	Stragetics Management Dirctor
26)	M. Uğur KARAVELİOĞLU	Military Wireless Program Director
27)	Mehmet Atila AKAY	Military Communication Systems Director
28)	Sinan ŞENOL	Avionic Satellite and Naval Communication Systems Program Director
29)	Özge SAVAŞ	Radar Program Director
30)	Hayrullah YILDIZ	EH Self Defense Systems Program Director
31)	Fikri ATMACA	EH Intelligence and Attack Systems Program Director
32)	İbrahim Aybars KÜÇÜK	Land and Missile Program Director
33)	Fikret ÜLGÜT	Defense Systems Program Director
34)	Metin SANCAR	Air and Naval Programs Director
35)	Yavuz Suat BENGÜR	Naval Systems Program Director
36)	Yavuz BAYIZ	Civil System Program Director
37)	Murat ACAR	Accounting Manager
38)	Pınar ÇELEBİ	Treasury and Fund Management Acting Manager

Within the framework of Communiqué: VIII, No: 54 “Principles Regarding Public Disclosure of Special Circumstances”published at 06.02.2009 by CMB, the list of persons who have access to insider information is also prepared and kept to be presented if demanded.

SECTION III - BENEFICIARIES

13. Informing of Beneficiaries

Necessary case is taken when handling the requests of the beneficiaries for information about the company and on matters that concern them, and when answering them correctly and in an understandable manner.

In the Aselsan Inc. Magazine which is published quarterly by the company, information on the technical matters regarding the activities that are carried out and on the current social events is given. Aselsan Inc. Magazine is sent to the end users of Aselsan Inc. products, to the shareholders that had attended to the General Assembly, to the company personnel and to others who may be interested, upon publication.

Company employees are informed on the Internet, on many subjects regarding their financial and social rights. Besides, in the company there is an Employee Representation where 45 who happen to be company employees do serve, with the purpose of enabling communication between the personnel and management and to provide guidance in social activities.

Periodical meetings that are held with the representatives of the employees are platforms where the employer and the employees exchange their views and wishes regarding the (current) practices. The minutes that are kept at such meetings are communicated to all personnel on the employee representative's page of the company intranet.

14. Participation of Beneficiaries in the Management

Company employees can communicate their expectations and demands to the top management through their representatives. Studies on the participation of the beneficiaries other than the employees and the shareholders will be (re)considered in accordance with the amendments to the TCC.

15. Human Resources Policy

Arrangements were made regarding working conditions of the personnel according to the vision, mission and principles of the company, hiring, promotions, remuneration, awarding, layoffs, leaves, disciplinary procedures, rights, duties and responsibilities and other personal rights of the employees.

There are, among the employees of the company, 45 employee representatives; 9 of which representing the engineers, 5 representing the administrative personnel, 25 representing the technical personnel, 1 representing the office personnel, and 5 representing the workers.

In the year 2010, there have been no complains of from among the employees.

16. Information About the Relations Between Customers and Suppliers

The basic principle of the company is to supply presenting continually and promptly flawless products and services to its customers, and continuously develop the processes, services and products in order to fully meet customer needs. For this purpose, in order to meet the requirements of quality standards, a quality system documented with quality handbook, directives, quality plans, standards, auditing and test directives and foresight implemented operations has been designed.

For the purpose of procuring the materials and software that are used in the products, as well as the services regarding such products, from reliable suppliers, so that possible quality issues would be reduces, the suppliers are checked for their technical, commercial and quality efficiency and capacity. The results of such assessments are communicated to the supplier firm, and suppliers that meet the required conditions are contracted. Within this context, in the year of 2010, orders were placed with 3535 supplier firms, 130 of which being subsidiary industry firms.

Information about customers and suppliers are classified under appropriate confidentiality levels, and treated according to such classification. Information on the offers received from the suppliers and the correspondence with them are treated as confidential, and are not given to unauthorized persons or to third party firms. In the directives that are created, guarantees are provided to ensure that unfair advantages are not obtained from the customers and suppliers.

17. Social Responsibility

The company has, until today, taken steps with social responsibility in various occasions and made a modification of an elementary education school in the province of Akyurt in Ankara and also donate to the parent teacher association.

SECTION IV – BOARD OF DIRECTORS

18. Structure and Formation of the Board of Directors and Independent Members

Hasan MEMİŞOĞLU	Chairperson of the Board of Directors / Managing Director
Necmettin BAYKUL	Deputy Chairperson of the Board of Directors / Managing Director
Mustafa Ayhan GERÇEKER	Member of the Board of Directors (Member of the Corporate Management Committee)
Osman Kapani AKTAŞ	Member of the Board of Directors (Member of the Corporate Management Committee)
Ahmet ŞENOL	Member of the Board of Directors (Member of the Committee in Charge of Auditing)
Aslan KILIÇARSLAN	Member of the Board of Directors (Member of the Committee in Charge of Auditing)
Birol ERDEM	Member of the Board of Directors

There is no board member who has an assignment in the executive.

