

**(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 NINE-MONTH PERIOD ENDED
30 SEPTEMBER 2016**

8 November 2016

This report contains condensed consolidated interim financial information and related disclosures and footnotes comprising 54 pages.

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ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2016

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

	Note References	Current Period Not Reviewed 30 September 2016	Prior Period Audited 31 December 2015
ASSETS			
Current Assets		3.892.202	3.092.768
Cash and Cash Equivalents		820.877	680.963
Trade Receivables	4	1.237.680	1.068.283
<i>From Related Parties</i>	3	205.169	165.331
<i>From Third Parties</i>		1.032.511	902.952
Other Receivables		52.461	48.242
<i>From Related Parties</i>	3	4.087	--
<i>From Third Parties</i>		48.374	48.242
Inventory	6	1.241.548	886.827
Prepaid Expenses	7	370.164	228.678
<i>From Related Parties</i>	3	97.964	22.527
<i>From Third Parties</i>		272.200	206.151
Other Current Assets		169.472	179.775
Non-Current Assets		3.383.249	3.152.334
Financial Investments		433.501	433.501
Trade Receivables	4	499.162	375.886
<i>From Related Parties</i>	3	39.640	25.431
<i>From Third Parties</i>		459.522	350.455
Other Receivables		290	288
<i>From Third Parties</i>		290	288
Equity Accounted Investments	5	48.190	41.916
Property, Plant and Equipment	8	922.602	924.842
Intangible Assets	8	619.801	537.512
Prepaid Expenses	7	371.015	410.133
<i>From Related Parties</i>	3	214.014	284.921
<i>From Third Parties</i>		157.001	125.212
Deferred Tax Assets	10	364.063	330.533
Other Non-Current Assets		124.625	97.723
TOTAL ASSETS		7.275.451	6.245.102

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 SEPTEMBER 2016

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

	Note References	Current Period Not Reviewed 30 September 2016	Prior Period Audited 31 December 2015
LIABILITIES			
Current Liabilities		1.525.178	1.568.973
Short-term Financial Liabilities		282.716	357.816
Short-term Portion of Long-term Financial Liabilities		55.810	89.428
Trade Payables	4	568.836	577.203
<i>To Related Parties</i>	3	50.374	37.696
<i>To Third Parties</i>		518.462	539.507
Employee Benefit Obligations	12	23.195	21.588
Other Payables		20.786	2.871
<i>To Related Parties</i>	3	14.060	55
<i>To Third Parties</i>		6.726	2.816
Government Grants and Incentives		26.865	22.583
Deferred Income	7	342.287	261.497
<i>To Related Parties</i>	3	17.271	15.194
<i>To Third Parties</i>		325.016	246.303
Corporate Tax Liability		1.110	2.633
Short-term Provisions		194.855	220.041
<i>For Employee Benefits</i>	12	38.894	38.115
<i>Other</i>	9	155.961	181.926
Other Current Liabilities		8.718	13.313
Non-Current Liabilities		2.559.361	1.835.393
Long-term Financial Liabilities		109.968	156.074
Trade Payables	4	247.089	222.884
<i>To Related Parties</i>	3	18.350	34.279
<i>To Third Parties</i>		228.739	188.605
Other Payables		40	38
<i>To Third Parties</i>		40	38
Deferred Income	7	1.915.680	1.269.467
<i>To Related Parties</i>	3	313.917	87.021
<i>To Third Parties</i>		1.601.763	1.182.446
Long-term Provisions		286.584	186.930
<i>Long-term Provisions for Employee Benefits</i>	12	161.202	163.412
<i>Other</i>	9	125.382	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 SEPTEMBER 2016**

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

	Note References	Current Period Not Reviewed 30 September 2016	Prior Period Audited 31 December 2015
EQUITY		3.190.912	2.840.736
Equity Attributable to Equity Holders of the Parent		3.190.582	2.840.283
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		204.020	201.147
<i>Gain on Revaluation of Property</i>		<i>216.072</i>	<i>216.072</i>
<i>Loss on Remeasurement of Defined Benefit Plans</i>		<i>(12.052)</i>	<i>(14.925)</i>
Other Comprehensive Income / (Expense) that may be Reclassified Subsequently to Profit/Loss		406.875	406.707
<i>Gain on Revaluation of Available for Sale Financial Assets</i>		<i>406.802</i>	<i>406.802</i>
<i>Foreign Currency Exchange Differences</i>		<i>73</i>	<i>(95)</i>
Restricted Reserves	13	94.159	86.943
Prior Years' Profit		997.649	1.332.235
Net Profit for the Period		389.258	212.930
Non-Controlling Interests		330	453
TOTAL LIABILITIES AND EQUITY		7.275.451	6.245.102

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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2016

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

	Note References	Current Period Not Reviewed 1 January- 30 September 2016	Current Period Not Reviewed 1 July- 30 September 2016	(Restated) Prior Period Not Reviewed 1 January- 30 September 2015	(Restated) Prior Period Not Reviewed 1 July- 30 September 2015
PROFIT OR LOSS					
Revenue	14	2.149.754	734.935	1.847.864	536.451
Cost of Sales (-)	14	(1.611.462)	(557.786)	(1.432.993)	(420.991)
GROSS PROFIT		538.292	177.149	414.871	115.460
General Administrative Expenses (-)		(107.321)	(26.239)	(94.933)	(27.591)
Marketing Expenses (-)		(50.018)	(19.944)	(36.910)	(8.616)
Research and Development Expenses (-)		(58.954)	(22.350)	(41.136)	(11.596)
Other Operating Income	16	208.624	95.994	341.046	134.313
Other Operating Expenses (-)	16	(176.523)	(49.394)	(349.417)	(70.952)
OPERATING PROFIT		354.100	155.216	233.521	131.018
Income From Investment Activities	17	8.415	71	106	51
Shares of profit/(losses) of Equity Accounted Investees		1.407	1.634	--	--
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		363.922	156.921	233.627	131.069
Financial Income	18	60.860	14.734	9.937	4.819
Financial Expense (-)	19	(68.785)	(26.614)	(147.641)	(70.123)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		355.997	145.041	95.923	65.765
Tax Income from Continuing Operations		33.138	8.133	50.072	2.084
- Current Corporate Tax Expense(-)		(1.110)	(574)	(847)	(258)
- Deferred Tax Income		34.248	8.707	50.919	2.342
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		389.135	153.174	145.995	67.849
Profit for the Period Attributable to					
Non-Controlling Interest		(123)	(70)	--	--
Owners of the Company	20	389.258	153.244	145.995	67.849
		389.135	153.174	145.995	67.849
Earnings for per 100 Shares (in full kuruş)	20	38,93	15,32	14,60	6,78

