

**(Convenience Translation of 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 THREE-MONTH PERIOD ENDED  
31 MARCH 2017**

8 May 2017

This report contains condensed consolidated interim financial information and related disclosures and footnotes comprising 49 pages.

CONTENT	PAGE
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	1-3
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME .....	4-5
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	6
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS .....	7
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS .....	8-49
NOTE	
1. ORGANIZATION AND OPERATIONS OF THE GROUP .....	8
2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS .....	9
3. CASH AND CASH EQUIVALENTS .....	18
4. RELATED PARTY DISCLOSURES.....	18
5. TRADE RECEIVABLES AND PAYABLES .....	22
6. EQUITY ACCOUNTED INVESTMENTS.....	24
7. INVENTORIES.....	26
8. PREPAID EXPENSES AND DEFERRED INCOME.....	27
9. TANGIBLE AND INTANGIBLE ASSETS.....	28
10. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES .....	29
11. TAX .....	30
12. COMMITMENTS AND CONTINGENCIES .....	31
13. EMPLOYEE BENEFITS.....	34
14. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS .....	36
15. REVENUE AND COST OF SALES.....	38
16. CONSTRUCTION CONTRACTS.....	38
17. OTHER OPERATING INCOME AND EXPENSES .....	39
18. INCOME FROM INVESTING ACTIVITIES .....	39
19. FINANCIAL INCOME .....	40
20. FINANCIAL EXPENSES .....	40
21. EARNINGS PER SHARE .....	40
22. FINANCIAL LIABILITIES.....	41
23. FOREIGN EXCHANGE POSITION .....	42
24. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING .....	48
25. EVENTS AFTER THE REPORTING PERIOD .....	49

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2017**

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

	Note References	Current Period Not Reviewed 31 March 2017	Prior Period Audited 31 December 2016
<b>ASSETS</b>			
<b>Current Assets</b>		<b>4.972.843</b>	<b>5.069.528</b>
Cash and Cash Equivalents	3	876.144	1.168.776
Trade Receivables	5	1.844.063	2.039.695
<i>From Related Parties</i>	4	267.815	311.655
<i>From Third Parties</i>		1.576.248	1.728.040
Other Receivables		97.220	84.712
<i>From Related Parties</i>	4	8.938	--
<i>From Third Parties</i>		88.282	84.712
Inventories	7	1.317.083	1.187.398
Prepaid Expenses	8	606.041	387.240
<i>From Related Parties</i>	4	101.151	59.063
<i>From Third Parties</i>		504.890	328.177
Other Current Assets		232.292	201.707
<b>Non-Current Assets</b>		<b>3.587.084</b>	<b>3.535.423</b>
Financial Investments		516.179	516.179
Trade Receivables	5	307.486	385.592
<i>From Related Parties</i>	4	26.110	36.187
<i>From Third Parties</i>		281.376	349.405
Other Receivables		299	295
<i>From Third Parties</i>		299	295
Equity Accounted Investments	6	78.971	57.387
Property, Plant and Equipment	9	980.264	967.522
Intangible Assets	9	750.740	697.131
Prepaid Expenses	8	386.823	393.699
<i>From Related Parties</i>	4	218.420	199.841
<i>From Third Parties</i>		168.403	193.858
Deferred Tax Assets	11	429.186	384.573
Other Non-Current Assets		137.136	133.045
<b>TOTAL ASSETS</b>		<b>8.559.927</b>	<b>8.604.951</b>

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

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2017**

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

	Note References	Current Period Not Reviewed 31 March 2017	Prior Period Audited 31 December 2016
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>1.836.135</b>	<b>2.242.768</b>
Short-term Financial Liabilities	22	237.421	306.243
Short-term Portion of Long-term Financial Liabilities	22	83.054	65.665
Trade Payables	5	798.390	1.052.907
<i>To Related Parties</i>	4	145.500	79.170
<i>To Third Parties</i>		652.890	973.737
Employee Benefit Obligations	13	20.363	36.836
Other Payables		82.088	6.248
<i>To Related Parties</i>	4	64.244	69
<i>To Third Parties</i>		17.844	6.179
Government Grants and Incentives		28.150	28.268
Deferred Income	8	254.421	370.581
<i>To Related Parties</i>	4	75.984	17.456
<i>To Third Parties</i>		178.437	353.125
Corporate Tax Liability		1.221	427
Short-term Provisions		329.736	353.818
<i>For Employee Benefits</i>	13	46.018	43.362
<i>Other</i>	10	283.718	310.456
Other Current Liabilities		1.291	21.775
<b>Non-Current Liabilities</b>		<b>2.783.464</b>	<b>2.670.716</b>
Long-term Financial Liabilities	22	91.188	122.415
Trade Payables	5	260.245	253.144
<i>To Related Parties</i>	4	14.900	21.721
<i>To Third Parties</i>		245.345	231.423
Other Payables		46	45
<i>To Third Parties</i>		46	45
Deferred Income	8	2.206.949	2.091.979
<i>To Related Parties</i>	4	428.887	314.324
<i>To Third Parties</i>		1.778.062	1.777.655
Long-term Provisions		225.036	203.133
<i>Long-term Provisions for Employee Benefits</i>	13	149.439	150.997
<i>Other Non-Current Liabilities</i>	10	75.597	52.136

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**ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2017**

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

	Note References	Current Period Not Reviewed 31 March 2017	Prior Period Audited 31 December 2016
<b>EQUITY</b>		<b>3.940.328</b>	<b>3.691.467</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>3.939.871</b>	<b>3.691.004</b>
Share Capital	14	1.000.000	1.000.000
Inflation Adjustments on Share Capital Differences	14	98.621	98.621
Other Comprehensive Income / (Expense) that will not be Reclassified to Profit or Loss		219.355	219.355
<i>Gain on Revaluation of Property</i>		216.072	216.072
<i>Gain/ Loss on Remeasurement of Defined Benefit Plans</i>		3.283	3.283
Other Cumulative Comprehensive Income / (Expense) will be Reclassified to Profit/Loss		489.512	486.030
<i>Gain on Revaluation of Available for Sale Financial Assets</i>		485.346	485.346
<i>Cumulative Translation Adjustments</i>		4.166	684
Restricted Reserves	14	124.063	94.159
Prior Years' Profit		1.687.436	997.648
Net Profit for the Period		320.884	795.191
<b>Non-Controlling Interests</b>		<b>457</b>	<b>463</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8.559.927</b>	<b>8.604.951</b>

