



**(Convenience Translation of Condensed Consolidated Financial  
Statements and Related Disclosures and Footnotes  
Originally Issued in Turkish)**

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

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE SIX-MONTH PERIOD ENDED  
30 JUNE 2016 WITH LIMITED REVIEW REPORT**

17 August 2016

This report contains condensed consolidated interim financial information and related disclosures and footnotes comprising 53 pages.



Akis Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.  
No:29 Beykoz 34805 İstanbul  
Tel +90 (216) 681 90 00  
Fax +90 (216) 681 90 90  
www.kpmg.com.tr

## **Independent Auditor's Report on Review of Consolidated Interim Financial Statements**

To the Board of Directors of ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi

### ***Introduction***

We have reviewed the accompanying condensed consolidated statement of financial position of ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries (together "the Group") as at 30 June 2016, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with Turkish Accounting Standards 34 Interim Financial Reporting ("TAS 34") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

### ***Scope of Review***

We conducted our review in accordance with Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with TAS 34 "Interim Financial Reporting".

**Other Matter**

The Company has restated comparative interim financial statements as explained in notes 2.3, 2.4 and 24.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member of KPMG International Cooperative



Hakkı Özgür Sivacı, SMMM  
Partner  
17 August 2016  
Ankara, Türkiye

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Note References	Current Period Reviewed 30 June 2016	Prior Period Audited 31 December 2015
<b>ASSETS</b>			
<b>Current Assets</b>		<b>3.476.110</b>	<b>3.092.768</b>
Cash and Cash Equivalents		552.264	680.963
Trade Receivables	4	1.183.354	1.068.283
<i>From Related Parties</i>	3	211.223	165.331
<i>From Third Parties</i>		972.131	902.952
Other Receivables		66.851	48.242
<i>From Related Parties</i>	3	6.128	--
<i>From Third Parties</i>		60.723	48.242
Inventory	6	1.057.208	886.827
Prepaid Expenses	7	449.717	228.678
<i>From Related Parties</i>	3	93.802	22.527
<i>From Third Parties</i>		355.915	206.151
Other Current Assets		166.716	179.775
<b>Non-Current Assets</b>		<b>3.110.021</b>	<b>3.152.334</b>
Financial Investments		433.501	433.501
Trade Receivables	4	383.064	375.886
<i>From Related Parties</i>	3	25.754	25.431
<i>From Third Parties</i>		357.310	350.455
Other Receivables		278	288
<i>From Third Parties</i>		278	288
Equity Accounted Investments	5	43.200	41.916
Property, Plant and Equipment	8	920.732	924.842
Intangible Assets	8	579.300	537.512
Prepaid Expenses	7	286.612	410.133
<i>From Related Parties</i>	3	229.599	284.921
<i>From Third Parties</i>		57.013	125.212
Deferred Tax Assets	10	355.498	330.533
Other Non-Current Assets		107.836	97.723
<b>TOTAL ASSETS</b>		<b>6.586.131</b>	<b>6.245.102</b>

The accompanying notes are an integral part of the condensed consolidated financial statements.

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Note References	Current Period Reviewed 30 June 2016	Prior Period Audited 31 December 2015
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>1.578.932</b>	<b>1.568.973</b>
Short-term Financial Liabilities		274.747	357.816
Short-term Portion of Long-term Financial Liabilities		65.714	89.428
Trade Payables	4	518.942	577.203
<i>To Related Parties</i>	3	68.166	37.696
<i>To Third Parties</i>		450.776	539.507
Employee Benefit Obligations	12	19.811	21.588
Other Payables		36.131	2.871
<i>To Related Parties</i>	3	28.059	55
<i>To Third Parties</i>		8.072	2.816
Government Grants and Incentives		22.893	22.583
Deferred Income	7	388.780	261.497
<i>To Related Parties</i>	3	30.022	15.194
<i>To Third Parties</i>		358.758	246.303
Corporate Tax Liability		537	2.633
Short-term Provisions		242.185	220.041
<i>For Employee Benefits</i>	12	57.979	38.115
<i>Other</i>	9	184.206	181.926
Other Current Liabilities		9.192	13.313
<b>Non-Current Liabilities</b>		<b>1.970.096</b>	<b>1.835.393</b>
Long-term Financial Liabilities		134.360	156.074
Trade Payables	4	184.786	222.884
<i>To Related Parties</i>	3	26.725	34.279
<i>To Third Parties</i>		158.061	188.605
Other Payables		38	38
<i>To Third Parties</i>		38	38
Deferred Income	7	1.415.631	1.269.467
<i>To Related Parties</i>	3	309.850	87.021
<i>To Third Parties</i>		1.105.781	1.182.446
Long-term Provisions		235.281	186.930
<i>Long-term Provisions for Employee Benefits</i>	12	157.403	163.412
<i>Other</i>	9	77.878	23.518

The accompanying notes are an integral part of the condensed consolidated financial statements.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	<b>Note References</b>	<b>Current Period Reviewed 30 June 2016</b>	<b>Prior Period Audited 31 December 2015</b>
<b>EQUITY</b>		<b>3.037.103</b>	<b>2.840.736</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>3.036.704</b>	<b>2.840.283</b>
Share Capital	13	1.000.000	500.000
Share Capital Adjustments	13	98.621	100.321
Other Comprehensive Income / (Expense) that will not to be Reclassified Subsequently to Profit or Loss		203.451	201.147
<i>Gain on Revaluation of Property</i>		216.072	216.072
<i>Loss on Remeasurement of Defined Benefit Plans</i>		(12.621)	(14.925)
Other Comprehensive Income / (Expense) that may be Reclassified Subsequently to Profit/Loss		406.810	406.707
<i>Gain on Revaluation of Available for Sale Financial Assets</i>		406.802	406.802
<i>Foreign Currency Exchange Differences</i>		8	(95)
Restricted Reserves	13	94.159	86.943
Prior Years' Profit		997.649	1.332.235
Net Profit for the Period		236.014	212.930
<b>Non-Controlling Interests</b>		<b>399</b>	<b>453</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6.586.131</b>	<b>6.245.102</b>

The accompanying notes are an integral part of the condensed consolidated financial statements.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Note	Current Period Reviewed 1 January- 30 June 2016	Current Period Not Reviewed 1 April- 30 June 2016	(Restated) Prior Period Reviewed 1 January- 30 June 2015	(Restated) Prior Period Not Reviewed 1 April- 30 June 2015
	References				
<b>PROFIT OR LOSS</b>					
Revenue	14	1.414.820	780.977	1.311.414	543.599
Cost of Sales (-)	14	(1.053.676)	(600.644)	(1.012.002)	(393.023)
<b>GROSS PROFIT</b>		<b>361.144</b>	<b>180.333</b>	<b>299.412</b>	<b>150.576</b>
General Administrative Expenses (-)		(81.082)	(42.165)	(67.342)	(36.350)
Marketing Expenses (-)		(30.074)	(18.033)	(28.294)	(15.737)
Research and Development Expenses (-)		(36.604)	(25.005)	(29.540)	(14.743)
Other Operating Income	16	112.630	68.301	206.733	96.990
Other Operating Expenses (-)	16	(127.130)	(57.597)	(278.466)	(69.451)
<b>OPERATING PROFIT</b>		<b>198.884</b>	<b>105.834</b>	<b>102.503</b>	<b>111.285</b>
Income From Investment Activities	17	8.344	121	55	9
Shares of profit/(losses) of Equity Accounted Investees		(227)	3.515	--	--
<b>OPERATING PROFIT BEFORE FINANCIAL EXPENSE</b>		<b>207.001</b>	<b>109.470</b>	<b>102.558</b>	<b>111.294</b>
Financial Income	18	46.127	18.299	5.117	4.189
Financial Expense (-)	19	(42.171)	(28.334)	(77.517)	(20.172)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>210.957</b>	<b>99.435</b>	<b>30.158</b>	<b>95.311</b>
<b>Tax Income from Continuing Operations</b>		<b>25.003</b>	<b>24.746</b>	<b>47.989</b>	<b>26.758</b>
- Current Corporate Tax Expense(-)		(537)	(376)	(589)	(383)
- Deferred Tax Income		25.540	25.122	48.578	27.141
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>235.960</b>	<b>124.181</b>	<b>78.147</b>	<b>122.069</b>
<b>Profit for the Period Attributable to</b>					
Non-Controlling Interest		(54)	80	--	--
Owners of the Company	20	236.014	124.101	78.147	122.069
		<b>235.960</b>	<b>124.181</b>	<b>78.147</b>	<b>122.069</b>
<b>Earnings for per 100 Shares (in full kuruş)</b>	<b>20</b>	<b>23,60</b>	<b>12,41</b>	<b>7,81</b>	<b>12,21</b>

The accompanying notes are an integral part of the condensed consolidated financial statements.



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

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Note References	Current Period Reviewed 1 January- 30 June 2016	Current Period Not Reviewed 1 April- 30 June 2016	(Restated) Prior Period Reviewed 1 January- 30 June 2015	(Restated) Prior Period Not Reviewed 1 April- 30 June 2015
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Items that will not to be Reclassified</b>				
<b>Subsequently in Profit or Loss</b>				
Gain on Revaluation of Property	2.304	1.590	39.518	--
Loss on Remeasurement of Defined Benefit Plans	--	--	41.598	--
Deferred Tax Expense	2.880	1.988	--	--
	(576)	(398)	(2.080)	--
<b>Items that may be reclassified</b>				
<b>subsequently to profit or loss</b>				
Foreign Currency Exchange Differences	103	16	--	--
	103	16	--	--
<b>OTHER COMPREHENSIVE INCOME</b>	<b>2.407</b>	<b>1.606</b>	<b>39.518</b>	<b>--</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>238.367</b>	<b>125.787</b>	<b>117.665</b>	<b>122.069</b>
<b>Total Comprehensive Income</b>				
<b>Attributable to</b>				
Non-Controlling Interest	(54)	80	--	--
Owners of the Company	238.421	125.707	117.665	122.069
	<b>238.367</b>	<b>125.787</b>	<b>117.665</b>	<b>122.069</b>

The accompanying notes are an integral part of the condensed consolidated financial statements.

# ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

			Other Comprehensive Income / Expense that will not be Reclassified Subsequently to Profit or Loss		Other Comprehensive Income / Expense that may not to be Reclassified Subsequently to Profit or Loss			Retained Earnings		Equity Attributable to Owners of the Company	Non-Controlling Interests	Total
	Share Capital	Share Capital Adjustments	Loss on Revaluation of Property	Loss on Remeasurement of Defined Benefit Plans	Gain on Revaluation of Available for Sale Financial Assets	Foreign Currency Exchange Differences	Restricted Reserves	Prior Years' Profit/Loss	Net Profit/Loss for the Period			
<b>Balance as of 1 January 2015 (Reported Previously)</b>	<b>500.000</b>	<b>98.621</b>	<b>177.701</b>	<b>(14.924)</b>	<b>293.019</b>	<b>--</b>	<b>73.708</b>	<b>740.674</b>	<b>350.095</b>	<b>2.218.894</b>	<b>--</b>	<b>2.218.894</b>
Restatement effect (Note:24)	--	--	(1.147)	--	--	--	--	279.443	41.957	<b>320.253</b>	--	<b>320.253</b>
<b>Balance as of 1 January 2015 (Restated)</b>	<b>500.000</b>	<b>98.621</b>	<b>176.554</b>	<b>(14.924)</b>	<b>293.019</b>	<b>--</b>	<b>73.708</b>	<b>1.020.117</b>	<b>392.052</b>	<b>2.539.147</b>	<b>--</b>	<b>2.539.147</b>
Transfers	--	--	--	--	--	--	13.230	313.822	(327.052)	--	--	--
Total Comprehensive Income	--	--	39.518	--	--	--	--	--	78.147	<b>117.665</b>	--	<b>117.665</b>
Dividends	--	--	--	--	--	--	--	--	(65.000)	<b>(65.000)</b>	--	<b>(65.000)</b>
The effect of take over of Subsidiaries <sup>(1)</sup>	--	1.700	--	--	--	--	5	(1.705)	--	--	--	--
<b>Balance as of 30 June 2015 (Closing Balance)</b>	<b>500.000</b>	<b>100.321</b>	<b>216.072</b>	<b>(14.924)</b>	<b>293.019</b>	<b>--</b>	<b>86.943</b>	<b>1.332.234</b>	<b>78.147</b>	<b>2.591.812</b>	<b>--</b>	<b>2.591.812</b>
<b>Balance as of 1 January 2016 (Opening Balance)</b>	<b>500.000</b>	<b>100.321</b>	<b>216.072</b>	<b>(14.925)</b>	<b>406.802</b>	<b>(95)</b>	<b>86.943</b>	<b>1.332.235</b>	<b>212.930</b>	<b>2.840.283</b>	<b>453</b>	<b>2.840.736</b>
Transfers	--	--	--	--	--	--	7.216	163.714	(170.930)	--	--	--
Capital Increase	500.000	(1.700)	--	--	--	--	--	(498.300)	--	--	--	--
Total Comprehensive Income	--	--	--	2.304	--	103	--	--	236.014	<b>238.421</b>	(54)	<b>238.367</b>
Dividends <sup>(2)</sup>	--	--	--	--	--	--	--	--	(42.000)	<b>(42.000)</b>	--	<b>(42.000)</b>
<b>Balance as of 30 June 2016 (Closing Balance)</b>	<b>1.000.000</b>	<b>98.621</b>	<b>216.072</b>	<b>(12.621)</b>	<b>406.802</b>	<b>8</b>	<b>94.159</b>	<b>997.649</b>	<b>236.014</b>	<b>3.036.704</b>	<b>399</b>	<b>3.037.103</b>

<sup>(1)</sup> Represents the effect of merger of MİKES Mikrodalga Elektronik Sistemler Sanayi ve Ticaret Anonim Şirketi with ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi as of 20 January 2015.