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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2016

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

Note References	Current Period Not Reviewed 1 January- 30 September 2016	Current Period Not Reviewed 1 July- 30 September 2016	(Restated) Prior Period Not Reviewed 1 January- 30 September 2015	(Restated) Prior Period Not Reviewed 1 July- 30 September 2015
OTHER COMPREHENSIVE INCOME	389.135	153.174	145.995	67.849
Items that will not to be Reclassified Subsequently in Profit or Loss	2.873	570	39.518	--
Gain on Revaluation of Property	--	--	41.598	--
Loss on Remeasurement of Defined Benefit Plans	3.591	712	--	--
Deferred Tax Expense	(718)	(142)	(2.080)	--
Items that may be Reclassified Subsequently to Profit or Loss	168	65	--	--
Foreign Currency Exchange Differences	168	65	--	--
OTHER COMPREHENSIVE INCOME	3.041	635	39.518	--
TOTAL COMPREHENSIVE INCOME	392.176	153.809	185.513	67.849
Total Comprehensive Income Attributable to				
Non-Controlling Interest	(123)	(70)	--	--
Owners of the Company	392.299	153.879	185.513	67.849
	392.176	153.809	185.513	67.849

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 SEPTEMBER 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			
Balance as of 1 January 2015 (Reported Previously)	500.000	98.621	177.701	(14.924)	293.019	--	73.708	740.674	350.095	2.218.894	--	2.218.894
Restatement effect (Note:24)	--	--	(1.147)	--	--	--	--	279.443	41.957	320.253	--	320.253
Balance as of 1 January 2015 (Restated)	500.000	98.621	176.554	(14.924)	293.019	--	73.708	1.020.117	392.052	2.539.147	--	2.539.147
Transfers	--	--	--	--	--	--	13.230	313.822	(327.052)	--	--	--
Total Comprehensive Income	--	--	39.518	--	--	--	--	--	145.995	185.513	--	185.513
Dividends	--	--	--	--	--	--	--	--	(65.000)	(65.000)	--	(65.000)
The Effect of Take over of Subsidiaries ⁽¹⁾	--	1.700	--	--	--	--	5	(1.705)	--	--	--	--
Balance as of 30 September 2015 (Closing Balance)	500.000	100.321	216.072	(14.924)	293.019	--	86.943	1.332.234	145.995	2.659.660	--	2.659.660
Balance as of 1 January 2016 (Opening Balance)	500.000	100.321	216.072	(14.925)	406.802	(95)	86.943	1.332.235	212.930	2.840.283	453	2.840.736
Transfers	--	--	--	--	--	--	7.216	163.714	(170.930)	--	--	--
Capital Increase	500.000	(1.700)	--	--	--	--	--	(498.300)	--	--	--	--
Total Comprehensive Income	--	--	--	2.873	--	168	--	--	389.258	392.299	(123)	392.176
Dividends ⁽²⁾	--	--	--	--	--	--	--	--	(42.000)	(42.000)	--	(42.000)
Balance as of 30 September 2016 (Closing Balance)	1.000.000	98.621	216.072	(12.052)	406.802	73	94.159	997.649	389.258	3.190.582	330	3.190.912

⁽¹⁾ Represents the effect of merger of MİKES Mikroalga Elektronik Sistemler Sanayi ve Ticaret Anonim Şirketi with ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi as of 20 January 2015.

⁽²⁾ As of 30 September 2016, dividend amounting to TL 14.000 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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2016

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

		Curret Year	(Restated)
	Note	Not Reviewed	Not Reviewed
	References	1 January- 30 September 2016	1 January- 30 September 2015
A.Cash Flows from Operating Activities		504.973	448.089
Profit (Loss)		389.135	145.995
Adjustments to Reconcile Profit (Loss)		129.683	106.402
- Adjustments for depreciation and amortisation expense		81.781	74.952
- Adjustments for impairment loss (reversal of impairment loss)		2.938	754
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Receivables</i>	4	62	--
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories</i>	6	2.876	754
- Adjustments for provisions		159.695	108.825
<i>Adjustments for (Reversal of) Provisions Related with Employee Benefits</i>		27.334	24.299
<i>Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions</i>		77.527	56.451
<i>Adjustments for (Reversal of) Warranty Provisions</i>		59.312	33.153
<i>Adjustments for (Reversal of) Other Provisions</i>		(4.478)	(5.078)
- Adjustments for interest (income) expenses		(5.859)	9.868
<i>Adjustments for Interest Income</i>		(20.428)	(11.503)
<i>Adjustments for Interest Expense</i>		14.569	21.371
- Adjustments for tax (income) expenses		(33.138)	(50.073)
- Adjustments for losses (gains) on disposal of non-current assets	8	15.901	1.795
- Adjustments for stage of completion of construction or service contracts in progress		(81.789)	(70.728)
Other adjustments for which cash effects are investing or financing cash flow		851	76.289
- Other adjustments to reconcile profit (loss)		(10.697)	(45.280)
Changes in Working Capital		70.424	254.234
- Adjustments for decrease (increase) in trade accounts receivable		(226.002)	137.444
- Adjustments for decrease (increase) in other receivables related with operations		(4.221)	3.895
- Adjustments for decrease (increase) in inventories		(240.895)	(8.524)
- Decrease (increase) in prepaid expenses		(208.983)	(125.491)
- Adjustments for increase (decrease) in trade accounts payable		32.334	(82.792)
- Increase (decrease) in employee benefit liabilities		1.607	(3.840)
- Adjustments for increase (decrease) in other operating payables		3.917	2.608
- Increase (decrease) in government grants and assistance		4.283	3.342
- Increase (decrease) in deferred income		727.002	373.116
- Other adjustments for other increase (decrease) in working capital		(18.618)	(45.524)
Cash Flows From (Used in) Operations		589.242	506.631
Payments related with provisions for employee benefits		(25.174)	(10.586)
Payments related with other provisions		(56.462)	(47.304)
Income taxes refund (paid)		(2.633)	(652)
B.Cash Flows From (Used in) Investing Activities		(185.468)	(211.893)
Proceeds from sales of property, plant, equipment and intangible assets		459	491
Purchase of property, plant and equipment		(58.104)	(58.459)
Purchase of intangible assets	8	(129.477)	(146.471)
Dividends received	17	8.171	--
Other inflows (outflows) of cash		(6.517)	(7.454)
C.Cash Flows From Financing Activities		(190.003)	(2.534)
Proceeds from borrowings		427.361	414.578
Repayments of borrowings		(596.998)	(376.578)
Payments of finance lease liabilities		(67)	(77)
Dividends paid		(28.000)	(41.648)
Interest paid	19	(4.642)	(3.173)
Interest received		12.343	4.364
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANG RATE CHANGES (A+B+C)		129.502	233.662
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		10.412	36.055
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		139.914	269.717
E.CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		680.963	131.941
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)		820.877	401.658

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

(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 ("BIST") since 1990. As of 30 September 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 September 2016 is 5.581 (31 December 2015: 5.392).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 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 September	31 December
		2016	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. All of the branches are included in the consolidated financial statements.