Due to the characteristics of the defense industry sector to which the company belongs, there is no independent member of the Board of Directors. The Board of Directors of the company consists of members who had served at various echelons of the armed forces and the professionals who are experienced in this sector, and they serve as the representatives of Turkish Armed Forces Foundation.

The members of the Board of Directors of the company serve without receiving any interest or benefit, with the responsibilities and powers bestowed upon them according to the Capital Markets Law and TCC.

Members of the Board of Directors are, according to the "Operating Directives of the Board of Directors", obliged not to engage in any commercial transaction with the company or regarding any field that fall within the scope of the company's (activities), either personally or indirectly.

19. Qualifications of the Members of the Board of Directors

Members of the Board of Directors who would serve in the company are briefed for two weeks by the Turkish Armed Forces Foundation. Some of the subjects on which they were briefed in the year 2010 are as follows.

a. Briefing of Turkish Armed Forces Foundation;
b. Introduction of the Turkish Armed Forces Robin, Turkish Armed Forces Interdependence, Turkish Armed Forces Hand by Hand, Turkish Armed Forces Education and Turkish Armed Forces health;
c. Strategic plans of the Turkish Armed Forces Foundation;
d. Business Development fields in abroad and international partnership models;
e. Market place of the defense industry in Turkey and abroad and world's defense industries;
f. Introduction of Undersecretary of Defense Industry;
g. Strategic Plans of Undersecretary of Defense Industry, Sectoral Strategy, Sub industry Entegration and Applications of Ofset;
h. Place of the defence industry and it's importance;
i. Cooperation fundamentals between the foundation subsidiaries and conflicts, anti-conflict principles;
j. Legal status and responsibilities of the members of the Board of Directors and Auditors;
k. Sub contactor management and models;
l. Strategic management and company's strategic plans;
m. Corporate management principles of the CMB;
n. Research and Development and it's subsidiaries and EU Programs;
o. Corporate management principles of the Turkish Armed Forces Foundation;
p. Financial statements and how to interpret them;
q. Critical facts of the financial statements;
r. Macroeconomic indicators;
s. Effects of changes in the macroeconomic indicators to the company;
t. Internal auditing and assessment activities;
u. Management of project;
v. Corporate performance management systems

20. **Company's Mission and Vision and Strategic Objectives**
Board of Directors is the highest level strategic decision making, executive and representative body. According to the articles of association of the company, the board of directors is responsible for deciding the strategic plans and supervising their implementation. In this context, the mission, vision and strategic objectives are set by the board of directors, which of them are included in the strategic plan. The level of achievement of these objectives are followed up by using the Information Management System, and checked by the Board of Directors and the General Manager on monthly basis. Current version of mission and vision is made available to the public on the company's web site.

The Company's Mission:
"To design, develop, produce and vanguard, under all circumstances, the continuity of quality and cost efficient product and system solutions which are in harmony with the current and developing technologies, and which would minimize Turkish Armed Forces' dependence on foreign resources in all electric, electronic, electronic warfare, communication, microwave, electro-optic, guidance, computer, informatics, software, crypto and security fields, encompassing land, air, naval, space and civilian spheres; to increase the assets and resources of Aselsan Inc. and to always increase their worth."

The Company's Vision:
Has been set as "Being one of the largest fifty defense industry firms of the world, by creating high, original and national technological means and capabilities."

21. **Risk Management and Internal Control Mechanism**
The Internal Audit and Assessment Committee, which has been created under the Board of Directors, with the purpose of managing the company's risks, and assessing the control and corporate management processes, audits the units and the processes of the company according the plans that had been prepared, and regularly reports its findings to the Board of Directors. Continuous studies are made to increase and improve the effectiveness of the systems.

22. **Members of the Board of Directors and the Powers and Responsibilities of the Directors**
Powers and responsibilities of the Board of Directors are stated in Article 13 of the articles of associations of the company, which is titled "Duties and Powers of the Board of Directors". Besides, duties and powers of the Board of Directors are also explained in the Operating Directives of the Board of Directors, which has been prepared in the company. In Article 14 of the articles of association, which is titled "Transfer of the Powers to the General Manager" the rules on the transfer of the powers of the Board of Directors to the General Manager are set. Managers' powers and responsibilities are explained in the "Duties and Responsibilities Directive" that has been prepared in the company.