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**ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017**

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

	Notes References	Current Period Not Reviewed 1 January- 31 March 2017	Prior Period Not Reviewed 1 January- 31 March 2016
<b>PROFIT OR LOSS</b>			
Revenue	15	990.426	633.843
Cost of Sales (-)	15	(757.395)	(453.032)
<b>GROSS PROFIT</b>		<b>233.031</b>	<b>180.811</b>
General Administrative Expenses (-)		(39.973)	(38.917)
Marketing Expenses (-)		(22.930)	(12.041)
Research and Development Expenses (-)		(12.624)	(11.599)
Other Operating Income	17	410.486	44.329
Other Operating Expenses (-)	17	(307.351)	(69.533)
<b>OPERATING PROFIT</b>		<b>260.639</b>	<b>93.050</b>
Income From Investing Activities	18	8.965	8.222
Shares of Profit/(Losses) of Equity Accounted Investment		8.119	(3.742)
<b>OPERATING PROFIT BEFORE FINANCIAL EXPENSE</b>		<b>277.723</b>	<b>97.530</b>
Financial Income			
	19	43.226	27.829
Financial Expense (-)	20	(43.462)	(13.837)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>277.487</b>	<b>111.522</b>
<b>Tax Income from Continuing Operations</b>	<b>11</b>	<b>43.392</b>	<b>258</b>
- Current Corporate Tax Expense(-)		(1.221)	(161)
- Deferred Tax Income		44.613	419
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>320.879</b>	<b>111.780</b>
<b>Profit for the Period Attributable to</b>			
Non-Controlling Interest		(5)	(134)
Owners of the Company	21	320.884	111.914
		<b>320.879</b>	<b>111.780</b>
<b>Earnings for per 100 Shares (in full kuruş)</b>	<b>21</b>	<b>32,09</b>	<b>11,19</b>

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

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017**

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

	<u>Notes</u> <u>References</u>	<b>Current Period Not Reviewed 1 January- 31 March 2017</b>	<b>Prior Period Not Reviewed 1 January- 31 March 2016</b>
<b>PROFIT FOR THE PERIOD</b>		<b>320.879</b>	<b>111.780</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that will not to be Reclassified Subsequently in Profit or Loss</b>		--	<b>713</b>
Gain on Remeasurement of Defined Benefit Plans		--	891
Deferred Tax Expense		--	(178)
<b>Items that may be Reclassified Subsequently to Profit or Loss</b>		<b>3.482</b>	<b>87</b>
Gain on Revaluation of Available for Sale Financial Assets		--	--
Cumulative Translation Adjustments		3.482	87
Deferred Tax Expense		--	--
<b>OTHER COMPREHENSIVE INCOME</b>		<b>3.482</b>	<b>800</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>324.361</b>	<b>112.580</b>
<b>Total Comprehensive Income Attributable to</b>			
Non-Controlling Interest		(5)	(134)
Owners of the Company		324.366	112.714
		<b>324.361</b>	<b>112.580</b>

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017**

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

	Share Capital	Inflation Adjustments on Share Capital	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
			Gain on Revaluation of Property	Loss on Remeasurement of Defined Benefit Plans	Gain on Revaluation of Available for Sale Financial Assets	Cumulative Translation Adjustments	Restricted Reserves	Prior Years' Profit/Loss	Net Profit/Loss for the Period			
<b>Balance as of 1 January 2016 (Opening Balance)</b>	<b>500.000</b>	<b>100.321</b>	<b>216.072</b>	<b>(14.924)</b>	<b>406.802</b>	<b>(95)</b>	<b>86.943</b>	<b>1.332.234</b>	<b>212.930</b>	<b>2.840.283</b>	<b>453</b>	<b>2.840.736</b>
Transfers	--	--	--	--	--	--	7.216	163.714	(170.930)	--	--	--
Capital Increase	--	--	--	--	--	--	--	--	--	--	--	--
Total Comprehensive Income	--	--	--	713	--	87	--	--	111.914	<b>112.714</b>	(134)	<b>112.580</b>
Dividends	--	--	--	--	--	--	--	--	(42.000)	<b>(42.000)</b>	--	<b>(42.000)</b>
The Effect of Take over of Subsidiaries	--	--	--	--	--	--	--	(3.009)	--	<b>(3.009)</b>	--	<b>(3.009)</b>
<b>Balance as of 31 March 2016 (Closing Balance)</b>	<b>500.000</b>	<b>100.321</b>	<b>216.072</b>	<b>(14.211)</b>	<b>406.802</b>	<b>(8)</b>	<b>94.159</b>	<b>1.492.939</b>	<b>111.914</b>	<b>2.907.988</b>	<b>319</b>	<b>2.908.307</b>
<b>Balance as of 1 January 2017 (Opening Balance)</b>	<b>1.000.000</b>	<b>98.621</b>	<b>216.072</b>	<b>3.283</b>	<b>485.346</b>	<b>684</b>	<b>94.159</b>	<b>997.649</b>	<b>795.191</b>	<b>3.691.005</b>	<b>462</b>	<b>3.691.467</b>
Transfers	--	--	--	--	--	--	29.904	689.787	(719.691)	--	--	--
Capital Increase	--	--	--	--	--	--	--	--	--	--	--	--
Total Comprehensive Income	--	--	--	--	--	3.482	--	--	320.884	<b>324.366</b>	(5)	<b>324.361</b>
Dividends	--	--	--	--	--	--	--	--	(75.500)	(75.500)	--	(75.500)
<b>Balance as of 31 March 2017 (Closing Balance)</b>	<b>1.000.000</b>	<b>98.621</b>	<b>216.072</b>	<b>3.283</b>	<b>485.346</b>	<b>4.166</b>	<b>124.063</b>	<b>1.687.436</b>	<b>320.884</b>	<b>3.939.871</b>	<b>457</b>	<b>3.940.328</b>