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 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 909 on 8 November 2016. No authority other than General Assembly and legal entities has the right to amend the consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 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)

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. Kuruş, is Turkish Currency subunit and one TL is equal to 100 Kuruş.

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" has not been applied since 1 January 2005.

Basis of Consolidation

Subsidiaries:

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 September 2016	31 December 2015	
AELSANNET	Turkey	TL	100	100	Telecommunication systems
AELSAN Bakü ⁽¹⁾	Azerbaijan	AZN	100	100	Marketing and sales of the group products
Mikro AR-GE ⁽¹⁾	Turkey	TL	85	85	Microelectronic R&D projects

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

(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)

Subsidiaries (continued):

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).

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 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)

Subsidiaries (continued):

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 during consolidation.

Joint Ventures:

The details of the Group's interests in joint ventures as of the dates 30 September 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 September 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 open in the fourth 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 September 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.

IFRS 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 IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to IFRS 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.

IFRS 15 Revenue from Contracts with Customers

As issued in September 2016, the new standard replaces existing IFRS 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 recognizing 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 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 IFRS by the POA, thus they do not constitute part of IFRS. 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 IFRS.

(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 September 2016
(continued)**

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

(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 September 2016
(continued)**

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

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.

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.

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

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

2.5 Summary of Significant Accounting Policies

Group prepared the accompanying condensed consolidated financial reports based on TAS 34 "Interim Financial Reporting" standard. 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 September 2016 is TL 6.526 (30 September 2015: TL 4.938).

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 SEPTEMBER 2016

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

3. RELATED PARTY TRANSACTIONS (continued)

	30 September 2016									
	Receivables					Payables				
	Short-term		Non-trading	Long-term		Short-term		⁽¹⁾ Non-trading	Long-term	
Trading	Advances given	Trading		Advances given	Trading	Advances received	Trading		Advances received	
Balances with related parties										
<u>Main shareholder</u>										
TSKGV	32	--	--	--	--	--	--	11.842	--	--
<u>Other shareholder</u>										
Axa Sigorta Anonim Şirketi ("Axa Sigorta")	--	--	--	--	--	--	--	71	--	--
<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")	16.266	--	--	--	--	1.063	75	--	--	--
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi ("HTR")	--	972	--	--	--	1.031	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	9.860	--	--	1.933	2.445	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	9	21.630	--	--	16.095	12.119	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	191	9.144	--	6.251	--	13.460	2.251	--	--	--
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	10.832	--	--	26.983	--	1.781	14.779	--	18.350	300.316
<u>Marketable securities</u>										
Askeri PİL Sanayi ve Ticaret Anonim Şirketi ("ASPILSAN")	--	38	--	--	--	1.827	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	57.244	49.365	4.087	6.406	195.932	14.715	166	--	--	13.601
<u>Joint ventures and its related parties</u>										
ASELSAN Bilkent	3	--	--	--	--	--	--	--	--	--
İhsan Doğramacı Bilkent University	--	2.076	--	--	54	1.908	--	--	--	--
ASELSAN Optik	--	2.547	--	--	--	2	--	--	--	--
IGG	21.686	--	--	--	--	--	--	--	--	--
IGG ASELSAN	612	1.587	--	--	--	23	--	--	--	--
ASELSAN Kazakistan	58.572	--	--	--	--	--	--	--	--	--
ASELSAN Jordan	39.722	--	--	--	--	--	--	--	--	--
<u>Dividend payout of the publicly held</u>	--	--	--	--	--	--	--	2.147	--	--
	205.169	97.964	4.087	39.640	214.014	50.374	17.271	14.060	18.350	313.917

(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 SEPTEMBER 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
Balances with related parties										
<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	--	--	--	--	--	--	--	--	--
	165.331	22.527	--	25.431	284.921	37.696	15.194	55	34.279	87.021

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

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

3. RELATED PARTY TRANSACTIONS (continued)

	1 January- 30 September 2016	1 July- 30 September 2016	1 January- 30 September 2015	1 July- 30 September 2015
Transactions with related parties	Purchases	Purchases	Purchases	Purchases
<u>Main Shareholder</u>				
TSKGV	490	163	458	153
<u>Main shareholder's subsidiaries and associates</u>				
STM	15.730	3.911	566	534
NETAŞ	12.863	1.691	19.037	8.916
Mercedes Benz	2.335	--	--	--
İŞBİR	9.186	7.188	4.740	2.697
TUSAŞ	621	--	1.003	835
HAVELSAN	541	--	1.060	--
HAVELSAN EHSİM	--	--	278	278
HTR - HAVELSAN	5.006	2.138	2.465	916
ESDAŞ	--	--	70	--
<u>Subsidiaries</u>				
Mikro AR-GE	--	--	3.766	1.629
ASELSAN Bakü	--	--	181	9
<u>Marketable securities</u>				
ROKETSAN	11.401	--	8.568	2.398
ASPILSAN	3.251	1.417	3.008	1.230
<u>Branch</u>				
ASELSAN South Africa	--	--	1.486	418
<u>Joint ventures and its related parties</u>				
İhsan Doğramacı Bilkent University	7.762	1.942	8.274	2.935
IGG ASELSAN	--	--	2.009	965
ASELSAN Jordan	--	--	779	--
ASELSAN Optik	--	--	460	175
ASELSAN Kazakhstan	--	--	71	71
	69.186	18.450	58.279	24.159

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".