<sup>(2)</sup> As of 30 June 2016, dividend amounting to TL 28.000 has not been paid. (Note 13).

The accompanying notes are an integral part of the condensed consolidated financial statements.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Note Reference	Curret Year Reviewed 1 January- 30 June 2016	(Restated) Reviewed 1 January- 30 June 2015
<b>A. Cash Flows from Operating Activities</b>		<b>117.615</b>	<b>103.138</b>
Profit (Loss)		235.960	78.147
<b>Adjustments to Reconcile Profit (Loss)</b>		<b>142.506</b>	<b>253.411</b>
- Adjustments for depreciation and amortisation expense		54.498	49.165
- Adjustments for impairment loss (reversal of impairment loss)		2.461	441
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Receivables</i>		62	--
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories</i>	6	2.399	441
- Adjustments for provisions		118.109	100.440
<i>Adjustments for (Reversal of) Provisions Related with Employee Benefits</i>		25.549	24.775
<i>Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions</i>		60.716	55.222
<i>Adjustments for (Reversal of) Warranty Provisions</i>		35.698	22.815
<i>Adjustments for (Reversal of) Other Provisions</i>		(3.854)	(2.372)
- Adjustments for interest (income) expenses		(4.359)	9.282
<i>Adjustments for Interest Income</i>		(15.810)	(7.179)
<i>Adjustments for Interest Expense</i>		11.451	16.461
- Adjustments for tax (income) expenses		(25.003)	(47.989)
- Adjustments for losses (gains) on disposal of non-current assets	8	12.655	1.836
- Adjustments for stage of completion of construction or service contracts in progress		(7.462)	139.074
Other adjustments for which cash effects are investing or financing cash flow		(11.548)	27.529
- Other adjustments to reconcile profit (loss)		3.155	(26.367)
<b>Changes in Working Capital</b>		<b>(213.483)</b>	<b>(189.061)</b>
- Adjustments for decrease (increase) in trade accounts receivable		(191.558)	(51.051)
- Adjustments for decrease (increase) in other receivables related with operations		(18.599)	(2.808)
- Adjustments for decrease (increase) in inventories		(82.676)	29.321
- Decrease (increase) in prepaid expenses		(180.947)	(78.840)
- Adjustments for increase (decrease) in trade accounts payable		(17.579)	(106.166)
- Increase (decrease) in employee benefit liabilities		(1.777)	(6.231)
- Adjustments for increase (decrease) in other operating payables		5.261	258
- Increase (decrease) in government grants and assistance		310	2.458
- Increase (decrease) in deferred income		273.447	32.180
- Other adjustments for other increase (decrease) in working capital		635	(8.182)
<b>Cash Flows From (Used in) Operations</b>		<b>164.983</b>	<b>142.497</b>
Payments related with provisions for employee benefits	12	(4.807)	(4.818)
Payments related with other provisions		(39.928)	(33.889)
Income taxes refund (paid)		(2.633)	(652)
<b>B. Cash Flows From (Used in) Investing Activities</b>		<b>(104.310)</b>	<b>(161.648)</b>
Proceeds from sales of property, plant, equipment and intangible assets		367	418
Purchase of property, plant and equipment		(35.837)	(42.898)
Purchase of intangible assets	8	(75.554)	(111.233)
Cash receipts from futures contracts, forward contracts, option contracts and swap contracts		--	(533)
Dividends received	17	8.171	--
Other inflows (outflows) of cash		(1.457)	(7.402)
<b>C. Cash Flows From Financing Activities</b>		<b>(138.642)</b>	<b>18.753</b>
Proceeds from borrowings		196.288	340.852
Repayments of borrowings		(326.291)	(291.148)
Payments of finance lease liabilities		(55)	(52)
Dividends paid		(14.000)	(29.972)
Interest paid	19	(2.687)	(2.362)
Interest received		8.103	1.435
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANG RATE CHANGES (A+B+C)</b>		<b>(125.337)</b>	<b>(39.757)</b>
<b>D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS(A+B+C+D)</b>		<b>(3.362)</b>	<b>17.341</b>
<b>E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>680.963</b>	<b>131.941</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)</b>		<b>552.264</b>	<b>109.525</b>

The accompanying notes are an integral part of the condensed consolidated financial statements.

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

#### 1. ORGANIZATION AND OPERATIONS OF THE GROUP

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi ("the 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 preparation, engineering, consultancy, service providing, training, contracting, construction, publishing, trading, operation and internet services regarding various software, equipment, system, tools, material and platforms 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 Land Forces Foundation. The Company commenced its production activities in Macunköy Facilities in early 1979.

As of the reporting dates, the Company has been organized under five divisions under the Vice Presidential Sector with regard to investment and production requirements of projects. These divisions comprise The Communication and Information Technologies Vice Presidency "HBT", Radar, Electronic Warfare and Intelligence Systems Vice Presidency "REHİS", Defense Systems Technologies Vice Presidency "SST" and Microelectronics, Guidance & Electro-Optics Division Vice Presidency "MGEO" and Transportation, Security, Energy and Automation Systems Vice Presidency "UGES".

In addition to the Sector Vice Presidencies, the Company organization also includes the Financial Management Vice Presidency, Corporate Services Vice Presidency, Technology and Strategy Management Vice Presidency and Human Resources Management Vice Presidency making a total nine vice presidencies.

The Company performs production and engineering operations in three different locations in Ankara Macunköy, Akyurt and Gölbaşı while General Management is organized in Ankara Macunköy.

Turkish Armed Forces Foundation ("TSKGV") is the main shareholder of the Company which holds 84,58 percent of the capital and maintains control of the Company. TSKGV was established on 17 June 1987 with the law number 3388, in order to manufacture or import guns, equipment and appliances needed for Turkish Armed Forces.

The Company is registered to Capital Markets Board of Turkey ("CMB") and its shares have been quoted in Borsa İstanbul Anonim Şirketi ("BİST") since 1990. As of 30 June 2016, 15,30 percent of the Company's shares are publicly traded (31 December 2015: 15,30 percent) (Note 13).

The Company's trade registry address is Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle/Ankara. The average number of personnel employed by the Group as of 30 June 2016 is 5.460 (31 December 2015: 5.392).

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

### 1. ORGANIZATION AND OPERATIONS OF THE GROUP (continued)

The Company's consolidated subsidiaries are ASELSAN Bakü Şirketi ("ASELSAN Bakü"), Mikroelektronik Ar-Ge Tasarım ve Ticaret Limited Şirketi ("Mikro AR-GE") and ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Limited Şirketi ("ASELSANNET"). They are collectively referred as the "Group" in the accompanying notes.

The main operations of the companies included in the consolidation and the share percentage of the Group for these companies are as follows:

Company Name	Operation	30 June 2016	31 December 2015
		Share (%)	
ASELSANNET	Communication Systems	100,00	100,00
ASELSAN Bakü	Marketing and Sales of the Group Products	100,00	100,00
Mikro AR-GE	Microelectronic Research-Development Projects	85,00	85,00

The Company has two branch offices namely Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi EP Co. ("ASELSAN South Africa") and ASELSAN Makedonya Corridor-10 Highway Toll Collection System Project ("ASELSAN Macedonia") in South Africa and Macedonia, respectively.

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2.1 The Basis of Presentation**

Statement of Compliance to TAS

The accompanying interim consolidated financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets" ("Communiqué"), which were published in the Official Gazette No: 28676 on 13 June 2013. The accompanying condensed consolidated financial statements are prepared based on the Turkish Accounting Standards and Interpretations ("TAS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

In addition, the condensed consolidated financial statements and its notes are presented in accordance with the requirements announced by the CMB's announcement on 7 June 2013.

The condensed consolidated financial statements are prepared according to historical cost accounting except for the revaluation of lands and some financial instruments. In order to determine the historical cost, the fair values paid for assets are considered.

Approval of the Condensed Consolidated Financial Statements

These condensed consolidated financial statements have been approved for issue by the Board of Directors with the resolution number 903 on 17 August 2016. No authority other than General Assembly and legal entities has the right to amend the consolidated financial statements.

Functional Currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment ("Functional Currency") in which the entity operates. The Company's reporting currency is Turkish Lira ("TL"). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional, and presentation currency of the Company for the consolidated financial statements.

Amounts are expressed in thousands of TL unless otherwise stated.

Preparation of Financial Statements in Hyperinflationary Periods

CMB, with its resolution dated 17 March 2005 numbered 11/367 declared that companies operating in Turkey which prepare their financial statements in accordance with ("CMB") Accounting Standards, effective 1 January 2005, will not be subject to the application of inflationary accounting. Consequently, in the accompanying financial statements ("IAS/TAS 29") "Financial Reporting in Hyperinflationary Economies" was not applied since 1 January 2005.

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

### 2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 2.1 The Basis of Presentation (continued)

##### Basis of Consolidation

##### Joint Ventures:

The details of the subsidiaries of the Group are as follows:

Subsidiaries	Location	Functional Currency	Group's proportion of ownership and voting power held (%)		Principal Activity
			30 June 2016	31 December 2015	
ASELSANNET	Turkey	TL	100	100	Telecommunication systems
ASELSAN Bakü <sup>(1)</sup>	Azerbaijan	AZN	100	100	Marketing and sales of the group products
Mikro AR-GE <sup>(1)</sup>	Turkey	TL	85	85	Microelectronic R&D projects

<sup>(1)</sup> According to the Group Financial Statements as of 31 December 2015 it has been consolidated with "Full Consolidation Method".

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Company reassesses whether or not it controls an investee when if facts and circumstances arise there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, voting rights are sufficient to give it the practical ability to direct the relevant activities as it has power over the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders,
- potential voting rights held by the Company, other vote holders or other parties,
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate the Company has, or does have, the current ability to direct the relevant activities at the time that decisions need to be made (including voting patterns at previous shareholders' meeting).

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

### 2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 2.1 The Basis of Presentation (continued)

##### Basis of Consolidation (continued)

##### Joint Ventures (continued):

Consolidation of subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Each caption of profit or loss and other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income and expenses, profits and losses and cash flows relating to transactions between members of the Group are eliminated consolidation.