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



**ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE-MONTH PERIOD ENDED  
31 MARCH 2017**

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

		<b>Current Period Not Reviewed 1 January- 31 March 2017</b>	<b>Prior Period Not Reviewed 1 January- 31 March 2016</b>
<b>A. Cash Flows from Operating Activities</b>		<b>(143.373)</b>	<b>(199.860)</b>
Profit/Loss		320.879	111.780
<b>Adjustments to Reconcile Profit (Loss)</b>		<b>(136.673)</b>	<b>17.986</b>
- Adjustments for Depreciation and Amortization Expense		29.954	26.311
- Adjustments for Impairment Loss (Reversal of Impairment Loss)		924	1.414
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Receivables</i>	5	--	--
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories</i>	7	924	1.414
- Adjustments for Provisions		19.677	66.686
<i>Adjustments for (Reversal of) Provisions Related with Employee Benefits</i>		5.160	9.808
<i>Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions</i>		(10.566)	38.959
<i>Adjustments for (Reversal of) Warranty Provisions</i>		23.782	18.862
<i>Adjustments for (Reversal of) Other Provisions</i>		1.301	(943)
- Adjustments for Interest (Income) Expenses		(5.548)	(2.936)
<i>Adjustments for Interest Income</i>		(18.998)	(12.055)
<i>Adjustments for Interest Expense</i>		13.450	9.119
- Adjustments for Undistributed Profits of Equity Accounted Investments		(8.119)	3.742
- Adjustments for Tax (Income)/Expenses		(43.392)	(258)
- Adjustments for Losses/(Gains) on Disposal of Non-Current Assets	9	6.041	678
- Adjustments for Stage of Completion of Construction or Service Contracts in Progress		(92.775)	(63.388)
Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		(14.108)	(20.940)
- Other Adjustments to Reconcile Profit (Loss)		(29.327)	6.677
<b>Changes in Working Capital</b>		<b>(305.295)</b>	<b>(308.734)</b>
- Adjustments for Decrease (Increase) in Trade Receivables		162.623	(28.844)
- Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(12.511)	(9.540)
- Adjustments for Decrease (Increase) in Inventories		(81.491)	(56.102)
- Decrease (Increase) in Prepaid Expenses		(257.014)	(68.111)
- Adjustments for Increase (Decrease) in Trade Accounts Payable		(46.217)	(53.828)
- Increase (Decrease) in Employee Benefit Obligations	13	(16.473)	(2.305)
- Adjustments for Increase (Decrease) in Other Operating Payables		343	3.248
- Increase (Decrease) in Government Grants and Assistance		(119)	(1.393)
- Increase (Decrease) in Deferred Income		(1.190)	(73.637)
- Other Adjustments for Other Increase (Decrease) in Working Capital		(53.246)	(18.222)
<b>Cash Flows From Operations</b>		<b>(121.089)</b>	<b>(178.968)</b>
Payments Related with Provisions for Employee Benefits	13	(4.062)	(2.859)
Payments Related with Other Provisions		(17.795)	(15.400)
Income Taxes Refund (Paid)		(427)	(2.633)
<b>B. Cash Flows From Investing Activities</b>		<b>(110.522)</b>	<b>(46.453)</b>
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		323	245
Purchase of Property, Plant and Equipment		(34.393)	(19.736)
Purchase of Intangible Assets	9	(71.898)	(35.082)
Dividends Received	18	8.938	8.171
Other Cash Inflows (Outflows)		(13.492)	(51)
<b>C. Cash Flows From Financing Activities</b>		<b>(72.347)</b>	<b>(86.897)</b>
Proceeds from Borrowings		202.748	85.022
Repayments of Borrowings		(281.461)	(176.083)
Payments of Finance Lease Liabilities		--	(44)
Dividends Paid	15	--	--
Interest Paid	20	(3.453)	(1.339)
Interest Received		9.819	5.547
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)</b>		<b>(326.242)</b>	<b>(333.210)</b>
<b>D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>32.432</b>	<b>(6.626)</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>		<b>(293.810)</b>	<b>(339.836)</b>
<b>E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>1.167.894</b>	<b>680.153</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)</b>	<b>3</b>	<b>874.084</b>	<b>340.317</b>

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

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" 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 areas 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 of nine vice presidencies.

The Company maintains engineering operations in Ankara, METU Teknokent; production and engineering operations in Macunköy, Akyurt and Gölbaşı. General Management is located in Ankara Macunköy. Furthermore SST and REHİS Sector Presidency management offices and Product Support Management of UGES Sector Presidency are located in Istanbul Teknopark.

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

The Company is registered to Capital Markets Board of Turkey ("CMB") and its shares have been quoted in Borsa İstanbul Anonim Şirketi ("BİST") since 1990. As of 31 March 2017, 15,30 percent of the Company's shares are publicly traded (31 December 2016: 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 31 March 2017 is 5.361 (31 December 2016: 5.608).

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017

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

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

The Company's consolidated subsidiaries are ASELSAN Baku Şirketi ("ASELSAN Baku"), 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	31 March	31 December
		2017	2016
ASELSANNET	Communication systems	100	100
ASELSAN Baku	Marketing and sales of the group products	100	100
Mikro AR-GE	Microelectronic R&D projects	85	85

The Company has two branch offices; Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi EP Co. ("ASELSAN South Africa") and ASELSAN Makedonya Corridor-10 Highway Toll Collection System Project ("ASELSAN Macedonia") located 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 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 and in accordance with the Turkish Accounting Standards and Interpretations ("TAS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA").

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

The 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 Consolidated Financial Statements

These consolidated financial statements have been approved for issue by the Board of Directors with the resolution number 937 on 8 May 2017. 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 31 MARCH 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" 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 or Foreign Currency unless otherwise stated. Kuruş, Turkish Currency subunit an done 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
			31 March 2017	31 December 2016	
AELSANNET	Turkey	TL	100	100	Communication systems
AELSAN Baku	Azerbaijan	AZN	100	100	Marketing and sales of the group products
Mikro AR-GE	Turkey	TL	85	85	Microelectronic R&D projects

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" 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.

Even though the Company has voting rights less than a majority, if it has ability to manage the operation of the investee unintentionally, then the Group assess that it has control over that investee. 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:

- comparison of voting rights of the company and the others,
- potential voting rights held by the Company, and others,
- 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).