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

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

3. RELATED PARTY TRANSACTIONS (continued)

	1 January- 30 September 2016	1 July- 30 September 2016	1 January- 30 September 2015	1 July - 30 September 2015
Transactions with related parties	Sales	Sales	Sales	Sales
<u>Main Shareholder</u>				
TSKGV	239	69	151	50
<u>Main shareholder's subsidiaries and associates</u>				
TUSAŞ	111.821	36.184	53.740	19.223
STM	30.816	20.679	17.495	2.964
HAVELSAN	4.682	673	29.908	24.857
NETAŞ	7	--	--	--
<u>Subsidiaries</u>				
Aselsan Bakü	--	--	247	39
Mikro AR-GE	--	--	211	77
<u>Marketable securities</u>				
ROKETSAN	34.086	15.464	52.286	23.143
<u>Branch</u>				
ASELSAN Macedonia	--	--	2.504	2.501
ASELSAN South Africa	--	--	2	--
<u>Joint ventures and its related parties</u>				
IGG	1.441	1.228	424	76
IGG ASELSAN	--	--	407	407
ASELSAN Kazakhstan	--	--	55.256	16.400
ASELSAN Jordan	--	--	20.320	6.049
ASELSAN Bilkent	--	--	73	17
	183.092	74.297	233.024	95.803

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2016

(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:

	30 September 2016	31 December 2015
Short-term trade receivables		
Trade receivables	983.855	786.000
Trade receivables from related parties (Note 3)	202.365	165.331
Unbilled receivables from construction contracts in progress	46.643	112.293
Unbilled receivables from construction contracts in progress- Related Party (Note 3)	2.804	--
Notes receivable	2.013	4.659
Doubtful trade receivables	921	859
Allowance for doubtful trade receivables (-)	(921)	(859)
	1.237.680	1.068.283

	30 September 2016	31 December 2015
Long-term trade receivables		
Unbilled receivables from construction contracts in progress	413.359	295.695
Trade receivables	45.825	54.693
Unbilled receivables from construction contracts in progress-Related party (Note 3)	39.167	23.183
Trade receivables from related parties (Note 3)	473	2.248
Notes receivables	338	67
	499.162	375.886

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 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:

	30 September 2016	30 September 2015
Opening balance	859	859
Provision for the period	62	--
Closing balance	921	859

The sectorial distribution of trade receivables is as follows:

	30 September 2016	31 December 2015
Public sector	940.579	798.790
Receivables from companies operating abroad	425.941	334.534
Private sector	370.322	310.845
Total receivables	1.736.842	1.444.169

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:

	30 September 2016	31 December 2015
Short-term trade payables		
Trade payables	498.130	485.389
Due to related parties (Note 3)	44.319	31.822
Unearned revenue related to construction contracts in progress	17.079	52.452
Unearned revenue related to construction contracts in progress-Related party (Note 3)	6.055	5.874
Other trade payables	3.253	1.666
	568.836	577.203
Long-term trade payables		
Unearned revenue related to construction contracts in progress	228.739	188.605
Unearned revenue related to construction contracts in progress- Related party (Note 3)	18.350	34.279
	247.089	222.884

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

30 September 2016	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN Kazakhstan	49	60.301	62.333	122.634	70.866	1.860	72.726
ASELSAN Jordan	49	47.470	13.062	60.532	43.012	--	43.012
IGG ASELSAN	49	833	3.525	4.358	2.329	13.936	16.265
ASELSAN Optik	50	6.681	27.796	34.477	4.639	16.804	21.443
ASELSAN Bilkent	50	18.987	46.304	65.291	3.087	44.939	48.026
		134.272	153.020	287.292	123.933	77.539	201.472

30 September 2016	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN Kazakhstan	49	61.122	(53.969)	7.153	24.455	350.475
ASELSAN Jordan	49	33.893	(29.975)	3.918	8.585	191.991
IGG ASELSAN	49	1.777	(3.671)	(1.894)	--	--
ASELSAN Optik	50	2.648	(2.431)	217	6.517	10.852
ASELSAN Bilkent	50	564	(786)	(222)	8.633	(11.092)
		100.004	(90.832)	9.172	48.190	542.226

During 2016, there was a capital increase in ASELSAN Bilkent joint venture and IGG ASELSAN 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 and IGG ASELSAN TL is 2.615.

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5. EQUITY ACCOUNTED INVESTMENTS (continued)

31 December 2015	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
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
IGG ASELSAN	49	1.339	4.083	5.422	2.484	12.619	15.103
ASELSAN Optik	50	7.963	23.205	31.168	2.462	15.888	18.350
ASELSAN Bilkent	50	21.242	16.433	37.675	378	24.346	24.724
		106.369	120.225	226.594	96.913	54.344	151.257

31 December 2015	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
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)
		147.344	(154.890)	(7.546)	41.916	(2.732)

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' 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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6. INVENTORIES

	30 September 2016	31 December 2015
Raw materials	712.162	469.668
Work in progress	347.086	274.793
Finished goods	85.331	74.336
Trade goods	28.957	10.531
Goods in transit ⁽¹⁾	59.431	58.384
Other inventories	27.127	14.785
Allowance for impairment on inventories (-)	(18.546)	(15.670)
	1.241.548	886.827

⁽¹⁾ 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 goods inventories below net realizable value within the current year. Therefore, there is a provision for inventories amounting to TL 18.546 in the statement of financial position (30 September 2015: TL 14.699).

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

	2016	2015
Opening balance	15.670	13.945
Provision Released	--	(2)
Provision for the period	2.876	756
Closing balance	18.546	14.699

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7. PREPAID EXPENSES AND DEFERRED INCOME

	30 September 2016	31 December 2015
Short-term prepaid expenses		
Order advances given for inventory purchases	243.769	179.365
Short-term order advances given to related parties for inventory purchases (Note 3)	97.964	22.527
Prepaid expenses	28.431	26.786
	370.164	228.678

	30 September 2016	31 December 2015
Long-term prepaid expenses		
Long-term order advances given to related parties for inventory purchases (Note3)	214.014	284.921
Order advances given for inventory purchases	131.413	88.934
Order advances given for fixed assets purchases	24.421	33.528
Prepaid expenses	1.167	2.750
	371.015	410.133

	30 September 2016	31 December 2015
Short-term deferred income		
Order advances received	322.072	245.173
Order advances received from related parties (Note 3)	17.271	15.194
Deferred income	2.944	1.130
	342.287	261.497

Short-term order advances received comprises advances received from 30 customers (31 December 2015: 34 customers) of which first 10 customers constitutes 98,5% percent of the total (31 December 2015: 95,8 percent).

	30 September 2016	31 December 2015
Long-term deferred income		
Order advances received	1.601.759	1.182.446
Order advances received from related parties (Note 3)	313.917	87.021
Deferred income	4	--
	1.915.680	1.269.467

Long-term order advances received comprises advances received from 26 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).