##### Joint Ventures

The details of the Group's interests in joint ventures as of the dates 30 June 2016 and 31 December 2015 are as follows:

Joint Ventures	Principal Activity	Country of incorporation and operation	Group's proportion of ownership and voting power held (%)	
			30 June 2016	31 December 2015
Hassas Optik Sanayi ve Ticaret Anonim Şirketi ("ASELSAN Optik")	Sensitive optic technologies	Turkey	50	50
Mikro Nano Teknolojileri Sanayi ve Ticaret Anonim Şirketi ("ASELSAN Bilkent")	Production of micro and nano sized devices which contains semi-conductive and similar technological materials	Turkey	50	50
International Golden Group ("IGG") ASELSAN Integrated Systems LLC ("IGG ASELSAN")	Marketing and sales of the group products	United Arab Emirates	49	49
Kazakhstan ASELSAN Engineering LLP ("ASELSAN Kazakhstan")	Marketing and sales of the group products	Kazakhstan	49	49
ASELSAN Middle East PSC ("ASELSAN Jordan")	Marketing and sales of the group products	Jordan	49	49

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.



(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**2.1 The Basis of Presentation (continued)**

Basis of Consolidation (continued)

Joint Ventures (continued):

ASELSAN Optik has been established on March 2014 and it is owned by ASELSAN and Sivas Optik Malzemeleri Sanayi ve Ticaret Anonim Şirketi with 50 percent ownership each. The production of precision optical technology for ultraviolet, visible and near infrared bands get designed and produced abroad by ASELSAN fulfilled by the facility established in Sivas. Construction of optics production facility and setup of production machines have been completed in February 2016. Manufacturing plant has started mass production in March 2016.

ASELSAN Bilkent has been established in November 2014 and it is owned by ASELSAN and İhsan Doğramacı Bilkent University with 50 percent ownership each. Construction of the company's facility have been completed in January 2016. It has been established to produce all varieties of semiconductive and micro and nano sized devices containing similar technological materials. The facility is planned to commence production in the third quarter of 2016.

The Group's joint ventures; IGG ASELSAN and ASELSAN Kazakhstan which were established in 2011, ASELSAN Jordan which was established in 2012 and ASELSAN Optik and ASELSAN Bilkent which were established in 2014, were included in the consolidated financial statements by using the equity method from the date of 31 December 2015.

**2.2 Comparative Information and Restatement of Prior Period Term Consolidated Financial Statements**

In order to determine the financial position and performance trends, the Group's condensed consolidated financial statements are prepared comparatively to the previous term. For the purpose of having consistency with the current term's presentation of condensed consolidated financial statements, comparative data is reclassified and significant differences are explained if necessary. These classifications are explained in the paragraphs below, and the effects to the prior year's consolidated financial statements are presented in Note 24.

**2.3 Accounting Policies, Changes in Accounting Estimates and Errors**

Significant changes in accounting policies and errors are applied retrospectively and prior period financial statements are restated, changes in accounting estimates are reflected to the financial in current period profit/loss.

Changes with respect of TAS 8 " Accounting Policies, Changes and Errors in Accounting Estimates" are presented in Note 24.

The estimated errors in the accounting policies are applied retrospectively and the prior period's financial statements are restated accordingly.

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**2.3 Accounting Policies, Changes in Accounting Estimates and Errors (continued)**

When change in estimate in accounting policies are related with only one period, changes are applied on the current period but if the estimated changes are for the following periods, changes are applied both on the current and following periods prospectively.

**2.4 Standards Issued But Not Yet Effective and Not Early Adopted as of 30 June 2016**

***Standards issued but not yet effective and not early adopted***

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

**TFRS 9 Financial Instruments – Classification and Measurement**

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2018. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Group is in the process of assessing the impact of the standard on the consolidated financial position or performance of the Group.

***The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA***

The following standards, interpretations and amendments to existing International Financial Reporting Standards ("IFRS") standards are issued by the IASB but not yet effective up to the date of issuance of the consolidated financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**2.4 Standards Issued But Not Yet Effective and Not Early Adopted as of 30 June 2016 (continued)**

***Standards issued but not yet effective and not early adopted (continued)***

***The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by PO (continued)***

**IFRS 9 Financial Instruments – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39 -IFRS 9 (2013)**

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging transactions. Further, the new standard removes the 1 January 2015 effective date of IFRS 9. The new version of IFRS 9 issued after IFRS 9 (2013) introduces the mandatory effective date of 1 January 2018 for IFRS 9, with early adoption permitted. The Group is in the process of assessing the impact of the standard on consolidated financial position or performance of the Group.

**IFRS 9 Financial Instruments (2014)**

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is in the process of assessing the impact of the standard on consolidated financial position or performance of the Group.

**IFRS 15 Revenue from Contracts with Customers**

The standard is the result of a joint project and IASB and Financial Accounting Standards Board ("FASB") which replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Group expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognising revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**2.4 Standards Issued But Not Yet Effective and Not Early Adopted as of 30 June 2016 (continued)**

***Standards issued but not yet effective and not early adopted (continued)***

***The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by PO (continued)***

**IFRS 16 Leases**

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

**Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative**

IAS 7 Statement of Cash Flows has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in consolidated financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

**Amendments to IAS 12 Income Taxes– Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**2.4 Standards Issued But Not Yet Effective and Not Early Adopted as of 30 June 2016 (continued)**

***Standards issued but not yet effective and not early adopted (continued)***

***The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by PO (continued)***

**Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions**

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

**2.5 Summary of Significant Accounting Policies**

Group prepared the accompanying condensed consolidated financial reports based on TAS 34 "Interim Financial Reporting" standart. The accounting policies applied in preparation of condensed consolidated interim financial statements are compatible with the accounting policies applied for the period between 1 January - 31 December 2015. These condensed consolidated financial statements should be read in conjunction with the annual financial statements for the period between 1 January - 31 December 2015.

**3. RELATED PARTY TRANSACTIONS**

Transactions between the Company and its subsidiaries which are related parties of the Company have been eliminated on consolidation, and are not disclosed in this note.

The trade receivables from related parties generally arise from sales activities with maturities of 1 - 6 months.

The trade payables to related parties generally arise from the purchase activities with maturities of 1 - 3 months.

Total amount of salaries and other short-term benefits paid for key management for the interim period ended 30 June 2016 is TL 4.300 (30 June 2015: TL 3.154).

The details of transactions between the Group and other related parties are disclosed in the following pages.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**3. RELATED PARTY TRANSACTIONS (continued)**

	30 June 2016									
	Receivables					Payables				
	Short-term		Non-trading	Long-term		Short-term		<sup>(1)</sup> Non-trading	Long-term	
Trading	Advances given	Trading		Advances given	Trading	Advances received	Trading		Advances received	
<b>Balances with related parties</b>										
<u>Main shareholder</u>										
TSKGV	81	--	--	--	--	--	--	23.683	--	--
<u>Other shareholder</u>										
Axa Sigorta Anonim Şirketi ("Axa Sigorta")	--	--	--	--	--	--	--	89	--	--
<u>Main shareholder's subsidiaries and associates</u>										
Hava Elektronik Harp Sis. Müh. Tic. Anonim Şirketi ("HAVELSAN EHSİM")	--	745	--	--	--	--	--	--	--	--
Hava Elektronik San. ve Tic. Anonim Şirketi ("HAVELSAN")	13.346	284	--	2.234	--	1.487	--	--	--	--
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi ("HTR")	--	292	--	--	--	1.079	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	10.999	--	--	523	1.991	--	--	--	--
Mercedes-Benz Türk Anonim Şirketi ("Mercedes-Benz")	--	--	--	--	--	2.755	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	9	40.978	--	--	2.453	21.066	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	--	10.692	--	--	--	13.665	9.863	--	--	--
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	28.904	--	--	18.516	--	1.432	18.824	--	26.490	296.137
<u>Marketable securities</u>										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	--	--	--	--	--	766	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	43.222	25.318	6.128	5.004	226.623	21.579	1.335	--	235	13.713
<u>Joint ventures and its related parties</u>										
ASELSAN Bilkent	1	--	--	--	--	--	--	--	--	--
İhsan Doğramacı Bilkent University	--	2.673	--	--	--	2.346	--	--	--	--
ASELSAN Optik	--	158	--	--	--	--	--	--	--	--
IGG	19.674	--	--	--	--	--	--	--	--	--
IGG ASELSAN	827	1.663	--	--	--	--	--	--	--	--
ASELSAN Kazakistan	61.363	--	--	--	--	--	--	--	--	--
ASELSAN Jordan	43.796	--	--	--	--	--	--	--	--	--
<u>Divident payout of the publicly held</u>	--	--	--	--	--	--	--	4.287	--	--
	<b>211.223</b>	<b>93.802</b>	<b>6.128</b>	<b>25.754</b>	<b>229.599</b>	<b>68.166</b>	<b>30.022</b>	<b>28.059</b>	<b>26.725</b>	<b>309.850</b>

(1) Non-trading short-term payables are mainly comprised of unpaid dividend of 2015.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**3. RELATED PARTY TRANSACTIONS (continued)**

	31 December 2015									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
	Trading	Advances given	Non-trading	Trading	Advances given	Trading	Advances received	Non-trading	Trading	Advances received
<b>Balances with related parties</b>										
<u>Main shareholder</u>										
TSKGV	5	--	--	--	--	--	--	--	--	--
<u>Other shareholder</u>										
Axa Sigorta	--	--	--	--	--	--	--	55	--	--
<u>Main shareholder's subsidiaries and associates</u>										
HAVELSAN EHSİM	--	745	--	--	--	--	--	--	--	--
HAVELSAN	10.617	284	--	2.200	--	816	799	--	--	--
HTR	--	433	--	--	--	1.391	--	--	--	--
İŞBİR	--	--	--	--	--	868	--	--	--	--
NETAŞ	--	9.446	--	--	21.565	20.102	--	--	--	--
STM	977	9.695	--	--	--	2.034	4.439	--	--	--
TUSAŞ	4.821	75	--	13.490	--	3.593	3.939	--	33.713	68.000
<u>Marketable securities</u>										
ASPILSAN	--	38	--	--	--	352	--	--	--	--
ROKETSAN	44.952	--	--	9.741	261.761	5.110	6.007	--	566	19.021
<u>Joint ventures and its related parties</u>										
ASELSAN Bilkent	1	--	--	--	--	--	--	--	--	--
İhsan Doğramacı Bilkent University	--	125	--	--	1.595	1.507	--	--	--	--
IGG	19.411	--	--	--	--	--	10	--	--	--
IGG ASELSAN	1.415	1.686	--	--	--	--	--	--	--	--
ASELSAN Kazakhstan	52.204	--	--	--	--	1.923	--	--	--	--
ASELSAN Jordan	30.928	--	--	--	--	--	--	--	--	--
	<b>165.331</b>	<b>22.527</b>	<b>--</b>	<b>25.431</b>	<b>284.921</b>	<b>37.696</b>	<b>15.194</b>	<b>55</b>	<b>34.279</b>	<b>87.021</b>

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**3. RELATED PARTY TRANSACTIONS (continued)**

	<b>1 January- 30 June 2016</b>	<b>1 April- 30 June 2016</b>	<b>1 January- 30 June 2015</b>	<b>1 April- 30 June 2015</b>
<b>Transactions with related parties</b>	<b>Purchases</b>	<b>Purchases</b>	<b>Purchases</b>	<b>Purchases</b>
<u>Main Shareholder</u>				
TSKGV	327	163	305	153
<u>Main shareholder's subsidiaries and associates</u>				
STM	11.819	11.819	32	32
NETAŞ	11.171	2.542	10.121	3.559
HTR	2.869	1.862	1.549	1.015
Mercedes Benz	2.335	--	--	--
İŞBİR	1.998	1.784	2.043	1.185
TUSAŞ	622	622	168	148
HAVELSAN	544	544	1.060	--
ESDAŞ	--	--	70	70
<u>Subsidiaries</u>				
Mikro AR-GE	--	--	2.137	1.476
ASELSAN Bakü	--	--	172	109
<u>Marketable securities</u>				
ROKETSAN	11.400	477	6.170	3.894
ASPİLSAN	1.834	1.143	1.778	1.203
<u>Branch</u>				
ASELSAN South Africa	--	--	1.068	109
<u>Joint ventures and its related parties</u>				
İhsan Doğramacı Bilkent University	5.820	3.035	5.339	4.422
IGG ASELSAN	--	--	1.044	906
ASELSAN Jordan	--	--	779	779
ASELSAN Optik	--	--	285	285
	<b>50.739</b>	<b>23.991</b>	<b>34.120</b>	<b>19.345</b>

The transaction with related parties are generally due to the purchase and sale of materials and services for the projects which are within the scope of TAS 11 "Construction Contracts".