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. 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 item 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 along with the Group 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 31 MARCH 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" 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 31 March 2017 and 31 December 2016 are as follows:

Joint Ventures	Principal Activity	Country of incorporation and operation	Group's proportion of ownership and voting power held (%)	
			31 March 2017	31 December 2016
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")	Production, integration, sales and technical maintenance service of high technology product	United Arab Emirates	49	49
Kazakhstan ASELSAN Engineering LLP ("ASELSAN Kazakhstan")	Production, sales and technical maintenance service of electronic and electro-optic devices and systems	Kazakhstan	49	49
ASELSAN Middle East PSC ("ASELSAN Jordan")	Production, sales and technical maintenance service of electronic and electro-optic devices and systems	Jordan	49	49
Saudi Arabian Defense Electronics Corporation ("SADEC LLC")	Production and sale of radar, electronics, warfare and electro-optic products	Saudi Arabia	50	50

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") and in thousands of "Foreign Currency" 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 semi-conductive and micro and nano sized devices containing similar technological materials. The facility has opened in the fourth quarter of 2016.

SADEC LLC corporation was established to manufacture and sell radar, electronic, warfare and electro-optic products in Saudi Arabia on 27 December 2016; 50 percent of the share belongs to ASELSAN and 50 percent belongs to TAQNIA DST.

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 from the date of 31 December 2015, and SADEC LLC which was established in 2016, was started to be included in the consolidated financial statements from the date of 31 March 2017 by using the equity method. It is planned that the necessary infrastructure and production facility investments of the company will be completed within two years.

**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 consolidated financial statements are prepared comparatively to the previous term. For the purpose of having consistency with the current term's presentation of consolidated financial statements, comparative data is reclassified and significant differences are explained if necessary.

**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.

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.

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

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

**2.4 New and Revised Turkish Accounting Standards**

**Standards Issued But Not Yet Effective and Not Early Adopted as of 31 March 2017**

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

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

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

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

**TFRS 15 Revenue from Contracts with Customers**

As issued in September 2016, the new standard replaces existing TFRS 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 TFRS. 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 TFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as TFRS or TAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.



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

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

**2.4 New and Revised Turkish Accounting Standards (continued)**

**Standards Issued But Not Yet Effective and Not Early Adopted as of 31 March 2017  
(continued)**

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

**TFRS 16 Leases**

On 13 January 2016, IASB published the new leasing standard which will replace TAS 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 TAS 40 Investment Properties. TFRS 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 TFRS 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.

**IFRIC 22 – Foreign Currency Transactions and Advance Consideration**

The amendments clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

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

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

**2.4 New and Revised Turkish Accounting Standards (continued)**

**Standards Issued But Not Yet Effective and Not Early Adopted as of 31 March 2017  
(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 TFRS 2 – Classification and Measurement of Share-based Payment Transactions**

TFRS 2 Share-Based Payment has been amended by IASBB 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 is in the process of assessing the impact of the amendment on financial position or performance of the Group.

**TAS 40 – Transfers of Investment Property**

Amendments to TAS 40 - Transfers of Investment Property issued by IASB have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

**Improvements to TFRS**

The IASB issued Annual Improvements to TFRSs - 2014–2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is 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") and in thousands of "Foreign Currency" unless otherwise stated.)

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

**2.4 New and Revised Turkish Accounting Standards (continued)**

**Standards Issued But Not Yet Effective and Not Early Adopted as of 31 Mart 2017  
(continued)**

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

**Annual Improvements to TFRSs 2014-2016 Cycle**

***TFRS 1 "First Time Adoption of International Financial Reporting Standards"***

TFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters related to disclosures for financial instruments, employee benefits and consolidated financial statements.

***TFRS 12 "Disclosure of Interests in Other Entities"***

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of TFRS 12, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with TFRS 5.

***TAS 28 "Investments in Associates and Joint Ventures"***

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with TFRS 9.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") and in thousands of "Foreign Currency" 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 2016. These condensed consolidated financial statements should be read in conjunction with the annual financial statements for the period between 1 January - 31 December 2016.

## 3. CASH AND CASH EQUIVALENTS

	<b>31 March 2017</b>	<b>31 December 2016</b>
Cash	141	141
Bank		
- Time deposit	872.028	1.108.300
- Demand deposit	1.814	59.348
Other	101	105
<b>Cash and cash equivalents on the cash flow statement</b>	<b>874.084</b>	<b>1.167.894</b>
Interest income accruals	2.060	882
	<b>876.144</b>	<b>1.168.776</b>

As of 31 March 2017, the Group has time deposits denominated in foreign currencies with maturities between April-May 2017 (31 December 2016: January-February 2017), with the interest rates between 0,5 percent and 4,0 percent (31 December 2016: 0,5 percent to 3,8 percent) amounting to TL 675.569 (31 December 2016: TL 656.603).

As of 31 March 2017, the Group has time deposits denominated in TL terms with maturities between April-May 2017 (31 December 2016: January-March 2017) and TL 196.459 (31 December 2016: TL 451.697) at the interest rate of 11,00 percent and 13,85 percent (31 December 2016: 10,4 and 12,2 percent) .

## 4. RELATED PARTY DISCLOSURES

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

The trade receivables from related parties generally arise from sales activities with maturities of 0-3 months.

The trade payables to related parties generally arise from the purchase activities with maturities of 0-3 months.

Total amount of salaries and other short-term benefits paid for key management for the period ended 31 March 2017 is TL 1.990 (31 March 2016: TL 2.372).

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 31 MARCH 2017**

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

**4. RELATED PARTY DISCLOSURES (continued)**

	31 March 2017									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
	Trading	Advances given	Non-trading	Trading	Advances given	Trading	Advances received	Non-trading <sup>1</sup>	Trading	Advances received
<b>Balances with related parties</b>										
<b><u>Main shareholder</u></b>										
TSKGV	43	--	--	--	--	--	--	54.281	--	--
<b><u>Other shareholder</u></b>										
Axa Sigorta Anonim Şirketi ("Axa Sigorta")	--	--	--	--	--	--	--	143	--	--
<b><u>Main shareholder's subsidiaries and associates</u></b>										
Hava Elektronik Harp Sis. Müh. Tic. Anonim Şirketi ("HAVELSAN EHSİM")	--	745	--	--	--	--	--	--	--	--
Hava Elektronik San. ve Tic. Anonim Şirketi ("HAVELSAN")	20.938	19.464	--	692	939	--	75	--	--	--
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi ("HTR")	--	1.700	--	--	752	2.164	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	2.513	--	--	4.667	2.901	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	--	27.574	--	--	6.584	50.344	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	--	9.493	--	--	1.552	17.655	65.083	--	--	97.301
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	82.318	--	--	17.030	--	739	10.569	--	14.900	283.245
<b><u>Marketable securities</u></b>										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	--	1.228	--	--	--	1.231	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	34.479	26.053	8.938	8.388	202.966	62.203	248	--	--	48.341
<b><u>Joint ventures and its related parties</u></b>										
İhsan Doğramacı Bilkent University	--	5.084	--	--	54	2.897	--	--	--	--
ASELSAN Optik	--	6.056	--	--	906	3.276	--	--	--	--
IGG	26.122	--	--	--	--	--	--	--	--	--
IGG ASELSAN	653	1.241	--	--	--	1.899	--	--	--	--
ASELSAN Kazakistan	61.287	--	--	--	--	191	--	--	--	--
ASELSAN Jordan	41.579	--	--	--	--	--	9	--	--	--
ASELSAN Sadec	396	--	--	--	--	--	--	--	--	--
<b>Publicly Offered Shares</b>	--	--	--	--	--	--	--	9.820	--	--
	<b>267.815</b>	<b>101.151</b>	<b>8.938</b>	<b>26.110</b>	<b>218.420</b>	<b>145.500</b>	<b>75.984</b>	<b>64.244</b>	<b>14.900</b>	<b>428.887</b>