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

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8. TANGIBLE AND INTANGIBLE ASSETS

Cost Value	Property, Plant and Equipment	Intangible Fixed Assets
Opening balance as of 1 January 2016	1.529.134	760.007
Additions	58.559	129.477
Disposals	(1.208)	(15.901)
Closing balance as of 30 September 2016	1.586.485	873.583
Accumulated Depreciation and Amortization (-)		
Opening balance as of 1 January 2016	604.292	222.495
Period Cost	60.583	31.287
Disposals	(992)	--
Closing balance as of 30 September 2016	663.883	253.782
Net book value as of 30 September 2016	922.602	619.801
Net book value as of 31 December 2015	924.842	537.512
Cost Value		
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	67.685	146.471
Revaluation fund	41.598	--
Disposals	(1.406)	(1.800)
Closing balance as of 30 September 2015	1.496.623	763.274
Accumulated Depreciation and Amortization (-)		
Opening balance as of 1 January 2015	535.984	180.096
Period cost	52.146	31.053
Disposals	(1.022)	(5)
Closing balance as of 30 September 2015	587.108	211.144
Net book value as of 30 September 2015	909.515	552.130
Net book value as of 31 December 2014	852.762	438.506

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 SEPTEMBER 2016**

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9. PROVISION, CONTINGENT ASSET AND LIABILITIES

a) Provisions

	30 September 2016	31 December 2015
Other short-term provisions		
Provision for warranty ⁽¹⁾	127.326	117.809
Provision for delay penalties and fines ⁽²⁾	12.532	10.779
Provision for expected losses	8.421	41.804
Provision for lawsuits	3.275	2.649
Provision for insurance expense	2.503	6.334
Provision for cost expenses	1.239	1.994
Other	665	557
	155.961	181.926

⁽¹⁾The Group's provision for warranty is based on sales under warranty are estimated in accordance with historical data.⁽²⁾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.

	30 September 2016	31 December 2015
Other long-term provision		
Expected loss provision	125.382	23.518
	125.382	23.518

b) Lawsuits

As of the dates 30 September 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:

	30 September 2016	31 December 2015
Description		
a) Ongoing lawsuits filed by the Group	2.758	2.820
b) Execution proceedings carried on by the Group	5.131	5.640
c) Ongoing lawsuits filed against the Group	3.275	2.649
d) Lawsuits finalized in favor of the Group within the period	2.781	453
e) Lawsuits finalized against of the Group within the period	--	5.482

10. TAX

"Deferred Tax Assets" of the Group as of 30 September 2016 is TL 364.063 The amount is comprised of the items below.

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10. TAX (continued)

	30 September 2016	31 December 2015
Carried Forward R&D Incentives Effect	473.776	417.267
TFRS Adjustment Effect	(109.713)	(86.734)
Deferred Tax Assets - Net	364.063	330.533

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 law numbered 5746 pertaining to 1 January-30 September 2016 period, the Group has calculated "Deferred Tax Asset" amounting to TL 56.509 to be capitalized from Research and Development expenses comprising "Outstanding Research and Development Deductions".

	30 September 2016	31 December 2015
Profit before tax from continuing operations	355.997	30.158
Tax income recognized in profit or loss	(33.138)	(47.989)
Effective tax rate	(%9)	(159%)

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

11. COMMITMENTS AND CONTINGENCIES

a) Guarantees received

	30 September 2016	31 December 2015
Letters of guarantees received from the suppliers	699.239	786.689
Collaterals received from the customers	10.082	9.533
Letters of guarantees received from the customers	2.855	4.955
Collaterals received from the suppliers	2.411	5.105
Mortgages received from the customers	265	265
Guarantees received from the customers	6	6
Guarantees received from the suppliers	--	79
	714.858	806.632

b) Guarantees given

The collaterals/pledges/mortgages ("CPM") given by the Group as of 30 September 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 268 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.

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11. COMMITMENTS AND CONTINGENCIES (continued)

b) Guarantees given (continued)

30 September 2016	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	9.487.408	1.456.015	1.680.559	882.522	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 ⁽¹⁾								
-Collateral	13.490	907	4.200	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover C								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
Total	9.500.898	1.456.922	1.684.759	882.522	26.760	2.424	10.000	1.654

⁽¹⁾ The ratio of the other CPM given by the Group to the equity as of 30 September 2016 is 0,42 percent. TL 13.490 is the collateral amount pertains 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 amounted EUR 2,5 Million of investment credit amounted EUR 5 Million which will be used by ASELSAN Optik that is the Group's joint venture.

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(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 ⁽¹⁾								
-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	--	--	--	--	--	--	--	--
Total	7.868.092	1.001.459	1.613.703	674.740	26.760	2.424	10.000	1.654

⁽¹⁾ 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 pertains 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 amounted EUR 2,5 Million of investment credit amounted EUR 5 Million which will be used by ASELSAN Optik that is the Group's joint venture.

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12. EMPLOYEE BENEFITS

a) Payables for employee benefits

	30 September 2016	31 December 2015
Social security premiums payable	14.938	11.597
Taxes and funds payable	7.130	8.619
Due to personnel	1.127	1.372
	23.195	21.588

b) Short-term provisions for employee benefits

	30 September 2016	31 December 2015
Provision for vacation pay liability	38.894	38.115
	38.894	38.115

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

	2016	2015
Opening balance	38.115	33.925
Provision for the period	21.920	22.324
Provision realized during the period	(13.736)	(18.100)
Provision paid during the period	(7.405)	(5.313)
Closing balance	38.894	32.836

c) Long-term provisions for employee benefits

	30 September 2016	31 December 2015
Provision for severance pay	148.382	149.539
Provision for retirement pay	12.820	13.873
	161.202	163.412

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

	2016	2015
Opening balance	163.412	127.420
Service cost	18.749	17.440
Termination cost	334	310
Interest cost	67	2.325
Severance pay	(17.769)	(5.273)
Actuarial income	(3.591)	--
Closing balance	161.202	142.222

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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 September 2016 Severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL 4.297,21⁽¹⁾ (31 December 2015: TL 3.828,37⁽¹⁾)

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.

⁽¹⁾ 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:

	30 September 2016 (%)	31 December 2015 (%)
Interest rate	9,54	9,34
Inflation rate	7,50	7,20
Discount ratio	2,00	2,00
Estimation of probability of retirement ratio	98	99

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13. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

<u>Shareholders</u>	<u>Share (%)</u>	<u>30 September</u>		<u>31 December</u>	
		<u>2016</u>	<u>Share (%)</u>	<u>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	
Inflation adjusted capital		1.098.621		600.321	

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 September 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 September 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 222.395 (31 December 2015: TL 103.218) and its other funds available for profit distribution is TL 256.218 (31 December 2015: TL 704.649).

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

Retained Earnings (continued)

	30 September 2016	31 December 2015
Capital reserves and extraordinary reserves	256.218	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 Kuruş 4,2 net (31 December 2015: Kuruş 13 net).