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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**3. RELATED PARTY TRANSACTIONS (continued)**

	<b>1 January- 30 June 2016</b>	<b>1 April- 30 June 2016</b>	<b>1 January- 30 June 2015</b>	<b>1 April- 30 June 2015</b>
<b>Transactions with related parties</b>	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>
<u>Main Shareholder</u>				
TSKGV	170	98	101	52
<u>Main shareholder's subsidiaries and associates</u>				
TUSAŞ	75.637	52.793	34.517	14.100
STM	10.138	1.222	14.531	660
HAVELSAN	4.009	2.311	5.050	5.050
NETAŞ	7	7	--	--
<u>Subsidiaries</u>				
Aselsan Bakü	--	--	208	128
Mikro AR-GE	--	--	134	68
<u>Marketable securities</u>				
ROKETSAN	18.622	7.934	29.144	11.957
<u>Branch</u>				
ASELSAN Macedonia	--	--	3	3
ASELSAN South Africa	--	--	2	2
<u>Joint ventures and its related parties</u>				
IGG	213	213	348	--
ASELSAN Kazakhstan	--	--	38.856	24.481
ASELSAN Jordan	--	--	14.271	7.637
ASELSAN Bilkent	--	--	56	33
	<b>108.796</b>	<b>64.578</b>	<b>137.221</b>	<b>64.171</b>

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**4. TRADE RECEIVABLES AND PAYABLES**

## a) Trade receivables

Details of the Group's trade receivables are as follows:

<b>Short-term trade receivables</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Trade receivables	949.067	786.000
Trade receivables from related parties (Note 3)	211.223	165.331
Unbilled receivables from construction contracts in progress	19.020	112.293
Notes receivable	4.044	4.659
Doubtful trade receivables	921	859
Allowance for doubtful trade receivables (-)	(921)	(859)
	<b>1.183.354</b>	<b>1.068.283</b>

<b>Long-term trade receivables</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Unbilled receivables from construction contracts in progress	323.748	295.695
Trade receivables	33.288	54.693
Unbilled receivables from construction contracts in progress-Related Party (Note 3)	22.982	23.183
Trade receivables from related parties (Note 3)	2.772	2.248
Notes receivables	274	67
	<b>383.064</b>	<b>375.886</b>

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**4. TRADE RECEIVABLES AND PAYABLES (continued)**

## a) Trade receivables (continued)

The movement for the Group's allowance for doubtful receivables is as follows:

	<b>30 June 2016</b>	<b>30 June 2015</b>
Opening balance	859	859
Provision for the period	62	--
<b>Closing balance</b>	<b>921</b>	<b>859</b>

The sectoral distribution of trade receivables is as follows:

	<b>30 June 2016</b>	<b>31 December 2015</b>
Public sector	857.347	798.790
Receivables from companies operating abroad	359.959	334.534
Private sector	349.112	310.845
<b>Total receivables</b>	<b>1.566.418</b>	<b>1.444.169</b>

Receivables from public sector represent the receivables that are due from the Ministry of Defense ("MOD") and other public entities. The Group's operations are based on contracts and no collaterals are obtained from the customers.

## b) Trade payables

Details of Group's trade payables are as follows:

<b>Short-term trade payables</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Trade payables	428.562	485.389
Due to related parties (Note 3)	62.374	31.822
Unearned revenue related to construction contracts in progress	17.749	52.452
Unearned revenue related to construction contracts in progress-Related Party (Note 3)	5.792	5.874
Other trade payables	4.465	1.666
	<b>518.942</b>	<b>577.203</b>

<b>Long-term trade payables</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Unearned revenue related to construction contracts in progress	158.061	188.605
Unearned revenue related to construction contracts in progress- Related party (Note 3)	26.725	34.279
	<b>184.786</b>	<b>222.884</b>

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**5. EQUITY ACCOUNTED INVESTMENTS**

The Group's financial information for its shareholdings consolidated with equity method not arranged according to the Group's ownership rates is as below:

<b>30 June 2016</b>	<b>Ownership Rate (%)</b>	<b>Current Assets</b>	<b>Non-current Assets</b>	<b>Total Assets</b>	<b>Short-term Liabilities</b>	<b>Long-term Liabilities</b>	<b>Total Liabilities</b>
ASELSAN Kazakhstan	49	69.384	60.047	129.431	83.672	1.776	85.448
ASELSAN Jordan	49	38.375	13.166	51.541	38.003	--	38.003
ASELSAN Bilkent	50	23.094	39.208	62.302	2.532	42.501	45.033
ASELSAN Optik	50	5.142	25.318	30.460	1.810	15.888	17.698
IGG ASELSAN	49	949	3.845	4.794	2.434	12.584	15.018
		<b>136.944</b>	<b>141.584</b>	<b>278.528</b>	<b>128.451</b>	<b>72.749</b>	<b>201.200</b>

<b>30 June 2016</b>	<b>Ownership Rate (%)</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Net Profit/(Loss)</b>	<b>Group Share of Net Assets</b>	<b>Group Share of Profit/(Loss)</b>
ASELSAN Kazakhstan	49	33.835	(30.395)	3.440	21.551	1.686
ASELSAN Jordan	49	6.745	(6.235)	510	6.634	250
IGG ASELSAN	49	667	(1.253)	(586)	--	--
ASELSAN Bilkent	50	245	(462)	(217)	8.634	(109)
ASELSAN Optik	50	44	(100)	(56)	6.381	(28)
		<b>41.536</b>	<b>(38.445)</b>	<b>3.091</b>	<b>43.200</b>	<b>1.799</b>

During 2016, there was a capital increase in ASELSAN Bilkent joint venture, capital in cash has been increased in 2016. The capital contribution amount of joint venture's share for ASELSAN Bilkent TL is 2.250.

The adjustments amounting to TL 739 related to retained earnings of Macedonia Branch has been associated with the income statement.

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**5. EQUITY ACCOUNTED INVESTMENTS (continued)**

<b>31 December 2015</b>	<b>Ownership Rate (%)</b>	<b>Current Assets</b>	<b>Non-current Assets</b>	<b>Total Assets</b>	<b>Short-term Liabilities</b>	<b>Long-term Liabilities</b>	<b>Total Liabilities</b>
ASELSAN Kazakhstan	49	42.703	62.257	104.960	55.498	1.491	56.989
ASELSAN Jordan	49	33.122	14.247	47.369	36.091	--	36.091
ASELSAN Bilkent	50	21.242	16.433	37.675	378	24.346	24.724
ASELSAN Optik	50	7.963	23.205	31.168	2.462	15.888	18.350
IGG ASELSAN	49	1.339	4.083	5.422	2.484	12.619	15.103
		<b>106.369</b>	<b>120.225</b>	<b>226.594</b>	<b>96.913</b>	<b>54.344</b>	<b>151.257</b>

<b>31 December 2015</b>	<b>Ownership Rate (%)</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Net Profit/(Loss)</b>	<b>Group Share of Net Assets</b>	<b>Group Share of Profit/(Loss)</b>
ASELSAN Kazakhstan	49	127.457	(132.455)	(4.998)	23.506	(2.449)
ASELSAN Jordan	49	16.084	(16.011)	73	5.526	36
IGG ASELSAN	49	3.046	(5.029)	(1.983)	--	--
ASELSAN Optik	50	497	(637)	(140)	6.409	(70)
ASELSAN Bilkent	50	260	(758)	(498)	6.475	(249)
		<b>147.344</b>	<b>(154.890)</b>	<b>(7.546)</b>	<b>41.916</b>	<b>(2.732)</b>

In joint ventures ASELSAN Kazakhstan, ASELSAN Optik and ASELSAN Bilkent capital increase in cash increase has been carried out in 2015. The capital increase amounts of joint ventures's shares are for ASELSAN Kazakhstan TL 1.872, for ASELSAN Optik TL 6.450 and for ASELSAN Bilkent TL 4.500.

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**6. INVENTORIES**

	<b>30 June 2016</b>	<b>31 December 2015</b>
Raw materials	613.880	469.668
Work in progress	303.921	274.793
Finished goods	93.394	74.336
Trade goods	19.857	10.531
Goods in transit <sup>(1)</sup>	18.828	58.384
Other inventories	25.397	14.785
Allowance for impairment on inventories (-)	(18.069)	(15.670)
	<b>1.057.208</b>	<b>886.827</b>

<sup>(1)</sup> Goods in transit includes the goods for which significant risks and rewards of ownership has passed to the Group due to their shipping terms.

The Group provides an allowance for impairment on inventories when the inventories net realizable values are lower than their costs or when they are determined as slow-moving inventories.

The Group has identified raw material, work-in progress and finished good inventories below net realizable value within the current year. Therefore, there is a provision for inventories amounting to TL 18.069 in the statement of financial position (30 June 2015: TL 14.386).

Impaired inventory movements for the period ended in 30 June are as follows:

	<b>2016</b>	<b>2015</b>
Opening balance	15.670	13.945
Provision for the period	2.399	441
<b>Closing balance</b>	<b>18.069</b>	<b>14.386</b>

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**7. PREPAID EXPENSES AND DEFERRED INCOME**

<b>Short-term prepaid expenses</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Order advances given for inventory purchases	331.061	179.365
Short-term order advances given to related parties for inventory purchases (Note 3)	93.802	22.527
Prepaid expenses	24.854	26.786
	<b>449.717</b>	<b>228.678</b>

<b>Long-term prepaid expenses</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Long-term order advances given to related parties for inventory purchases (Note 3)	229.599	284.921
Order advances given for inventory purchases	30.155	88.934
Order advances given for fixed assets purchases	25.529	33.528
Prepaid expenses	1.329	2.750
	<b>286.612</b>	<b>410.133</b>

<b>Short-term deferred income</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Order advances received	355.619	245.173
Order advances received from related parties (Note 3)	30.022	15.194
Deferred income	3.139	1.130
	<b>388.780</b>	<b>261.497</b>

Short-term order advances received comprises advances received from 32 customers (31 December 2015: 34 customers) of which first 10 customers constitutes 98,1 percent of the total (31 December 2015: 95,8 percent).

<b>Long-term deferred income</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Order advances received	1.105.781	1.182.446
Order advances received from related parties (Note 3)	309.850	87.021
	<b>1.415.631</b>	<b>1.269.467</b>

Long-term order advances received comprises advances received from 24 customers (31 December 2015: 23 customers) of which the first 10 customers constitutes 99,7 percent of the total (31 December 2015: 99,2 percent).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

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**8. TANGIBLE AND INTANGIBLE ASSETS**

<b>Cost Value</b>	<b>Property, Plant and Equipment</b>	<b>Intangible Fixed Assets</b>
Opening balance as of 1 January 2016	1.529.134	760.007
Additions	36.147	75.554
Disposals	(1.058)	(12.655)
<b>Closing balance as of 30 June 2016</b>	<b>1.564.223</b>	<b>822.906</b>
<b>Accumulated Depreciation and Amortization (-)</b>		
Opening balance as of 1 January 2016	604.292	222.495
Period Cost	40.063	21.111
Disposals	(864)	--
<b>Closing balance as of 30 June 2016</b>	<b>643.491</b>	<b>243.606</b>
<b>Net book value as of 30 June 2016</b>	<b>920.732</b>	<b>579.300</b>
<b>Net book value as of 31 December 2015</b>	<b>924.842</b>	<b>537.512</b>

<b>Cost Value</b>	<b>Property, Plant and Equipment</b>	<b>Intangible Fixed Assets</b>
Opening balance as of 1 January 2015 (Previously Reported)	1.389.953	618.603
Restatement effect	(1.207)	--
Opening balance as of 1 January 2015 (Restated)	1.388.746	618.603
Additions	51.926	111.233
Revaluation fund	41.598	--
Disposals	(572)	(1.836)
<b>Closing balance as of 30 June 2015</b>	<b>1.481.698</b>	<b>728.000</b>
<b>Accumulated Depreciation and Amortization (-)</b>		
Opening balance as of 1 January 2015	535.984	180.096
Period cost	33.105	20.857
Disposals	(209)	--
<b>Closing balance as of 30 June 2015</b>	<b>568.880</b>	<b>200.953</b>
<b>Net book value as of 30 June 2015</b>	<b>912.818</b>	<b>527.047</b>
<b>Net book value as of 31 December 2014</b>	<b>852.762</b>	<b>438.506</b>

In accordance with TFRS 13 "Fair Value Measurement" standard, fair values of the lands are considered as level 3 of fair value hierarchy, since measurement techniques do not include observable market inputs.