23. Principles on the Activities of the Board of Directors

Agenda of the meetings of the Board of Directors are decided by the Chairperson, in a way that would include the subjects that were suggested by the members of the Board of Directors. The matters that the members of the Board of Directors wish to be included in the agenda as well as the suggestions of the General Management regarding the agenda are reported to the Chairperson of the Board of Directors. The Chairperson of the Board of Directors reviews the opinions of the members of the Board of Directors and the General Management, and finalizes the agenda. Matter that the members of the Board of Auditors wish to be discussed will also be included in the agenda. Matters or urgency that emerge and discussion of which are deemed useful can also be included in the agenda during the meeting of the Board of Directors.

According to the Article 10 in the articles of association, the Board of Directors convenes as necessary, and at least once a month. The number of meeting in the year 2010 was 26. (14 of the decisions are the recessional decisions)

The place, date, time and the agenda of the next meeting are decided in every meeting of the Board of Directors. General Management does, in accordance with the directive of the Chairperson of the Board of Directors, or of the Deputy Chairperson or else of a Managing Director, and at least 5 workdays before, send the documents regarding the items of the agenda to the members of the Board of Directors and of the Board of Auditors. Invitations cannot be made by telephone, and the members of the Board of Auditors are also invited to the meetings.

Members of the Board of Directors must attend the meetings unless they have an important excuse. The members that do not attend must notify their excuses.

There is a secretary to provide information to and communicate with the members of the Board of Directors. Furthermore, a reporter is also assigned to carry out the necessary work in this manner.

When entering the resolutions of the meeting, the reporter of the board of directors must observe the provisions of Article 78 of TCC on the Book of Resolutions and of Article 330 on the resolutions of the board of directors.

Accordingly, the reporter ensures that the date and number of the resolution, the names and surnames of those who has attended, the names and surnames of those who has not attended as well as their excuses, the meeting agenda, suggestions for and discussions on the agenda, the text of the resolution, and if any the dissenting opinions are entered in the resolution book and; that the signature of the attending members are affixed under it.

Every member of the Board of Directors, including the Chairperson, has one vote. In case of a tie, Chairperson’s vote will not make any difference. Members cannot abstain; they must vote either aye or no. The member who abstains will be deemed to have voted no. The member who votes no will also ensure that his/her arguments are entered into the minutes, and then signs under it.

The undersigned resolutions as well as the Preparatory File of the Board of Directors are sent to the members of the Board of Directors and of the Board of Auditors.

24. Restraint of Trade

The General Assembly did not pass any resolution regarding the "Prohibition of Engaging into Transaction with the Company" and the "Restraint of Trade" for the members of the Board of Directors of the Company, which are stated in Articles 334 and 335 of TCC.

25. Ethical Rules

The Ethical Rules that the Board of Directors laid down for the employees of the company have been printed and announced to the public in the year 2007. They can be read on the company's internet web site.

26. The Numbers, Structures and Independence of the Committees set by the Board of Directors

a) The committee that is responsible for auditing

Ahmet ŞENOL	- Member - Member of the Board of Directors
Aslan KILIÇARSLAN	- Member - Member of the Board of Directors

The duties of the Committee that is responsible for auditing as stated in the "Working Directive of the Committee of the Board of Directors of Aselsan Inc. that is Responsible for Auditing" are in general as follows:

- The Committee that is responsible for auditing is in principle responsible for the operation and supervision of Aselsan Inc.'s accounting system, disclosure of financial information, independent audit and internal control (internal audit).

- The Committee that is responsible for auditing convenes quarterly, and at least four times a year. The minutes of the meeting will be submitted to the Board of Directors.

b) Corporate Management Committee

M. Ayhan GERÇEKER	- Member - Member of the Board of Directors
Osman Kapani AKTAŞ	- Member - Member of the Board of Directors

The directive on the operating principles of the Corporate Management Committee, which has been created in order to work on the Compliance Report that would be prepared as part of compliance with corporate management principles was approved in February 2006.

The duties of the Committee that is responsible for auditing as stated in the "Working Directive of the Committee of the Board of Directors of Aselsan Inc. that is Responsible for Auditing" are in general as follows;

- Corporate Management Committee does in principle work on the implementation of the corporate management principles,
- Identifies if the corporate management principles are or are not implemented and; if they are not implemented, identified the causes. Discovers the conflicts of interest that are caused for failure of its implementation. Advises the board of directors on improvements and remedies.

27. Financial Benefits of Granted to the Board of Directors

Monthly remuneration of the members of the Board of Directors are decided by the General Assembly and no other benefits are granted. According to the decision stated at the 35**th**, Ordinary General Assembly as of 30.03.2010, a monthly payment of TL 1.700 is made to the members of the Board of Directors, to the Managing Directors and to the members of the Board of Directors. There is not any financial rewarding system that has been implemented for the performance of the members of the board of directors.