Within 2016, dividend amounting to TL 42.000 in gross, 4,2 Kuruş per share of TL 1 (net profit amounting to TL 35.700, 3,57 Kuruş per share of TL 1) will be paid to shareholders. (31 December 2015: TL 65.000 in gross, 13 Kuruş per share of TL 1 (TL 55.250 in net , 11,05 Kuruş 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 September 2016, there is unredeemed dividend amounting to TL 14.000 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 September 2016	1 July- 30 September 2016	(Restated) 1 January- 30 September 2015	(Restated) 1 July- 30 September 2015
a) Revenue				
Domestic sales	1.828.064	641.175	1.554.653	437.166
Export sales	324.504	96.013	296.688	99.369
Other revenues	228	--	589	445
Sales discount (-)	(1.108)	(319)	(1.099)	(392)
Sales returns (-)	(1.934)	(1.934)	(2.967)	(137)
	2.149.754	734.935	1.847.864	536.451
b) Cost of sales(-)				
Cost of raw materials and supplies	562.650	209.417	660.953	192.688
Personnel expenses	63.953	38.625	59.357	16.663
Production overheads	184.756	65.500	160.698	19.559
Depreciation expenses	45.749	15.494	36.003	13.470
Change in work in progress	(72.293)	(43.166)	(67.344)	(26.783)
Change in finished goods	(10.995)	8.063	(17.830)	(18.647)
Development expenses ⁽¹⁾	596.864	184.196	498.673	193.906
Cost of services sold	141.371	38.137	43.436	11.915
Cost of merchandise goods sold	35.108	7.707	9.816	4.364
Cost of other sales	64.299	33.813	49.231	13.856
	1.611.462	557.786	1.432.993	420.991

⁽¹⁾ Development expenses consist of raw material, design and personnel expenses. TL 596.864 (30 September 2015: 498.673 TL) of development expenses amounting to TL 281.123 (30 September 2015: 224.902 TL) is comprised of labour cost.

15. CONSTRUCTION CONTRACTS

	30 September 2016	31 December 2015
Construction costs incurred plus recognized profits less recognized losses to date	8.574.815	8.131.682
Less: earned allowances	(8.343.065)	(7.981.721)
	231.750	149.961
Amounts due from customers under construction contracts (Note 4)	501.973	431.171
Amounts due to customers under construction contracts (Note 4)	(270.223)	(281.210)
	231.750	149.961

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16. OTHER OPERATING INCOME AND EXPENSES

a) Other operating income

	1 January- 30 September 2016	1 July- 30 September 2016	(Restated) 1 January- 30 September 2015	(Restated) 1 July- 30 September 2015
Foreign currency Exchange differences from operations	197.091	94.094	318.709	131.521
Discount interest income	5.508	(388)	5.696	238
Free of charge investment income	--	--	9.226	198
Other income	6.025	2.288	7.415	2.356
	208.624	95.994	341.046	134.313

b) Other operating expenses

	1 January- 30 September 2016	1 July- 30 September 2016	(Restated) 1 January- 30 September 2015	(Restated) 1 July- 30 September 2015
Foreign currency exchange differences from operations	(169.311)	(47.597)	(339.414)	(70.734)
Discount interest expense	(4.069)	(243)	(6.890)	973
Other expense and losses	(3.143)	(1.554)	(3.113)	(1.191)
	(176.523)	(49.394)	(349.417)	(70.952)

17. INCOME FROM INVESTING ACTIVITIES

	1 January- 30 September 2016	1 July- 30 September 2016	(Restated) 1 January- 30 September 2015	(Restated) 1 July- 30 September 2015
Dividend income	8.171	--	--	--
Gain on sale of fixed assets	244	71	106	51
	8.415	71	106	51

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

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

18. FINANCE INCOME

	1 January- 30 September 2016	1 July- 30 September 2016	(Restated) 1 January- 30 September 2015	(Restated) 1 July- 30 September 2015
Foreign currency exchange gain from bank loans	45.546	9.572	2.099	3
Interest income	14.920	5.006	5.807	4.086
Option income	--	--	1.608	596
Other financial income	394	156	423	134
	60.860	14.734	9.937	4.819

19. FINANCE EXPENSES

	1 January- 30 September 2016	1 July- 30 September 2016	(Restated) 1 January- 30 September 2015	(Restated) 1 July- 30 September 2015
Foreign currency exchange losses from bank loans	(58.285)	(23.739)	(133.160)	(64.241)
Discount expenses of bank loans	(5.858)	(920)	(11.308)	(5.882)
Interest cost of borrowings	(4.642)	(1.955)	(3.173)	--
	(68.785)	(26.614)	(147.641)	(70.123)

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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 September 2016 and 30 September 2015, earnings per share calculations are as follows:

	1 January- 30 September 2016	1 July- 30 September 2016	1 January- 30 September 2015	1 July- 30 September 2015
Common stock	100.000.000	100.000.000	100.000.000	100.000.000
Net profit – TL	389.258	153.244	145.995	67.849
Earnings per 100 shares (Kuruş)	38,93	15,32	14,60	6,78
Diluted Earnings per 100 shares (Kuruş)	38,93	15,32	14,60	6,78

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

21. FOREIGN EXCHANGE POSITION

FOREIGN EXCHANGE POSITION						
30 September 2016	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other
1. Trade Receivables	1.062.120	188.343	564.258	148.138	497.862	--
2a. Monetary financial assets (including cash, bank)	752.995	90.257	270.402	143.572	482.516	78
2b. Non- monetary financial assets	143.108	18.935	56.727	23.801	79.991	23.082
3. Other	3.860	130	388	1.033	3.472	--
4. Current assets (1+2+3)	1.962.083	297.665	891.775	316.544	1.063.841	23.160
5. Trade receivables	473.057	110.887	332.208	41.909	140.849	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	222.559	16.616	49.781	73.929	248.460	--
7. Other	2.606	452	1.353	305	1.024	229
8. Long-term assets (5+6+7)	698.222	127.955	383.342	116.143	390.333	229
9. Total assets (4+8)	2.660.305	425.620	1.275.117	432.687	1.454.174	23.389
10. Trade payables	228.289	22.987	68.867	45.086	151.526	7.896
11. Financial liabilities	262.723	87.694	262.723	--	--	--
12a. Other monetary financial liabilities	363	34	103	77	260	--
12b. Other non-monetary financial liabilities	197.991	71.178	213.241	13.963	46.928	--
13. Current liabilities (10+11+12)	689.366	181.893	544.934	59.126	198.714	7.896
14. Trade payables	--	--	--	--	--	--
15. Financial liabilities	109.969	36.706	109.969	--	--	--
16a. Other monetary financial liabilities	37	9	27	3	10	--
16b. Other non-monetary financial liabilities	1.391.039	394.214	1.181.024	232.181	780.313	--
17. Non-current liabilities (14+15+16)	1.501.045	430.929	1.291.020	232.184	780.323	--

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21. FOREIGN EXCHANGE POSITION (continued)