**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**9. PROVISION, CONTINGENT ASSET AND LIABILITIES**

## a) Provisions

<b>Other short-term provisions</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Provision for warranty <sup>(1)</sup>	120.945	117.809
Provision for expected losses	41.871	41.804
Provision for delay penalties and fines <sup>(2)</sup>	13.664	10.779
Provision for insurance expense	3.836	6.334
Provision for lawsuits	2.695	2.649
Provision for cost expenses	619	1.994
Other	576	557
	<b>184.206</b>	<b>181.926</b>

<sup>(1)</sup>The Group's provision for warranty is based on sales under warranty are estimated in accordance with historical data.

<sup>(2)</sup>Provision for delay penalties and fines are calculated in accordance with interest for default ratio defined by contract when the contract requirements regarding deliverables are not fulfilled on time.

<b>Other long-term provision</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Expected loss provision	77.878	23.518
	<b>77.878</b>	<b>23.518</b>

## b) Lawsuits

As of the dates 30 June 2016 and 31 December 2015, according to the declarations written by the legal counselors, the lawsuits and executions in favor of and against the Group are as follows:

	<b>Description</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
a)	Ongoing lawsuits filed by the Group	4.720	2.820
b)	Execution proceedings carried on by the Group	3.080	5.640
c)	Ongoing lawsuits filed against the Group	2.695	2.649
d)	Lawsuits finalized in favor of the Group within the period	2.701	453
e)	Lawsuits finalized against of the Group within the period	--	5.482

**10. TAX**

"Deferred Tax Assets" of the Group as of 30 June 2016 is TL 355.498. The amount is comprised of the items below.

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**10. TAX (continued)**

	<b>30 June 2016</b>	<b>31 December 2015</b>
Carried Forward R&D Incentives Effect	445.253	417.267
TFRS Adjustment Effect	(89.755)	(86.734)
<b>Deferred Tax Assets - Net</b>	<b>355.498</b>	<b>330.533</b>

The earnings gained within the scope of Technology Development Zones Law numbered 4691 were exempted from corporate tax until 31 December 2023.

Prospective profit/loss projection and forecasts and expected duration of research and development incentives are considered in calculating deferred tax asset.

In accordance with the laws numbered 5746 and 6676 pertaining to 1 January-30 June 2016 period, the Group has calculated "Deferred Tax Asset" amounting to TL 27.986 to be capitalized from Research and Development expenses comprising "Outstanding Research and Development Deductions".

	<b>30 June 2016</b>	<b>31 December 2015</b>
Profit before tax from continuing operations	210.957	30.158
Tax income recognized in profit or loss	(25.003)	(47.989)
Effective tax rate	(12%)	(159%)

Change in effective rate is due to change in profit before tax from continuing operations.

**11. COMMITMENTS AND CONTINGENCIES**

## a) Guarantees received

	<b>30 June 2016</b>	<b>31 December 2015</b>
Letters of guarantees received from the suppliers	779.583	786.689
Collaterals received from the customers	9.613	9.533
Letters of guarantees received from the customers	5.032	4.955
Collaterals received from the suppliers	2.736	5.105
Mortgages received from the customers	265	265
Guarantees received from the customers	6	6
Guarantees received from the suppliers	--	79
	<b>797.235</b>	<b>806.632</b>

## b) Guarantees given

The collaterals/pledges/mortgages ("CPM") given by the Group as of 30 June 2016 and 31 December 2015 are as in the following pages:

Within the scope of Patrol and Anti-Submarine Warfare Ship Projects ("MİLGEM") contract cost amounting to USD 253 Million, carried out with HAVELSAN's partnership the Group is responsible for the fulfillment of HAVELSAN's obligations if HAVELSAN is unable to fulfill them.

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

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#### 11. COMMITMENTS AND CONTINGENCIES (continued)

##### b) Guarantees given (continued)

30 June 2016	TL Equivalent	TL	USD	EURO	Polish Zloty	Indian Rupee	British Pound	Swiss Frank
A. Total amount of CPM given on behalf of the legal entity								
-Collateral	8.597.470	1.413.883	1.674.326	702.594	2.424	10.000	1.654	26.760
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
B. Total amount of CPM given on behalf of the subsidiaries included in full consolidation								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
C. Total amount of CPM given to maintain operations and collect payables from third parties								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
D. Total amount of other CPM given								
i. Total Amount of CPM on behalf of the main partner								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
ii. Total amount of CPM given on behalf of other group companies that do not cover B and C <sup>(1)</sup>								
-Collateral	13.060	907	4.200	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover C								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
<b>Total</b>	<b>8.610.530</b>	<b>1.414.790</b>	<b>1.678.526</b>	<b>702.594</b>	<b>2.424</b>	<b>10.000</b>	<b>1.654</b>	<b>26.760</b>

<sup>(1)</sup> The ratio of the other CPM given by the Group to the equity as of 30 June 2016 is 0,43 percent. TL 13.060 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

In addition, the Group is responsible as joint guarantor for the portion amounting EUR 2,5 Million of investment credit amounting EUR 5 Million which will be used by ASELSAN Optik that is the Group's joint venture.

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

#### 11. COMMITMENTS AND CONTINGENCIES (continued)

##### b) Guarantees given (continued)

31 December 2015	TL Equivalent	TL	USD	EURO	UAE Dirham	Polish Zloty	Indian Rupee	British Pound
A. Total amount of CPM given on behalf of the legal entity								
-Collateral	7.854.973	1.000.552	1.609.503	674.740	26.760	2.424	10.000	1.654
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
B. Total amount of CPM given on behalf of the subsidiaries included in full consolidation								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
C. Total amount of CPM given to maintain operations and collect payables from third parties								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
D. Total amount of other CPM given								
i. Total Amount of CPM on behalf of the main partner								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
ii. Total amount of CPM given on behalf of other group companies that do not cover B and C <sup>(1)</sup>								
-Collateral	13.119	907	4.200	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover C								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
<b>Total</b>	<b>7.868.092</b>	<b>1.001.459</b>	<b>1.613.703</b>	<b>674.740</b>	<b>26.760</b>	<b>2.424</b>	<b>10.000</b>	<b>1.654</b>

<sup>(1)</sup> The ratio of the other CPM given by the Group to the equity as of 31 December 2015 is 0,46 percent. TL 13.119 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

In addition, the Group is responsible as joint guarantor for the portion amounting EUR 2,5 Million of investment credit amounting EUR 5 Million which will be used by ASELSAN Optik that is the Group's joint venture.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**12. EMPLOYEE BENEFITS**

## a) Payables for employee benefits

	<b>30 June 2016</b>	<b>31 December 2015</b>
Social security premiums payable	13.184	11.597
Taxes and funds payable	6.519	8.619
Due to personnel	108	1.372
	<b>19.811</b>	<b>21.588</b>

## b) Short-term provisions for employee benefits

	<b>30 June 2016</b>	<b>31 December 2015</b>
Provision for vacation pay liability	48.512	38.115
Provision for severance pay	8.384	--
Retirement pay	1.083	--
	<b>57.979</b>	<b>38.115</b>

As of 30 June the movement of the provision for vacation pay is as follows:

	<b>2016</b>	<b>2015</b>
Opening balance	38.115	33.925
Provision realized during the period	25.356	15.801
Provision reversed during the period	(10.980)	(6.914)
Provision for the period	(3.979)	(3.857)
<b>Closing balance</b>	<b>48.512</b>	<b>38.955</b>

## c) Long-term provisions for employee benefits

	<b>30 June 2016</b>	<b>31 December 2015</b>
Provision for severance pay	145.386	149.539
Provision for retirement pay	12.017	13.873
	<b>157.403</b>	<b>163.412</b>

As of 30 June the movement of severance and retirement pays are as follows:

	<b>2016</b>	<b>2015</b>
Opening balance	163.412	127.420
Service cost	10.903	13.394
Termination cost	175	168
Interest cost	67	2.325
Severance Pay	(4.807)	(4.818)
Actuarial income	(2.880)	--
<b>Closing balance</b>	<b>166.870</b>	<b>138.489</b>

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

#### 12. EMPLOYEE BENEFITS (continued)

##### Provision for severance pay:

In accordance with the Labor Law Legislations, the Group is obliged to make legal severance indemnity payments to entitled employees whose employment has been terminated. Furthermore, with regard to Social Security Law numbered 506 dated 6 March 1981, number 2422 dated 24 August 1999 and law numbered 4447, article 60 denotes the legal obligation to make severance payments to all employees who are entitled to indemnity by the date of leave of employment.

Certain provisions regarding services before retirement, has been annulled on 23 May 2002 during the revision of the related law. As of 30 June 2016 Severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL 4.092,53<sup>(1)</sup> (31 December 2015: TL 3.828,37<sup>(1)</sup>)

Severance payments ceiling amounting to TL 4.297,21<sup>(1)</sup> is effective starting from 1 July 2016.

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. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the entity's obligation under defined benefit plans.

<sup>(1)</sup> Amounts are expressed in Turkish Lira.

##### Provision for retirement grant:

Retirement provision is booked for employees with service of more than 20 years within the Group and has earned/will earn their retirement.

Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<b>(%)</b>	<b>(%)</b>
Interest rate	9,50	9,34
Inflation rate	7,35	7,20
Discount ratio	2,00	2,00
Estimation of probability of retirement ratio	99	99

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

#### 13. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

##### Capital

<u>Shareholders</u>	<u>Share (%)</u>	<u>30 June 2016</u>	<u>Share (%)</u>	<u>31 December 2015</u>
TSKGV	84,58	845.826	84,58	422.913
Publicly held	15,30	153.019	15,30	76.509
Axa Sigorta Anonim Şirketi	0,12	1.155	0,12	578
Nominal capital	100	1.000.000	100	500.000
Share capital adjustment		98.621		100.321
<b>Inflation adjusted capital</b>		<b>1.098.621</b>		<b>600.321</b>

The Group's nominal capital is TL 1.000.000 comprising 100.000.000.000 shares each of which is 1 kuruş. A total of 60.545.454.546 of the shares constitutes "Group A" and 39.454.545.454 of the shares constitutes "Group B" shares. All of the shares are nominative. "Group A" shares are privileged nominative shares and 6 members of the Board of Directors members are assigned from the holders of nominative "Group A" type shareholders or from the ones nominated by "Group A" type shareholders. Moreover, when new shares are issued the proportion of nominative "Group A" shares are preserved. In accordance with the CMB's legislation, other Board of Directors members, not including elected Independent Board of Director Members, are assigned from nominative "Group A" shareholders or elected from among candidate nominated by "Group A" shareholders.

##### Restricted profit reserves

In accordance with Capital Markets Board's Communiqué Serial II No:19.1 "Share of Profit", effective as of 1 February 2014, and with regard to the Turkish Commercial Code ("TCC"), legal reserves in publicly held companies will be generated by 5 percent of income until it reaches 20 percent of paid-in share capital. After the 5 percent of the dividend is paid to shareholders, 10 percent of the total distributed to shareholders and employees can be added in the other legal reserve. Under the TCC, the legal reserves can be used only to offset losses for the going concern of the company or to prevent unemployment as long as the amount does not exceed 50 percent of the paid-in capital.

As of 30 June 2016, The Group's restricted reserves set aside from profit comprises legal reserves. The total of the Group's legal reserves are TL 94.159 (31 December 2015: TL 86.943).