No loans were given by the Company to any member of the Board of Directors or to any manager.

The Report of the Board of Auditors

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

Title of the Company	:	ASELSAN Electronics Industries Inc.
Head Office	:	ANKARA
Capital	:	Registered Capital : 500.000.000.-TL Issued Capital : 235.224.000.-TL
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 TİMUR (2010-2013) Atilla GÜLER (2010-2011) İsmail DİKMEN (2010-2013)
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 2010 that all the records and documents are duly compliant with the established procedures Dates of audit: 21.01.2010 – 25.02.2010 – 30.03.2010 – 29.04.2010 – 14.05.2010 – 10.06.2010 – 22.07.2010 – 31.08.2010 – 30.09.2010 – 26.10.2010 – 25.11.2010 – 30.12.2010
No and results of counting conducted at the company cashier's office as per paragraph 3 of Sub-Clause 1 Article 353 of the Turkish Commercial Code	:	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 : 21.01.2010 – 25.02.2010 – 30.03.2010 – 29.04.2010 – 14.05.2010 – 10.06.2010 – 22.07.2010 – 31.08.2010 – 30.09.2010 – 26.10.2010 – 25.11.2010 – 30.12.2010
Any complaints and irregularities reported ad 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 Board of Directors.

We have audited the accounts and transaction of Aselsan Electronics Industries Inc. for the period of 01.01.2010 to 31.12.2010 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 31.12.2010, the contents of which are agreed by us, truly reflects the financial position of the company as of the said date whilst the Income Statement for the period of 01.01.2010 to 31.12.2010 reflects the operational results for the subject period correctly and genuinely.

You are hereby kindly asked to approve the Balance Sheet and Income Statement and issue an acquittal for the Board of Directors accordingly by your votes.

AUDIT BOARD

AUDITOR İsmail DİKMEN	AUDITOR Atilla GÜLER	AUDITOR Mehmet TİMUR

Dividend Distribution Proposal

ASELSAN ELECTRONIC INDUSTRIES INC. 2010 DIVIDEND DISTRIBUTION TABLE (TL)		
	Based on CMB	**Based on Legal Records**
Paid/Issued Capital	235.224.000,00	235.224.000,00
Total amount of Legal Reserves (according to the Legal Records)	28.697.328,00	28.697.328,00
The information for the dividend distribution in case of privileges according to the Company Articles of Incorporation		
Profit for the Period	240.719.971,00	209.118.993,88
Taxes Payable (-)	0,00	0,00
NET PROFIT FOR THE PERIOD (=)	240.719.971,00	209.118.993,88
Prior Years' Losses (-)	0,00	0,00
First Legal Reserve (-)	10.455.949,69	10.455.949,69
NET DISTRIBUTABLE PROFIT FOR THE PERIOD (=)	230.264.021,31	198.663.044,19
Donations Made During the Year (+)	60.056,00	
Net distributable profit including donations that is the base of calculation of first dividend	230.324.077,31	
Fisrt Dividend to Shareholders	32.696.136,00	11.761.200,00
- Cash	32.696.136,00	11.761.200,00
- Non-cash dividend	0,00	0,00
- Total	32.696.136,00	11.761.200,00
Dividend Paid to Preference Shareholders	0,00	0,00
Dividend Paid to Board of Members, Employees and Other	0,00	0,00
Dividend Paid to Redeemed Share Owners	0,00	0,00
Second Dividend to Shareholders	0,00	20.934.936,00
Second Legal Reserve	2.093.493,60	2.093.493,60
Statuary Reserves	0,00	0,00
Special Reserves	0,00	0,00
EXTRAORDINARY RESERVE	195.474.391,71	163.873.414,59

As stated above, over the net profit from 2010 activities after deductions of taxes payable and legal obligations;

- Appropriation of TL 10.455.949,69 as first legal reserve according to Article 466/I of the Turkish Commercial Code,
- Distribution of the profit to the shareholders over the net distributable profit calculated within the framework of profit distribution regulations and decisions of the Capital Markets Board,

    - TL 32.696.136 gross gross amount (TL 0,139 per share of TL 1 and 13,9% on the basis of issued capital) as cash dividend (net TL 27.791.715,60-TL 0,11815 per share of TL 1 and 11,815% on the basis of issued capital)

- Appropriation of TL 2.093.493,60 as second legal reserve in accordance with the Turkish Commercial Code,
- Appropriation of the remaining profit as extraordinary reserve and

distribution of the profit to the shareholders as cash dividends to begin from 30.05.2011

are kindly requested to be approved.

Yours faithfully,
Board of Directors

aselsan
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