FOREIGN EXCHANGE POSITION						
30 September 2016	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other
18. Total liabilities (13+17)	2.190.411	612.822	1.835.954	291.310	979.037	7.896
19. Net asset/liability position of off- balance sheet derivative financial instruments (19a-19b)	--	--	--	--	--	--
19a. Hedged total financial assets	--	--	--	--	--	--
19b. Hedged total financial liabilities	--	--	--	--	--	--
20. Net foreign currency asset/liability (9-18+19)	469.894	(187.202)	(560.837)	141.377	475.137	15.493
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	1.686.791	242.057	725.179	288.453	969.431	(7.818)
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	324.503	91.838	275.137	16.096	54.094	--
26. Imports	685.890	148.564	445.082	59.825	201.060	39.748

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)

FOREIGN EXCHANGE POSITION						
31 December 2015	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other
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
4. Current assets (1+2+3)	1.455.242	313.399	911.238	169.419	538.347	20.951
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
8. Long-term assets (5+6+7)	604.863	94.087	273.569	122.709	389.918	248
9. Total assets (4+8)	2.060.105	407.486	1.184.807	292.128	928.265	21.199
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	--
13. Current liabilities (10+11+12)	812.792	231.252	672.388	58.129	184.710	9.502
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	--
17. Non-current liabilities (14+15+16)	848.442	321.911	935.989	131.592	418.148	--

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21. FOREIGN EXCHANGE POSITION (continued)

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

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.

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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 September 2016, USD 1: TL 2,9959 (31 December 2015: TL 2,9076), EUR 1: TL 3,3608 (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;

Foreign currency sensitivity table				
30 September 2016				
	Profit/Loss		Equity ⁽¹⁾	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Appreciation of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	72.518	(72.518)	72.518	(72.518)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	72.518	(72.518)	72.518	(72.518)
Appreciation of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	96.943	(96.943)	96.943	(96.943)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	96.943	(96.943)	96.943	(96.943)
Appreciation of other currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	(7.818)	7.818	(7.818)	7.818
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	(7.818)	7.818	(7.818)	7.818

⁽¹⁾ Comprises profit/loss effect.

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21. FOREIGN EXCHANGE POSITION (continued)

Foreign currency sensitivity (continued)

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

⁽¹⁾ Comprises profit/loss effect

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

30 September 2016	Financial assets at fair value	Loans and receivables (including cash and cash equivalents)	Available for sale financial assets	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
Cash and cash equivalents	--	820.877	--	--	820.877	
Blocked deposits	--	44.775	--	--	44.775	
Financial investments	147	--	433.354	--	433.501	
Equity Accounted Investees	48.190	--	--	--	48.190	5
Trade receivables	--	1.736.842	--	--	1.736.842	4
<u>Financial liabilities</u>						
Borrowings	--	--	--	448.494	448.494	
Trade payables	--	--	--	815.925	815.925	4
Other payables	--	--	--	20.826	20.826	

31 December 2015	Financial assets at fair value	Loans and receivables (including cash and cash equivalents)	Available for sale financial assets	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
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
<u>Financial liabilities</u>						
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 September 2016**

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
ROKETSAN	--	--	433.354
	--	--	433.354

31 December 2015

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
ROKETSAN	--	--	433.354
	--	--	433.354

The movement of the fair value level as of 30 September 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 September 2016	--	--	433.354

23. EVENTS AFTER REPORTING PERIOD

The amount of contracts signed by the Group after reporting date is approximately USD 63 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 September 2015 in consolidated cash flow statement, has been classified as follows:

Cash flows from operating activities has decreased by TL 37.138; profit for the period has increased by TL 203.124; adjustments to reconcile profit for the period has decreased by TL 225.729; changes in working capital has decreased by TL 13.343; cash flows provided (used) from activities has decreased by TL 35.948; cash flows from investing activities has reduced by TL 106; cash flows from financing activities has reduced by TL 1.190 and effect of foreign currencies exchange differences on the cash and cash equivalents amounting to TL 36.054 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 September 2015	Classifications	Adjustments	Restated 30 September 2015
ASSETS				
Current Assets	2.681.583	124.463	(29.165)	2.776.881
Cash and Cash Equivalents	401.658	--	--	401.658
Financial Investments	--	--	--	--
Trade Receivables	859.650	124.463	(4.896)	979.217
<i>From Related Parties</i>	127.775	--	--	127.775
<i>From Third Parties</i>	731.875	124.463	(4.896)	851.442
Other Receivables	38.048	--	--	38.048
<i>From Related Parties</i>	1.035	--	--	1.035
<i>From Third Parties</i>	37.013	--	--	37.013
Inventory	940.443	--	--	940.443
Prepaid Expenses	275.667	--	(24.269)	251.398
Other Current Assets	166.117	--	--	166.117
Non-Current Assets	3.036.457	146.877	(216.244)	2.967.090
Financial Investments	362.970	--	--	362.970
Trade Receivables	328.579	146.877	--	475.456
<i>From Related Parties</i>	29.998	--	--	29.998
<i>From Third Parties</i>	298.581	146.877	--	445.458
Other Receivables	273	--	--	273
<i>From Third Parties</i>	273	--	--	273
Property, Plant and Equipment	910.868	--	(1.353)	909.515
Intangible Assets	552.130	--	--	552.130
Prepaid Expenses	412.346	--	(83.823)	328.523
Deferred Tax Assets	380.853	--	(131.068)	249.785
Other Non-Current Assets	88.438	--	--	88.438
TOTAL ASSETS	5.718.040	271.340	(245.409)	5.743.971

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

(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)