##### Retained Earnings

Accumulated profits apart from net profit for the year and extraordinary reserves which is accumulated profit by nature are shown under retained earnings. As of 30 June 2016 the extraordinary reserves balance presented in retained earnings is TL 248.547 (31 December 2015: TL 665.461). According to the statutory records, the Company's profit for the period is TL 184.506 (31 December 2015: TL 103.218) and its other funds available for profit distribution is TL 251.409 (31 December 2015: TL 704.649).

## ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

### 13. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (continued)

#### Retained Earnings (continued)

	30 June 2016	31 December 2015
Capital reserves and extraordinary reserves	251.409	704.649

#### Profit distribution

Publicly traded companies perform dividend distribution in accordance with Capital Market Board's Communique Serial II No:19.1 "Share of Profit", effective as of 1 February 2014.

Shareholders, distribute dividend with general assembly decision, within the context of profit distribution policies set by general assembly and related regulations. As part of the communique, no specific minimum distribution ratio is indicated. Companies pay dividend as defined in their articles of association or dividend distribution policies.

On 31 March 2016, in accordance with the consolidated financial statements, the General Assembly of the Company has decided to allocate legal reserve amounting to TL 6.221 of the TL 212.930 which is based on the profit distribution, and to distribute TL 42.000 in cash to shareholders for dividend payment by leaving the amount of TL 164.709 within the Group. Thus, the cash gross dividend amount for TL 1 nominal value per share is Kurus 4,2 net (31 December 2015: Kurus 13 net).

Within 2016, dividend amounting to TL 42.000 in gross, 4,2 Kurus per share of TL 1 (net profit amounting to TL 35.700, 3,57 Kurus per share of TL 1) will be paid to shareholders. (31 December 2015: TL 65.000 in gross, 13 Kurus per share of TL 1 (TL 55.250 in net , 11,05 Kurus per share of TL 1) was paid). Because of the company capital have been increased from TL 500.000 TL to TL 1.000.000, earnings per share is recomputed.

On 29 March 2016, General Assembly of Aselsan has decided to distribute TL 10.000 as dividend payments to shareholders and reserve TL 995 as retained earnings from net profit of the year 2015. Remaining TL 2.300 is decided to be bonus shares and remaining profit TL (70) is allocated as extraordinary reserves (31 December 2015: None).

On 29 March 2016, General Assembly of Mikro AR-GE's has decided to distribute TL 200 as dividend payments to shareholders and reserve TL 20 as retained earnings from net profit of the year 2015. Remaining TL 1.555 will be added to extraordinary reserves (31 December 2015: None).

As of 30 June 2016, there is unredeemed dividend amounting to TL 28.000 which is going to be paid to the shareholders from the dividend (31 December 2015: None).



**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**14. REVENUE AND COST OF SALES**

	1 January- 30 June 2016	1 April- 30 June 2016	(Restated) 1 January- 30 June 2015	(Restated) 1 April- 30 June 2015
<b>a) Revenue</b>				
Domestic sales	1.186.889	658.475	1.117.488	445.626
Export sales	228.490	122.636	197.318	99.892
Other revenues	228	228	144	144
Sales returns (-)	(787)	(362)	(707)	(415)
Sales discounts (-)	--	--	(2.829)	(1.648)
	<b>1.414.820</b>	<b>780.977</b>	<b>1.311.414</b>	<b>543.599</b>
<b>b) Cost of sales(-)</b>				
Cost of raw materials and supplies	353.233	192.741	468.264	170.679
Personnel expenses	25.329	11.762	42.694	15.808
Production overheads	119.256	56.792	141.139	29.813
Depreciation expenses	30.255	15.434	22.533	12.261
Change in work in progress	(29.128)	(11.924)	(40.561)	(36.246)
Change in finished goods	(19.058)	(9.929)	817	12.461
Development expenses <sup>(1)</sup>	412.668	214.287	304.767	150.691
Cost of services sold	103.234	91.613	31.522	18.701
Cost of merchandise goods sold	27.401	19.502	5.452	2.454
Cost of other sales	30.486	20.366	35.375	16.401
	<b>1.053.676</b>	<b>600.644</b>	<b>1.012.002</b>	<b>393.023</b>

<sup>(1)</sup> Development expenses consist of raw material, design and personnel expenses. TL 188.177 (30 June 2015: 140.985 TL) of development expenses amounting to TL 412.668 (30 June 2015: 304.767 TL ) is comprised of labour cost.

**15. CONSTRUCTION CONTRACTS**

	30 June 2016	31 December 2015
Construction costs incurred plus recognized profits less recognized losses to date	8.067.347	8.131.682
Less: earned allowances	(7.909.924)	(7.981.721)
	<b>157.423</b>	<b>149.961</b>
Amounts due from customers under construction contracts (Note 4)	365.750	431.171
Amounts due to customers under construction contracts (Note 4)	(208.327)	(281.21)
	<b>157.423</b>	<b>149.961</b>

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016**

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**16. OTHER OPERATING INCOME AND EXPENSES**

a) Other operating income

	<b>1 January- 30 June 2016</b>	<b>1 April- 30 June 2016</b>	<b>(Restated) 1 January- 30 June 2015</b>	<b>(Restated) 1 April- 30 June 2015</b>
Foreign currency exchange differences from operations	102.997	64.989	187.189	84.802
Discount interest income	5.896	531	5.458	(2)
Free of charge investment income	--	--	9.028	9.028
Other income	3.737	2.781	5.058	3.162
	<b>112.630</b>	<b>68.301</b>	<b>206.733</b>	<b>96.990</b>

b) Other operating expenses

	<b>1 January- 30 June 2016</b>	<b>1 April- 30 June 2016</b>	<b>(Restated) 1 January- 30 June 2015</b>	<b>(Restated) 1 April- 30 June 2015</b>
Foreign currency exchange differences from operations	(121.715)	(58.392)	(268.680)	(66.366)
Discount interest expense	(3.826)	1.397	(7.863)	(2.012)
Other expense and losses	(1.589)	(602)	(1.923)	(1.073)
	<b>(127.130)</b>	<b>(57.597)</b>	<b>(278.466)</b>	<b>(69.451)</b>

**17. INCOME FROM INVESTING ACTIVITIES**

	<b>1 January- 30 June 2016</b>	<b>1 April- 30 June 2016</b>	<b>(Restated) 1 January- 30 June 2015</b>	<b>(Restated) 1 April- 30 June 2015</b>
Dividend income	8.171	--	--	--
Gain on sale of fixed assets	173	121	55	9
	<b>8.344</b>	<b>121</b>	<b>55</b>	<b>9</b>

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**18. FINANCE INCOME**

	<b>1 January- 30 June 2016</b>	<b>1 April- 30 June 2016</b>	<b>(Restated) 1 January- 30 June 2015</b>	<b>(Restated) 1 April- 30 June 2015</b>
Foreign currency exchange gain from bank loans	35.973	14.931	2.095	2.093
Interest income	9.914	3.224	1.721	913
Option income	--	--	1.012	1.012
Other financial income	240	144	289	171
	<b>46.127</b>	<b>18.299</b>	<b>5.117</b>	<b>4.189</b>

**19. FINANCE EXPENSES**

	<b>1 January- 30 June 2016</b>	<b>1 April- 30 June 2016</b>	<b>(Restated) 1 January- 30 June 2015</b>	<b>(Restated) 1 April- 30 June 2015</b>
Foreign currency exchange losses from bank loans	(34.546)	(24.605)	(68.919)	(15.231)
Discount expenses of bank loans	(4.938)	(2.381)	(6.236)	(4.071)
Interest cost of borrowings	(2.687)	(1.348)	(2.362)	(870)
	<b>(42.171)</b>	<b>(28.334)</b>	<b>(77.517)</b>	<b>(20.172)</b>

**20. EARNINGS PER SHARE**

Earnings per share is calculated by dividing the the portion of profit allocated to the Group's weighted average number of shares outstanding over the reporting term. The Group does not have diluted shares.

For the periods ended 30 June 2016 and 30 June 2015, earnings per share calculations are as follows:

	<b>1 January- 30 June 2016</b>	<b>1 April- 30 June 2016</b>	<b>1 January- 30 June 2015</b>	<b>1 April- 30 June 2015</b>
Common stock	100.000.000	100.000.000	100.000.000	100.000.000
Net profit – TL	236.014	124.101	78.147	122.069
<b>Earnings per 100 shares (Kuruş)</b>	<b>23,60</b>	<b>12,41</b>	<b>7,81</b>	<b>12,21</b>
<b>Diluted Earnings per 100 shares (Kuruş)</b>	<b>23,60</b>	<b>12,41</b>	<b>7,81</b>	<b>12,21</b>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2016

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**21. FOREIGN EXCHANGE POSITION**

<b>FOREIGN EXCHANGE POSITION</b>						
<b>30 June 2016</b>	<b>TL Equivalent (Functional currency)</b>	<b>USD</b>	<b>TL equivalent by using closing rates</b>	<b>EURO</b>	<b>TL equivalent by using closing rates</b>	<b>Other</b>
1. Trade Receivables	1.030.584	180.872	523.373	157.772	505.567	1.644
2a. Monetary financial assets (including cash, bank)	404.182	131.062	379.241	7.774	24.911	31
2b. Non- monetary financial assets	191.769	31.592	91.413	29.237	93.685	21.127
3. Other	3.686	45	131	1.109	3.555	--
<b>4. Current assets (1+2+3)</b>	<b>1.630.221</b>	<b>343.571</b>	<b>994.158</b>	<b>195.892</b>	<b>627.718</b>	<b>22.802</b>
5. Trade receivables	369.750	82.617	239.060	40.356	129.314	1.375
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	171.265	3.620	10.475	69.410	222.418	--
7. Other	2.382	498	1.442	223	715	224
<b>8. Long-term assets (5+6+7)</b>	<b>543.397</b>	<b>86.735</b>	<b>250.977</b>	<b>109.989</b>	<b>352.447</b>	<b>1.599</b>
<b>9. Total assets (4+8)</b>	<b>2.173.618</b>	<b>430.306</b>	<b>1.245.135</b>	<b>305.881</b>	<b>980.165</b>	<b>24.401</b>
10. Trade payables	212.456	20.681	59.843	45.530	145.899	6.713
11. Financial liabilities	326.877	112.962	326.866	4	12	--
12a. Other monetary financial liabilities	1.329	443	1.281	15	48	--
12b. Other non-monetary financial liabilities	270.236	89.023	257.598	15.176	48.630	--
<b>13. Current liabilities (10+11+12)</b>	<b>810.898</b>	<b>223.109</b>	<b>645.588</b>	<b>60.725</b>	<b>194.589</b>	<b>6.713</b>
14. Trade payables	--	--	--	--	--	--
15. Financial liabilities	134.360	46.434	134.360	--	--	--
16a. Other monetary financial liabilities	35	8	26	3	9	--
16b. Other non-monetary financial liabilities	805.383	335.383	970.464	105.449	337.901	--
<b>17. Non-current liabilities (14+15+16)</b>	<b>939.778</b>	<b>381.825</b>	<b>1.104.850</b>	<b>105.452</b>	<b>337.910</b>	<b>--</b>

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**21. FOREIGN EXCHANGE POSITION (continued)**

<b>FOREIGN EXCHANGE POSITION</b>						
<b>30 June 2016</b>	<b>TL Equivalent (Functional currency)</b>	<b>USD</b>	<b>TL equivalent by using closing rates</b>	<b>EURO</b>	<b>TL equivalent by using closing rates</b>	<b>Other</b>
<b>18. Total liabilities (13+17)</b>	<b>1.750.676</b>	<b>604.934</b>	<b>1.750.438</b>	<b>166.177</b>	<b>532.499</b>	<b>6.713</b>
<b>19. Net asset/liability position of off- balance sheet derivative financial instruments (19a-19b)</b>	--	--	--	--	--	--
<b>19a. Hedged total financial assets</b>	--	--	--	--	--	--
<b>19b. Hedged total financial liabilities</b>	--	--	--	--	--	--
<b>20. Net foreign currency asset/liability (9-18+19)</b>	422.942	(174.628)	(505.303)	139.704	447.666	17.688
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	1.129.459	214.023	619.298	160.350	513.824	(3.663)
<b>22. Fair value of derivative financial instruments used in foreign currency hedge</b>	--	--	--	--	--	--
<b>23. Hedged foreign currency assets</b>	--	--	--	--	--	--
<b>24. Hedged foreign currency liabilities</b>	--	--	--	--	--	--
<b>25. Exports</b>	228.490	65.005	188.099	11.108	35.594	--
<b>26. Imports</b>	427.941	94.072	272.208	40.187	128.776	26.957

Accompanying foreign exchange position which was prepared in accordance with CMB's regulation is different from the foreign exchange position of the financial statement which is prepared according to GCASA. The difference is mainly due to the adjustments and classifications which are related with TAS 11 "Construction Contracts".