<sup>1</sup> Approximately all of the short-term Non-Trading Payables are 2016 payment of dividends.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**4. RELATED PARTY DISCLOSURES (continued)**

	31 December 2016									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
	Trading	Advances given	Non-trading	Trading	Advances given	Trading	Advances received	Non-trading	Trading	Advances received
<b>Balances with related parties</b>										
<b><u>Main shareholder</u></b>										
TSKGV	318	--	--	--	--	--	--	--	--	--
<b><u>Other shareholder</u></b>										
Axa Sigorta Anonim Şirketi ("Axa Sigorta")	--	--	--	--	--	--	--	69	--	--
<b><u>Main shareholder's subsidiaries and associates</u></b>										
Hava Elektronik Harp Sis. Müh. Tic. Anonim Şirketi ("HAVELSAN EHSİM")	39	745	--	--	--	--	--	--	--	--
Hava Elektronik San. ve Tic. Anonim Şirketi ("HAVELSAN")	17.524	20.402	--	3.004	--	--	75	--	--	--
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi ("HTR")	--	1.561	--	--	--	2.027	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	9.146	--	--	2.350	4.072	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	--	12.097	--	--	16.667	26.402	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	25.116	9.028	--	--	--	16.651	623	--	--	3.028
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	49.763	--	--	23.118	--	569	14.755	--	21.721	266.200
<b><u>Marketable securities</u></b>										
Askeri Pii Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	--	762	--	--	--	5.098	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	65.647	--	--	10.065	180.824	17.275	2.003	--	--	45.096
<b><u>Joint ventures and its related parties</u></b>										
İhsan Doğramacı Bilkent University	--	2.056	--	--	--	3.621	--	--	--	--
ASELSAN Optik	1.178	3.266	--	--	--	2.419	--	--	--	--
IGG	28.916	--	--	--	--	--	--	--	--	--
IGG ASELSAN	845	--	--	--	--	851	--	--	--	--
ASELSAN Kazakistan	68.575	--	--	--	--	185	--	--	--	--
ASELSAN Jordan	53.351	--	--	--	--	--	--	--	--	--
ASELSAN Sadec	383	--	--	--	--	--	--	--	--	--
	<b>311.655</b>	<b>59.063</b>	--	<b>36.187</b>	<b>199.841</b>	<b>79.170</b>	<b>17.456</b>	<b>69</b>	<b>21.721</b>	<b>314.324</b>

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**4. RELATED PARTY DISCLOSURES (continued)**

<b>Transactions with related parties</b>	<b>1 January- 31 March 2017</b>	<b>1 January- 31 March 2016</b>
	<b>Purchases</b>	<b>Purchases</b>
<b><u>Main Shareholder</u></b>		
TSKGV	166	163
<b><u>Main shareholder's subsidiaries and associates</u></b>		
NETAŞ	26.426	8.630
İŞBİR	3.753	214
HTR - HAVELSAN	3.186	1.007
Mercedes Benz	--	2.335
TUSAŞ	94	--
<b><u>Marketable securities</u></b>		
ROKETSAN	2.743	10.924
ASPILSAN	1.532	690
<b><u>Joint ventures and its related parties</u></b>		
İhsan Doğramacı Bilkent University	1.776	2.785
	<b>39.676</b>	<b>26.748</b>
	<b>1 January- 31 March 2017</b>	<b>1 January- 31 March 2016</b>
<b>Transactions with related parties</b>	<b>Sales</b>	<b>Sales</b>
<b><u>Main Shareholder</u></b>		
TSKGV	80	72
<b><u>Main shareholder's subsidiaries and associates</u></b>		
TUSAŞ	35.548	22.845
STM	1.457	8.915
HAVELSAN	--	1.698
<b><u>Marketable securities</u></b>		
ROKETSAN	9.747	10.688
	<b>46.832</b>	<b>44.218</b>

The transaction with related parties are generally due to the purchase and sale of goods 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 31 MARCH 2017**

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

**5. TRADE RECEIVABLES AND PAYABLES****a) Trade receivables**

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

	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Short-term trade receivables</b>		
Trade receivables	1.571.526	1.706.200
Trade receivables from related parties (Note 3)	267.815	311.655
Unbilled receivables from construction contracts in progress	--	17.640
Notes receivable	4.722	4.200
Doubtful trade receivables	921	921
Allowance for doubtful trade receivables (-)	(921)	(921)
	<b>1.844.063</b>	<b>2.039.695</b>

	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Long-term trade receivables</b>		
Unbilled receivables from construction contracts in progress	158.565	233.168
Trade receivables	122.556	115.997
Unbilled receivables from construction contracts in progress-Related party (Note 3)	25.480	35.577
Trade receivables from related parties (Note 3)	630	610
Notes receivables	255	240
	<b>307.486</b>	<b>385.592</b>



**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**5. TRADE RECEIVABLES AND PAYABLES (continued)****a) Trade receivables (continued)**

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
Opening balance	921	859
Provision for the period	--	--
<b>Closing balance</b>	<b>921</b>	<b>859</b>

The sectorial distribution of trade receivables is as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>
Public sector	890.460	1.177.776
Private sector	665.627	644.348
Receivables from companies operating abroad	595.462	603.163
<b>Total receivables</b>	<b>2.151.549</b>	<b>2.425.287</b>