	Prior Reported 30 September 2015	Classifications	Adjustments	Restated 30 September 2015
LIABILITIES				
Current Liabilities	1.323.998	74.511	(127.575)	1.270.934
Short-term Financial Liabilities	331.278	--	--	331.278
Short-term Portion of Long-term Financial Liabilities	93.176	--	--	93.176
Trade Payables	505.585	(9.275)	--	496.310
<i>To Related Parties</i>	33.420	--	--	33.420
<i>To Third Parties</i>	472.165	(9.275)	--	462.890
Employee Benefit Obligations	19.158	--	--	19.158
Other Payables	26.735	--	--	26.735
<i>To Related Parties</i>	23.767	--	--	23.767
<i>To Third Parties</i>	2.968	--	--	2.968
Government Grants and Incentives	20.619	--	--	20.619
Deferred Income	205.121	80.774	(127.575)	158.320
Corporate Tax Liability	847	--	--	847
Short-term Provisions	116.674	3.012	--	119.686
<i>Short-term Provisions for Employee Benefits</i>	32.836	--	--	32.836
<i>Other Short-term Provisions</i>	83.838	3.012	--	86.850
Other Short-term Liabilities	4.805	--	--	4.805
Non-Current Liabilities	2.257.712	196.829	(641.164)	1.813.377
Long-term Financial Liabilities	180.214	--	--	180.214
Trade Payables	153.789	(18.029)	--	135.760
<i>To Related Parties</i>	22.004	--	--	22.004
<i>To Third Parties</i>	131.785	(18.029)	--	113.756
Other Payables	40	--	--	40
<i>To Third Parties</i>	40	--	--	40
Deferred Income	1.781.447	143.211	(641.164)	1.283.494
Long-term Provisions	142.222	71.647	--	213.869
<i>Long-term Provisions for Employee Benefits</i>	142.222	--	--	142.222
<i>Other Long-term Provisions</i>	--	71.647	--	71.647
EQUITY	2.136.330	--	523.330	2.659.660
Equity attributable to equity holders of the parent	2.136.330	--	523.330	2.659.660
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	202.343	--	(1.195)	201.148
<i>Loss on Remeasurement of Defined Benefit Plans</i>	(14.924)	--	--	(14.924)
<i>Gain on Revaluation of Property</i>	217.267	--	(1.195)	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	1.010.833	--	321.401	1.332.234
Net Profit for the Period	(57.129)	--	203.124	145.995
Non-Controlling Interests	--	--	--	--
TOTAL LIABILITIES AND EQUITY	5.718.040	271.340	(245.409)	5.743.971

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2016

(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)

	Prior Reported 30 September 2015	Classifications	Adjustments	Restated 30 September 2015
PROFIT OR LOSS				
Sales Revenue	1.821.343	35.622	(9.101)	1.847.864
Cost of Sales (-)	(1.370.139)	(62.854)	--	(1.432.993)
GROSS PROFIT	451.204	(27.232)	(9.101)	414.871
General Administrative Expenses (-)	(94.838)	--	(95)	(94.933)
Marketing Expenses (-)	(36.910)	--	--	(36.910)
Research and Development Expenses (-)	(41.136)	--	--	(41.136)
Other Operating Income	387.920	19.288	(66.162)	341.046
Other Operating Expenses (-)	(678.680)	--	329.263	(349.417)
OPERATING PROFIT	(12.440)	(7.944)	253.905	233.521
Income from Investing Activities	--	106	--	106
Expense from Investing Activities (-)	--	--	--	--
OPERATING PROFIT BEFORE FINANCIAL EXPENSE	(12.440)	(7.838)	253.905	233.627
Finance Income	2.099	7.838	--	9.937
Finance Expense (-)	(147.641)	--	--	(147.641)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	(157.982)	--	253.905	95.923
Tax Income from Continuing Operations	100.853	--	(50.781)	50.072
- Current Corporate Tax Expense(-)	(847)	--	--	(847)
- Deferred Tax Income	101.700	--	(50.781)	50.919
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	(57.129)	--	203.124	145.995
Profit for the Period Attributable to:				
Non-Controlling Interest	--	--	--	--
Owners of the Company	(57.129)	--	203.124	145.995
	<u>(57.129)</u>	<u>--</u>	<u>203.124</u>	<u>145.995</u>
Earnings per 100 Shares (in full kuruş)	(5,71)	--	20,31	14,60

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2016

(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)

	Prior Reported 30 September 2015	Classifications	Adjustments	Restated 30 September 2015
PROFIT FOR THE PERIOD	(57.129)	--	203.124	145.995
OTHER COMPREHENSIVE INCOME				
Items that will not to be Reclassified Subsequently in Profit or Loss	39.565	--	(47)	39.518
Gain on Revaluation of Property	41.648	--	(50)	41.598
Gain/Loss on Remeasurement of Defined Benefit Plans	--	--	--	--
Deferred Tax Expense (-)/Income				
Items that may be reclassified subsequently to profit or loss	(2.083)	--	3	(2.080)
Gain on Revaluation of Available for Sale Financial Assets	--	--	--	--
Deferred Tax Expense	(2.083)	--	3	(2.080)
OTHER COMPREHENSIVE INCOME	39.565	--	(47)	39.518
TOTAL COMPREHENSIVE INCOME	(17.564)	--	203.077	185.513
Total Comprehensive Income for the Period				
Attributable to:				
Non-Controlling Interests	--	--	--	--
Owners of the Company	(17.564)	--	203.077	185.513
	(17.564)	--	203.077	185.513

- As of 30 September 2015, the expected loss provision amounting to TL 2.531 recognized in "Short-Term Trade Receivables" has been presented under "Short-Term Provisions".

- As of 30 September 2015, the expected loss provision amounting to TL 63.827 recognized in "Short-Term Trade Receivables" has been presented under "Long-Term Provisions".

- As of 30 September 2015, TL 77.108 is presented under "Short-Term Trade Receivables" in the consolidated balance sheet has been classified under "Short-Term Deferred Income".

- As of 30 September 2015, TL 3.666 is presented under "Long-Term Trade Receivables" in the consolidated balance sheet has been classified under "Short-Term Deferred Income".

- As of 30 September 2015, TL 143.211 is presented under "Long-Term Trade Receivables" in the consolidated balance sheet has been classified under "Long-Term Deferred Income".

- As of 30 September 2015, amounting to TL 8.794 is recognized in "Short-Term Trade Payables" in the consolidated balance sheet has been presented under "Short-Term Trade Receivables".

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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)

- As of 30 September 2015, amounting to TL 10.209 is recognised in "Long-Term Trade Payables" in the consolidated balance sheet has been presented under "Short-Term Trade Receivables".
- As of 30 September 2015, expected loss provision amounting to TL 481 recognized in "Short-Term Trade Payables" in the consolidated balance sheet has been presented under "Short-Term Provisions".
- As of 30 September 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 66.357 recognized in "Revenue" in the consolidated income statement belonging to reporting period ended 30 September 2015 has been classified under "Cost of Sales".
- Foreign exchange difference amounting to TL 30.735 recognized in "Revenue" in the consolidated income statement belonging to reporting period ended 30 September 2015 has been classified under "Other Operating Income".
- Foreign exchange difference amounting to TL 3.503 recognized in "Other Operating Income" in the consolidated income statement belonging to reporting period ended 30 September 2015 has been presented under "Cost of Sales".
- Amounting to TL 106 recognized in "Other Operating Income" in the consolidated income statement belonging to reporting period ended 30 September 2015 has been classified under "Incomes From Investing Activities".
- Amounting to TL 7.838 recognized in "Other Operating Income" in the consolidated income statement belonging to reporting period ended 30 September 2015 has been classified under "Financial Income".