"For TL functional currency" calculations regarding "Other non-monetary assets" and "Other non-monetary liabilities" presented under foreign currency position, advances received are considered with regard to historic values therefore "TL equivalent of currency as at balance sheet date" differentiate.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**21. FOREIGN EXCHANGE POSITION (continued)**

<b>FOREIGN EXCHANGE POSITION</b>						
<b>31 December 2015</b>	<b>TL Equivalent (Functional currency)</b>	<b>USD</b>	<b>TL equivalent by using closing rates</b>	<b>EURO</b>	<b>TL equivalent by using closing rates</b>	<b>Other</b>
1. Trade Receivables	910.897	171.863	499.711	129.400	411.183	4
2a. Monetary financial assets (including cash, bank)	429.992	122.077	354.950	23.608	75.017	25
2b. Non- monetary financial assets	110.385	19.416	56.453	15.334	48.726	20.499
3. Other	3.968	43	124	1.077	3.421	423
<b>4. Current assets (1+2+3)</b>	<b>1.455.242</b>	<b>313.399</b>	<b>911.238</b>	<b>169.419</b>	<b>538.347</b>	<b>20.951</b>
5. Trade receivables	362.211	83.984	244.194	37.141	118.017	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	240.446	9.647	28.048	85.370	271.271	--
7. Other	2.206	456	1.327	198	630	248
<b>8. Long-term assets (5+6+7)</b>	<b>604.863</b>	<b>94.087</b>	<b>273.569</b>	<b>122.709</b>	<b>389.918</b>	<b>248</b>
<b>9. Total assets (4+8)</b>	<b>2.060.105</b>	<b>407.486</b>	<b>1.184.807</b>	<b>292.128</b>	<b>928.265</b>	<b>21.199</b>
10. Trade payables	260.468	33.631	97.787	48.206	153.179	9.502
11. Financial liabilities	380.333	130.795	380.300	11	34	--
12a. Other monetary financial liabilities	2.191	754	2.191	--	--	--
12b. Other non-monetary financial liabilities	169.800	66.072	192.110	9.912	31.497	--
<b>13. Current liabilities (10+11+12)</b>	<b>812.792</b>	<b>231.252</b>	<b>672.388</b>	<b>58.129</b>	<b>184.710</b>	<b>9.502</b>
14. Trade payables	--	--	--	--	--	--
15. Financial liabilities	156.074	53.678	156.074	--	--	--
16a. Other monetary financial liabilities	36	9	27	2	9	--
16b. Other non-monetary financial liabilities	692.332	268.224	779.888	131.590	418.139	--
<b>17. Non-current liabilities (14+15+16)</b>	<b>848.442</b>	<b>321.911</b>	<b>935.989</b>	<b>131.592</b>	<b>418.148</b>	--

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**21. FOREIGN EXCHANGE POSITION (continued)**

<b>FOREIGN EXCHANGE POSITION</b>						
<b>31 December 2015</b>	<b>TL Equivalent (Functional currency)</b>	<b>USD</b>	<b>TL equivalent by using closing rates</b>	<b>EURO</b>	<b>TL equivalent by using closing rates</b>	<b>Other</b>
<b>18. Total liabilities (13+17)</b>	<b>1.661.234</b>	<b>553.163</b>	<b>1.608.377</b>	<b>189.721</b>	<b>602.858</b>	<b>9.502</b>
<b>19. Net asset/liability position of off- balance sheet derivative financial instruments (19a-19b)</b>	--	--	--	--	--	--
<b>19a. Hedged total financial assets</b>	--	--	--	--	--	--
<b>19b. Hedged total financial liabilities</b>	--	--	--	--	--	--
<b>20. Net foreign currency asset/liability (9-18+19)</b>	398.871	(145.677)	(423.570)	102.407	325.407	11.697
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	903.998	159.057	462.476	141.930	450.995	(9.473)
<b>22. Fair value of derivative financial instruments used in foreign currency hedge</b>	--	--	--	--	--	--
<b>23. Hedged foreign currency assets</b>	--	--	--	--	--	--
<b>24. Hedged foreign currency liabilities</b>	--	--	--	--	--	--
<b>25. Exports</b>	547.895	168.248	489.198	29.951	95.173	--
<b>26. Imports</b>	782.380	140.421	408.287	93.091	295.805	78.288

**21. FOREIGN EXCHANGE POSITION (continued)**

Foreign currency sensitivity

The Group is exposed to foreign currency risk with respect to USD and EUR. As of 30 June 2016, USD 1: TL 2,8936 (31 December 2015: TL 2,9076), EUR 1: TL 3,2044 (31 December 2015: TL 3,1776).

The following table details the Group's sensitivity to a 10 percent increase and decrease in foreign exchange rates. 10 percent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only monetary items denominated foreign currency in interim period and indicates 10 percent change in foreign currency rates of items at issue in the end of interim period. This analysis does not include Group companies' balance sheet items which have functional currency other than TL. The effects of 10 percent changes in foreign currency rate on financial statements is as follows;

<b>Foreign currency sensitivity table</b>				
<b>30 June 2016</b>				
	<b>Profit/Loss</b>		<b>Equity<sup>(1)</sup></b>	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
<b>Appreciation of USD against TL by 10%:</b>				
1- USD denominated net assets/(liabilities)	61.930	(61.930)	61.930	(61.930)
2- Hedged amount against USD risk (-)	--	--	--	--
<b>3- Net effect of USD (1+2)</b>	<b>61.930</b>	<b>(61.930)</b>	<b>61.930</b>	<b>(61.930)</b>
<b>Appreciation of EURO against TL by 10%:</b>				
4- EURO denominated net assets/(liabilities)	51.382	(51.382)	51.382	(51.382)
5- Hedged amount against EURO risk (-)	--	--	--	--
<b>6- Net effect of EURO (4+5)</b>	<b>51.382</b>	<b>(51.382)</b>	<b>51.382</b>	<b>(51.382)</b>
<b>Appreciation of other currencies against TL by 10%:</b>				
7- Other currencies denominated net assets/(liabilities)	(366)	366	(366)	366
8- Hedged amount against other currencies risk (-)	--	--	--	--
<b>9- Net effect of other currencies (7+8)</b>	<b>(366)</b>	<b>366</b>	<b>(366)</b>	<b>366</b>

<sup>(1)</sup> Comprises profit/loss effect.



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**21. FOREIGN EXCHANGE POSITION (continued)**
Foreign currency sensitivity (continued)

<b>Foreign currency sensitivity table</b>				
<b>31 December 2015</b>				
	<b>Profit/Loss</b>		<b>Equity<sup>(1)</sup></b>	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
<b>Appreciation of USD against TL by 10%:</b>				
1- USD denominated net assets/(liabilities)	46.248	(46.248)	46.248	(46.248)
2- Hedged amount against USD risk (-)	--	--	--	--
<b>3- Net effect of USD (1+2)</b>	<b>46.248</b>	<b>(46.248)</b>	<b>46.248</b>	<b>(46.248)</b>
<b>Appreciation of EURO against TL by 10%:</b>				
4- EURO denominated net assets/(liabilities)	45.100	(45.100)	45.100	(45.100)
5- Hedged amount against EURO risk (-)	--	--	--	--
<b>6- Net effect of EURO (4+5)</b>	<b>45.100</b>	<b>(45.100)</b>	<b>45.100</b>	<b>(45.100)</b>
<b>Appreciation of other currencies against TL by 10%:</b>				
7- Other currencies denominated net assets/(liabilities)	(947)	947	(947)	947
8- Hedged amount against other currencies risk (-)	--	--	--	--
<b>9- Net effect of other currencies (7+8)</b>	<b>(947)</b>	<b>947</b>	<b>(947)</b>	<b>947</b>

<sup>(1)</sup> Comprises profit/loss effect

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**22. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING**

<b>30 June 2016</b>	<b>Financial assets at fair value</b>	<b>Loans and receivables (including cash and cash equivalents)</b>	<b>Available for sale financial assets</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying value</b>	<b>Note</b>
<b><u>Financial assets</u></b>						
Cash and cash equivalents	--	552.264	--	--	552.264	
Blocked deposits	--	46.197	--	--	46.197	
Financial investments	147	--	433.354	--	433.501	
Equity Accounted Investees	43.200	--	--	--	43.200	5
Trade receivables	--	1.566.418	--	--	1.566.418	4
<b><u>Financial liabilities</u></b>						
Borrowings	--	--	--	474.821	474.821	
Trade payables	--	--	--	703.728	703.728	4
Other payables	--	--	--	36.169	36.169	

<b>31 December 2015</b>	<b>Financial assets at fair value</b>	<b>Loans and receivables (including cash and cash equivalents)</b>	<b>Available for sale financial assets</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying value</b>	<b>Note</b>
<b><u>Financial assets</u></b>						
Cash and cash equivalents	--	680.963	--	--	680.963	
Blocked deposits	--	61.515	--	--	61.515	
Financial investments	147	--	433.354	--	433.501	
Equity Accounted Investees	41.916	--	--	--	41.916	5
Trade receivables	--	1.444.169	--	--	1.444.169	4
<b><u>Financial liabilities</u></b>						
Borrowings	--	--	--	603.318	603.318	
Trade payables	--	--	--	800.087	800.087	4
Other payables	--	--	--	2.909	2.909	

The Group's management assesses that the carrying value reflects the fair value of financial instruments. Related financial assets are presented at cost after deducting impairment allowance if any.

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**22. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING (continued)**

30 June 2016	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
ROKETSAN	--	--	433.354
	--	--	<b>433.354</b>

31 December 2015	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
ROKETSAN	--	--	433.354
	--	--	<b>433.354</b>

The movement of the fair value level as of 30 June 2016 is as follows:

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
1 January 2016	--	--	433.354
Additions	--	--	--
30 June 2016	--	--	<b>433.354</b>

**23. EVENTS AFTER REPORTING PERIOD**

The amount of contracts signed by the Group after reporting date is approximately USD 162 Million.

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**24. OTHER ISSUES REQUIRED TO BE DISCLOSED THAT HAS SIGNIFICANT IMPACT ON FINANCIAL STATEMENTS OR IN ORDER FINANCIAL STATEMENT TO BE CLEAR, INTERPRETABLE AND UNDERSTANDABLE**

As of 30 June 2015 in consolidated cash flow statement, has been classified as follows:

Cash flows from operating activities has decreased by TL 16.359; profit for the period has increased by TL 27.071; adjustments to reconcile profit for the period has decreased by TL 65.658; changes in working capital has increased by TL 24.529; cash flows provided (used) from activities has decreased by TL 14.058; cash flows from investing activities has reduced by TL 55; cash flows from financing activities has reduced by TL 927 and effect of foreign currencies exchange differences on the cash and cash equivalents amounting to TL 17.341 is presented separately.