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

**b) Trade payables**

Details of The Group's trade payables are as follows:

<b>Short-term trade payables</b>	<b>31 March 2017</b>	<b>31 December 2016</b>
Trade payables	640.630	749.756
Unearned revenue related to construction contracts in progress	11.343	221.962
Due to related parties (Note 3)	136.865	78.843
Unearned revenue related to construction contracts in progress-Related party (Note 3)	8.635	327
Other trade payables	917	2.019
	<b>798.390</b>	<b>1.052.907</b>

<b>Long-term trade payables</b>	<b>31 March 2017</b>	<b>31 December 2016</b>
Unearned revenue related to construction contracts in progress	245.345	231.328
Unearned revenue related to construction contracts in progress- Related party (Note 3)	14.900	21.721
Trade payables	--	95
	<b>260.245</b>	<b>253.144</b>

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**6. EQUITY ACCOUNTED INVESTMENTS**

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

<b>31 March 2017</b>	<b>Ownership Rate (%)</b>	<b>Current Assets</b>	<b>Non-current Assets</b>	<b>Total Assets</b>	<b>Short-term Liabilities</b>	<b>Long-term Liabilities</b>	<b>Total Liabilities</b>
ASELSAN Kazakhstan	49	41.548	94.945	136.493	49.875	5.197	55.072
ASELSAN Jordan	49	65.366	15.454	80.820	54.052	--	54.052
ASELSAN Optik	50	15.897	28.645	44.542	12.675	18.549	31.224
IGG ASELSAN	49	10.099	3.739	13.838	1.284	24.602	25.886
ASELSAN Bilkent	50	14.905	62.308	77.213	5.050	54.579	59.629
		<b>147.815</b>	<b>205.091</b>	<b>352.906</b>	<b>122.936</b>	<b>102.927</b>	<b>225.863</b>

<b>31 March 2017</b>	<b>Ownership Rate (%)</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Net Profit/(Loss)</b>	<b>Group Share of Net Assets</b>	<b>Group Share of Profit/(Loss)</b>
ASELSAN Kazakhstan	49	27.885	(14.402)	13.483	39.896	6.607
ASELSAN Jordan	49	18.117	(15.273)	2.844	13.116	1.394
ASELSAN Optik	50	6.327	(6.128)	199	6.659	99
IGG ASELSAN	49	--	(1.571)	(1.571)	--	--
ASELSAN Bilkent	50	163	(125)	38	8.792	19
SADEC LLC	50	--	--	--	10.508	--
		<b>52.492</b>	<b>(37.499)</b>	<b>14.993</b>	<b>78.971</b>	<b>8.119</b>

SADEC LLC, which will operate in Saudi Arabia, has an enterprise capital of TL 10.508 which is owned by ASELSAN. It is planned that the necessary infrastructure and production facility investments of the company will be completed within two years.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

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

<b>31 December 2016</b>	<b>Ownership Rate (%)</b>	<b>Current Assets</b>	<b>Non-current Assets</b>	<b>Total Assets</b>	<b>Short-term Liabilities</b>	<b>Long-term Liabilities</b>	<b>Total Liabilities</b>
ASELSAN Kazakhstan	49	58.752	87.008	145.760	79.578	3.534	83.112
ASELSAN Jordan	49	75.230	15.235	90.465	61.660	--	61.660
ASELSAN Optik	50	12.664	28.854	41.518	9.614	18.786	28.400
IGG ASELSAN	49	12.526	3.878	16.404	1.200	24.886	26.086
ASELSAN Bilkent	50	12.345	58.619	70.964	630	52.788	53.418
		<b>171.517</b>	<b>193.594</b>	<b>365.111</b>	<b>152.682</b>	<b>99.994</b>	<b>252.676</b>

<b>31 December 2016</b>	<b>Ownership Rate (%)</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Net Profit/(Loss)</b>	<b>Group Share of Net Assets</b>	<b>Group Share of Profit/(Loss)</b>
ASELSAN Kazakhstan	49	66.881	(62.737)	4.144	30.697	2.030
ASELSAN Jordan	49	56.277	(44.377)	11.900	11.357	5.831
ASELSAN Optik	50	8.400	(8.100)	300	6.559	150
IGG ASELSAN	49	6.090	(22.103)	(16.013)	--	(7.846)
ASELSAN Bilkent	50	714	(617)	97	8.774	48
		<b>138.362</b>	<b>(137.934)</b>	<b>428</b>	<b>57.387</b>	<b>213</b>

During 2016, there was a capital increase in ASELSAN Bilkent joint venture and IGG ASELSAN joint venture, in cash. The capital contribution amount of ASELSAN's share for ASELSAN Bilkent is TL 2.250, ASELSAN Kazakhstan TL 5.160 and IGG ASELSAN is TL 7.846.

SADEC LLC was established on 27 December 2016 in Saudi Arabia. SADEC LLC was included in the consolidated financial statements from the date of 31 March 2017.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**7. INVENTORIES**

	<b>31 March 2017</b>	<b>31 December 2016</b>
Raw materials	703.065	587.699
Work in progress	399.421	369.145
Goods in transit <sup>1</sup>	90.337	96.450
Finished goods	86.385	91.098
Trade goods	30.460	36.071
Other inventories	28.358	26.954
Allowance for impairment on inventories (-)	(20.943)	(20.019)
	<b>1.317.083</b>	<b>1.187.398</b>

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 20.943 in the statement of financial position (31 March 2016: TL 17.084).

Impaired inventory movements for the period ended in 31 March are as follows:

	<b>2017</b>	<b>2016</b>
Opening balance	20.019	15.670
Provision for the period	928	1.414
Provision released	(4)	--
<b>Closing balance</b>	<b>20.943</b>	<b>17.084</b>

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

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**8. PREPAID EXPENSES AND DEFERRED INCOME**

	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Short-term prepaid expenses</b>		
Order advances given for inventory purchases	474.058	294.636
Short-term order advances given to related parties for inventory purchases (Note 3)	101.151	59.063
Prepaid expenses	30.832	33.541
	<b>606.041</b>	<b>387.240</b>

	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Long-term prepaid expenses</b>		
Long-term order advances given to related parties for inventory purchases (Note 3)	218.420	199.841
Order advances given for inventory purchases	136.366	155.029
Order advances given for fixed assets purchases	27.005	32.686
Prepaid expenses	5.032	6.143
	<b>386.823</b>	<b>393.699</b>

	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Short-term deferred income</b>		
Order advances received	178.325	310.676
Deferred income	112	42.449
Order advances received from related parties (Note 3)	75.984	17.456
	<b>254.421</b>	<b>370.581</b>

Short-term order advances received comprises advances received from 42 customers (31 December 2016: 35 customers) of which first 10 customers constitutes 99,4 percent of the total (31 December 2016: 95,7 percent).

	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Long-term deferred income</b>		
Order advances received	1.778.060	1.777.653
Order advances received from related parties (Note 3)	428.887	314.324
Deferred income	2	2
	<b>2.206.949</b>	<b>2.091.979</b>

Long-term order advances received comprises advances received from 28 customers (31 December 2016: 24 customers) of which the first 10 customers constitutes 99,5 percent of the total (31 December 2016: 99,6 percent).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**9. TANGIBLE AND INTANGIBLE ASSETS**

<b>Cost Value</b>	<b>Property, Plant and Equipment</b>	<b>Intangible Fixed Assets</b>
Opening balance as of 1 January 2017	1.651.675	961.982
Additions	34.773	71.898
Disposals	(347)	(6.041)
<b>Closing balance as of 31 March 2017</b>	<b>1.686.101</b>	<b>1.027.839</b>
<b>Accumulated Depreciation and Amortization (-)</b>		
Opening balance as of 1 January 2017	684.154	264.851
Period Cost	21.734	12.249
Disposals	(51)	--
<b>Closing balance as of 31 March 2017</b>	<b>705.837</b>	<b>277.100</b>
<b>Net book value as of 31 March 2017</b>	<b>980.264</b>	<b>750.740</b>
<b>Net book value as of 31 December 2016</b>	<b>967.522</b>	<b>697.131</b>
<b>Cost Value</b>		
Opening balance as of 1 January 2016 (Previously Reported)	1.529.134	760.007
Additions	19.774	35.082
Disposals	(805)	(678)
<b>Closing balance as of 31 March 2016</b>	<b>1.548.103</b>	<b>794.411</b>
<b>Accumulated Depreciation and Amortization (-)</b>		
Opening balance as of 1 January 2016	604.292	222.495
Period cost	19.873	9.962
Disposals	(611)	--
<b>Closing balance as of 31 March 2016</b>	<b>623.554</b>	<b>232.457</b>
<b>Net book value as of 31 March 2016</b>	<b>924.549</b>	<b>561.954</b>
<b>Net book value as of 31 December 2015</b>	<b>924.842</b>	<b>537.512</b>

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

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**10. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**

**a) Provisions**

	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Other short-term provisions</b>		
Provision for warranties <sup>1</sup>	189.727	183.555
Provision for onerous contracts	56.903	91.555
Provision for delay penalties <sup>2</sup>	20.136	19.705
Provision for insurance expense	5.729	7.089
Provision for cost expenses	5.633	2.955
Provision for legal cases	5.343	5.332
Other	247	265
	<b>283.718</b>	<b>310.456</b>
	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Other long-term provisions</b>		
Provision of onerous contracts	58.620	36.022
Provision for delay penalties	16.977	16.114
	<b>75.597</b>	<b>52.136</b>

**b) Legal cases**

As of the dates 31 March 2017 and 31 December 2016, according to the declarations written by the legal counselors, the lawsuits and legal executions in favor of and against the Group are as follows:

<b>Description</b>	<b>2017</b>	<b>2016</b>
a) Ongoing lawsuits filed by the Group	1.395	1.395
b) Execution proceedings carried out by the Group	5.258	5.210
c) Ongoing lawsuits filed against the Group	5.343	5.332
d) Lawsuits finalized against the Group within the period	100	139
e) Lawsuits finalized in favor of the Group within the period	217	4.076

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

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

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**11. TAX**

"Deferred Tax Assets" of the Group as of 31 March 2017 is TL 429.186. The amount is comprised of the items below.

	<b>31 March 2017</b>	<b>31 December 2016</b>
Carried Forward R&D Incentives Effect	605.714	513.261
TFRS Adjustment Effect	(176.528)	(128.688)
<b>Deferred Tax Assets - Net</b>	<b>429.186</b>	<b>384.573</b>

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

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

In accordance with the law numbered 5746 pertaining to 1 January-31 March 2017 period, the Group has calculated "Deferred Tax Asset" amounting to TL 92.453 to be capitalized from Research and Development expenses comprising "Outstanding Research and Development Deductions".

	<b>31 March 2017</b>	<b>31 December 2016</b>
Profit before tax from continuing operations	280.444	734.024
Tax income recognized in profit or loss	43.392	(61.178)
Effective tax rate	%15	(%8)

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



**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**12. COMMITMENTS AND CONTINGENCIES****a) Guarantees received**

	<b>31 March 2017</b>	<b>31 December 2016</b>
Letters of guarantees received from the suppliers	1.012.877	1.040.467
Collaterals received from the customers	11.725	11.130
Letters of guarantees received from the customers	3.360	2.780
Collaterals received from the suppliers	--	2.430
Mortgages received from the customers	265	265
Guarantees received from the customers	6	6
	<b>1.028.233</b>	<b>1.057.078</b>

**b) Collaterals / Pledges / Mortgages ("CPM") given**

The collaterals/pledges/mortgages ("CPM") given by the Group as of 31 March 2017 and 31 December 2016 is as in the following page:

Within the scope of Patrol and Anti-Submarine Warfare Ship Projects ("MİLGEM") contract cost amounting to USD 263.864 carried out with the partnership of HAVELSAN the Group is responsible for fulfilling the obligations of HAVELSAN if HAVELSAN is unable to fulfill them.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**12. COMMITMENTS AND CONTINGENCIES (continued)**
**b) Guarantees given (continued)**

<b>31 March 2017</b>	<b>TL Equivalent</b>	<b>TL</b>	<b>USD</b>	<b>EURO</b>	<b>UAE Dirham</b>	<b>Indian Rupee</b>	<b>British Pound</b>
A. Total amount of CPM given on behalf of the legal entity							
-Collateral	11.664.688	1.524.895	1.832.027	879.977	26.760	10.000	1.654
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
B. Total amount of CPM given on behalf of the subsidiaries included in full consolidation							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
C. Total amount of CPM given to maintain operations and collect payables from third parties							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
D. Total amount of other CPM given							
i. Total Amount of CPM on behalf of the main partner							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
ii. Total amount of CPM given on behalf of other group companies that do not cover B and C <sup>1</sup>							
-Collateral	16.189	907	4.200	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
<b>Total</b>	<b>11.680.877</b>	<b>1.525.802</b>	<b>1.836.227</b>	<b>879.977</b>	<b>26.760</b>	<b>10.000</b>	<b>1.654</b>