The effects of the reclassifications and adjustments to the Group's prior year consolidated financial statements which are enclosed in Note 2.2 and Note 2.3 are given below:

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**24. OTHER ISSUES REQUIRED TO BE DISCLOSED THAT HAS SIGNIFICANT IMPACT ON FINANCIAL STATEMENTS OR IN ORDER FINANCIAL STATEMENT TO BE CLEAR, INTERPRETABLE AND UNDERSTANDABLE (continued)**

	Prior Reported 30 June 2015	Classifications	Adjustments	Restated 30 June 2015
<b>ASSETS</b>				
<b>Current Assets</b>	<b>2.403.106</b>	<b>91.583</b>	<b>(16.078)</b>	<b>2.478.611</b>
Cash and Cash Equivalents	109.525	--	--	109.525
Financial Investments	532	--	--	532
Trade Receivables	1.006.988	91.583	(2.837)	1.095.734
<i>From Related Parties</i>	104.365	--	--	104.365
<i>From Third Parties</i>	902.623	91.583	(2.837)	991.369
Other Receivables	44.716	--	--	44.716
<i>From Related Parties</i>	22	--	--	22
<i>From Third Parties</i>	44.694	--	--	44.694
Inventory	857.695	--	--	857.695
Prepaid Expenses	263.048	--	(13.241)	249.807
Other Current Assets	120.602	--	--	120.602
<b>Non-Current Assets</b>	<b>2.908.285</b>	<b>22.821</b>	<b>(134.332)</b>	<b>2.796.774</b>
Financial Investments	362.970	--	--	362.970
Trade Receivables	305.831	22.821	--	328.652
<i>From Related Parties</i>	24.881	--	--	24.881
<i>From Third Parties</i>	280.950	22.821	--	303.771
Other Receivables	307	--	--	307
<i>From Third Parties</i>	307	--	--	307
Property, Plant and Equipment	914.139	--	(1.321)	912.818
Intangible Assets	527.047	--	--	527.047
Prepaid Expenses	371.184	--	(45.956)	325.228
Deferred Tax Assets	334.499	--	(87.055)	247.444
Other Non-Current Assets	92.308	--	--	92.308
<b>TOTAL ASSETS</b>	<b>5.311.391</b>	<b>114.404</b>	<b>(150.410)</b>	<b>5.275.385</b>

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**24. OTHER ISSUES REQUIRED TO BE DISCLOSED THAT HAS SIGNIFICANT IMPACT ON FINANCIAL STATEMENTS OR IN ORDER FINANCIAL STATEMENT TO BE CLEAR, INTERPRETABLE AND UNDERSTANDABLE (continued)**

	Prior Reported 30 June 2015	Classifications	Adjustments	Restated 30 June 2015
<b>LIABILITIES</b>				
<b>Current Liabilities</b>	<b>1.283.843</b>	<b>28.592</b>	<b>(66.720)</b>	<b>1.245.715</b>
Short-term Financial Liabilities	307.982	--	--	307.982
Short-term Portion of Long-term Financial Liabilities	69.348	--	--	69.348
Trade Payables	453.436	4.507	--	457.943
<i>To Related Parties</i>	29.326	--	--	29.326
<i>To Third Parties</i>	424.110	4.507	--	428.617
Employee Benefit Obligations	16.767	--	--	16.767
Other Payables	36.065	--	--	36.065
<i>To Related Parties</i>	35.418	--	--	35.418
<i>To Third Parties</i>	647	--	--	647
Government Grants and Incentives	19.735	--	--	19.735
Deferred Income	249.927	20.139	(66.720)	203.346
Corporate Tax Liability	589	--	--	589
Short-term Provisions	128.336	3.946	--	132.282
<i>Short-term Provisions for Employee Benefits</i>	38.955	--	--	38.955
<i>Other Short-term Provisions</i>	89.381	3.946	--	93.327
Other Short-term Liabilities	1.658	--	--	1.658
<b>Non-Current Liabilities</b>	<b>1.783.012</b>	<b>85.812</b>	<b>(430.966)</b>	<b>1.437.858</b>
Long-term Financial Liabilities	185.236	--	--	185.236
Trade Payables	158.819	(15.834)	--	142.985
<i>To Related Parties</i>	6.853	--	--	6.853
<i>To Third Parties</i>	151.966	(15.834)	--	136.132
Other Payables	36	--	--	36
<i>To Third Parties</i>	36	--	--	36
Deferred Income	1.300.432	28.064	(430.966)	897.530
Long-term Provisions	138.489	73.582	--	212.071
<i>Long-term Provisions for Employee Benefits</i>	138.489	--	--	138.489
<i>Other Long-term Provisions</i>	--	73.582	--	73.582
<b>EQUITY</b>	<b>2.244.536</b>	<b>--</b>	<b>347.276</b>	<b>2.591.812</b>
<b>Equity attributable to equity holders of the parent</b>	<b>2.244.536</b>	<b>--</b>	<b>347.276</b>	<b>2.591.812</b>
Share Capital	500.000	--	--	500.000
Share Capital Adjustments	100.321	--	--	100.321
Other Comprehensive Income / (Expense) that will not to be Reclassified Subsequently to Profit or Loss	202.342	--	(1.194)	201.148
<i>Loss on Remeasurement of Defined Benefit Plans</i>	(14.924)	--	--	(14.924)
<i>Gain on Revaluation of Property</i>	217.266	--	(1.194)	216.072
Other Comprehensive Income / (Expense) that may be Reclassified Subsequently to Profit or Loss	293.019	--	--	293.019
<i>Gain on Revaluation of Available for Sale</i>	293.019	--	--	293.019
<i>Financial Assets</i>				
Restricted Reserves	86.943	--	--	86.943
Prior Years' Profit	1.010.835	--	321.399	1.332.234
Net Profit for the Period	51.076	--	27.071	78.147
<b>Non-Controlling Interests</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>5.311.391</b>	<b>114.404</b>	<b>(150.410)</b>	<b>5.275.385</b>

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**24. OTHER ISSUES REQUIRED TO BE DISCLOSED THAT HAS SIGNIFICANT IMPACT ON FINANCIAL STATEMENTS OR IN ORDER FINANCIAL STATEMENT TO BE CLEAR, INTERPRETABLE AND UNDERSTANDABLE (continued)**

	Prior Reported 30 June 2015	Classifications	Adjustments	Restated 30 June 2015
<b>PROFIT OR LOSS</b>				
Sales Revenue	1.272.723	45.733	(7.042)	1.311.414
Cost of Sales (-)	(945.675)	(66.327)	--	(1.012.002)
<b>GROSS PROFIT</b>	<b>327.048</b>	<b>(20.594)</b>	<b>(7.042)</b>	<b>299.412</b>
General Administrative Expenses (-)	(67.279)	--	(63)	(67.342)
Marketing Expenses (-)	(28.294)	--	--	(28.294)
Research and Development Expenses (-)	(29.540)	--	--	(29.540)
Other Operating Income	206.482	17.517	(17.266)	206.733
Other Operating Expenses (-)	(336.676)	--	58.210	(278.466)
<b>OPERATING PROFIT</b>	<b>71.741</b>	<b>(3.077)</b>	<b>33.839</b>	<b>102.503</b>
Income from Investing Activities	--	55	--	55
Expense from Investing Activities (-)	--	--	--	--
<b>OPERATING PROFIT BEFORE FINANCIAL EXPENSE</b>	<b>71.741</b>	<b>(3.022)</b>	<b>33.839</b>	<b>102.558</b>
Finance Income	2.095	3.022	--	5.117
Financial Expense (-)	(77.517)	--	--	(77.517)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>(3.681)</b>	<b>--</b>	<b>33.839</b>	<b>30.158</b>
<b>Tax Income from Continuing Operations</b>	<b>54.757</b>	<b>--</b>	<b>(6.768)</b>	<b>47.989</b>
- Current Corporate Tax Expense(-)	(589)	--	--	(589)
- Deferred Tax Income	55.346	--	(6.768)	48.578
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>	<b>51.076</b>	<b>--</b>	<b>27.071</b>	<b>78.147</b>
<b>Profit for the Period Attributable to:</b>				
Non-Controlling Interest	--	--	--	--
Owners of the Company	51.076	--	27.071	78.147
	<b>51.076</b>	<b>--</b>	<b>27.071</b>	<b>78.147</b>
<b>Earnings per 100 Shares (in full kuruş)</b>	<b>5,11</b>	<b>--</b>	<b>2,71</b>	<b>7,81</b>

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**24. OTHER ISSUES REQUIRED TO BE DISCLOSED THAT HAS SIGNIFICANT IMPACT ON FINANCIAL STATEMENTS OR IN ORDER FINANCIAL STATEMENT TO BE CLEAR, INTERPRETABLE AND UNDERSTANDABLE (continued)**

	Prior Reputed 30 June 2015	Classifications	Adjustments	Restated 30 June 2015
<b>PROFIT FOR THE PERIOD</b>	<b>51.076</b>	--	<b>27.071</b>	<b>78.147</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Items that will not to be Reclassified</b>				
<b>Subsequently in Profit or Loss</b>	<b>39.565</b>	--	<b>(47)</b>	<b>39.518</b>
Gain on Revaluation of Property	41.648	--	(50)	41.598
Gain/Loss on Remeasurement of Defined Benefit Plans	--	--	--	--
Deferred Tax Expense (-)/Income	(2.083)	--	3	(2.080)
<b>Items that may be reclassified subsequently to profit or loss</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
Gain on Revaluation of Available for Sale Financial Assets	--	--	--	--
Deferred Tax Expense	--	--	--	--
<b>OTHER COMPREHENSIVE INCOME</b>	<b>39.565</b>	<b>--</b>	<b>(47)</b>	<b>39.518</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>90.641</b>	<b>--</b>	<b>27.024</b>	<b>117.665</b>
<b>Total Comprehensive Income for the Period</b>				
<b>Attributable to:</b>				
Non-Controlling Interests	--	--	--	--
Owners of the Company	90.641	--	27.024	117.665
	<b>90.641</b>	<b>--</b>	<b>27.024</b>	<b>117.665</b>

- As of 30 June 2015, the expected loss provision amounting to TL 2.533 recognized in "Short-Term Trade Receivables" has been presented under "Short-Term Provisions".

- As of 30 June 2015, the expected loss provision amounting to TL 65.761 recognized in "Short-Term Trade Receivables" has been presented under "Long-Term Provisions".

- As of 30 June 2015, TL 20.139 is presented under "Short-Term Trade Receivables" in the consolidated balance sheet has been classified under "Short-Term Deferred Income".

- As of 30 June 2015, TL 3.150 is presented under "Short-Term Trade Receivables" in the consolidated balance sheet has been classified under "Long-Term Deferred Income".

- As of 30 June 2015, TL 22.821 is presented under "Long-Term Trade Receivables" in the consolidated balance sheet has been classified under "Long-Term Deferred Income".

- As of 30 June 2015, amounting to TL 5.921 is recognized in "Long-Term Trade Payables" in the consolidated balance sheet has been presented under "Short-Term Trade Payables".



(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

**24. OTHER ISSUES REQUIRED TO BE DISCLOSED THAT HAS SIGNIFICANT IMPACT ON FINANCIAL STATEMENTS OR IN ORDER FINANCIAL STATEMENT TO BE CLEAR, INTERPRETABLE AND UNDERSTANDABLE (continued)**

- As of 30 June 2015, amounting to TL 2.093 is recognised in "Long-Term Trade Payables" in the consolidated balance sheet has been presented under "Long-Term Deferred Income".
- As of 30 June 2015, expected loss provision amounting to TL 1.414 recognized in "Short-Term Trade Payables" in the consolidated balance sheet has been presented under "Short-Term Provisions".
- As of 30 June 2015, expected loss provision amounting to TL 7.820 recognized in "Long-Term Trade Payables" in the consolidated balance sheet has been presented under "Long-Term Provisions".
- Expected loss provision cost amounting to TL 68.294 recognized in "Revenue" in the consolidated income statement belonging to reporting period ended 30 June 2015 has been classified under "Cost of Sales".
- Foreign exchange difference amounting to TL 22.561 recognized in "Revenue" in the consolidated income statement belonging to reporting period ended 30 June 2015 has been classified under "Other Operating Income".
- Foreign exchange difference amounting to TL 1.967 recognized in "Other Operating Income" in the consolidated income statement belonging to reporting period ended 30 June 2015 has been presented under "Cost Of Sales".
- Amounting to TL 55 recognized in "Other Operating Income" in the consolidated income statement belonging to reporting period ended 30 June 2015 has been classified under "Incomes From Investing Activities".
- Amounting to TL 3.022 recognized in "Other Operating Income" in the consolidated income statement belonging to reporting period ended 30 June 2015 has been classified under "Financial Income".