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

<sup>1</sup> The ratio of the other CPM given by the Group to equity as of 31 March 2017 is 0,41 percent. TL 16.189 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**12. COMMITMENTS AND CONTINGENCIES (continued)**
**b) Guarantees given (continued)**

<b>31 December 2016</b>	<b>TL Equivalent</b>	<b>TL</b>	<b>USD</b>	<b>EURO</b>	<b>UAE Dirham</b>	<b>Indian Rupee</b>	<b>British Pound</b>
A. Total amount of CPM given on behalf of the legal entity							
-Collateral	11.268.113	1.473.279	1.835.161	890.377	26.760	10.000	1.654
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
B. Total amount of CPM given on behalf of the subsidiaries included in full consolidation							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
C. Total amount of CPM given to maintain operations and collect payables from third parties							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
D. Total amount of other CPM given							
i. Total Amount of CPM on behalf of the main partner							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
ii. Total amount of CPM given on behalf of other group companies that do not cover B and C <sup>1</sup>							
-Collateral	15.688	907	4.200	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
<b>Total</b>	<b>11.283.801</b>	<b>1.474.186</b>	<b>1.839.361</b>	<b>890.377</b>	<b>26.760</b>	<b>10.000</b>	<b>1.654</b>

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

<sup>1</sup> The ratio of the other CPM given by the Group to equity as of 31 December 2016 is 0,42 percent. TL 15.688 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**13. EMPLOYEE BENEFITS****a) Obligations for employee benefits**

	<b>31 March 2017</b>	<b>31 December 2016</b>
Social security premiums payable	15.306	28.380
Taxes and funds payable	4.931	7.838
Due to personnel	126	618
	<b>20.363</b>	<b>36.836</b>

**b) Short-term provisions for employee benefits**

	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Provision for vacation pay liability</b>	<b>46.018</b>	<b>43.362</b>

As of 31 March the movement of the provision for vacation pay is as follows:

	<b>2017</b>	<b>2016</b>
Opening balance	43.362	38.115
Provision for the period	4.097	12.575
Provision paid during the period	(1.379)	(2.003)
Provision realized during the period	(62)	(5.808)
<b>Closing balance</b>	<b>46.018</b>	<b>42.879</b>

**c) Long-term provisions for employee benefits**

	<b>31 March 2017</b>	<b>31 December 2016</b>
Provision for severance pay	136.694	138.248
Provision for retirement pay	12.745	12.749
	<b>149.439</b>	<b>150.997</b>

As of 31 March the movement of severance and retirement pays are as follows:

	<b>2017</b>	<b>2016</b>
Opening balance	150.997	163.412
Interest cost	4.623	2.984
Termination cost	180	89
Actuarial gains/(loss)	--	(891)
Service cost	(3.678)	(33)
Payments	(2.683)	(856)
<b>Closing balance</b>	<b>149.439</b>	<b>164.705</b>

**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.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017

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

#### 13. EMPLOYEE BENEFITS (continued)

##### Provision for severance pay (continued)

Certain provisions regarding services before retirement, has been annulled on 23 May 2002 during the revision of the related law. As of 31 March 2017 severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL<sup>1</sup> 4.426,16 (31 December 2016: TL<sup>1</sup> 4.297,21)

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.

##### Provision for retirement grant:

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

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

	<b>31 March 2017 (%)</b>	<b>31 December 2016 (%)</b>
Interest rate	10,59	10,59
Inflation rate	7	7
Discount ratio	3,36	3,36
Estimation of probability of retirement ratio	98	98

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

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017

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

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

##### Capital

<u>Shareholders</u>	<u>Share (%)</u>	<u>31 December</u>		
		<u>31 March 2017</u>	<u>Share (%)</u>	<u>2016</u>
TSKGV	84,58	845.826	84,58	845.826
Publicly held	15,30	153.019	15,30	153.019
Axa Sigorta Anonim Şirketi	0,12	1.155	0,12	1.155
Nominal capital	100	1.000.000	100	1.000.000
Share capital adjustment		98.621		98.621
<b>Inflation adjusted capital</b>		<b>1.098.621</b>		<b>1.098.621</b>

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

##### Restricted 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 31 March 2017, The Group's restricted reserves set aside from profit comprises legal reserves. The total of the Group's legal reserves are TL 124.062 (31 December 2016: TL 94.159).

##### 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 31 March 2017 the extraordinary reserves balance presented in retained earnings is TL 248.547 (31 December 2016: TL 248.547). According to the statutory records, the Company's profit for the period is TL 132.098 (31 December 2016: TL 534.070) and its other funds available for profit distribution is TL 260.919 (31 December 2016: TL 259.858) and the details are as followings.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017

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

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

##### Retained Earnings (continued)

	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Capital reserves and extraordinary reserves</b>	<b>260.919</b>	<b>259.858</b>

##### 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 15 March 2017, in accordance with the consolidated financial statements, the General Assembly of the Company has decided to allocate legal reserve amounting to TL 29.253 of the TL 795.191 which is based on the profit distribution, and to distribute TL 75.500 in cash to shareholders for dividend payment and the remaining TL 690.438 to be within the Group. Thus, the cash gross dividend amount for TL 1 nominal value per share is Kuruş 7,55 net (31 December 2016: Kuruş 4,2 net).

Within 2017, dividend amounting to TL 75.500 in gross, 7,55 Kuruş per share of TL 1 (net profit amounting to TL 64.175, 6,42 Kuruş per share of TL 1) will be paid to shareholders. (31 December 2016: TL 42.000 in gross, 4,2 Kuruş per share of TL 1 (TL 35.700 in net , 3,57 Kuruş per share of TL 1) was paid).

On 1 March 2017, General Assembly of Aselsannet has decided to distribute TL 4.000 as dividend payments to shareholders and reserve TL 650 as retained earnings from net profit of the year 2016. Remaining TL 11.886 is decided to be allocated as extraordinary reserves (31 December 2016: 10.000).

On 27 February 2017, General Assembly of Mikro AR-GE's has decided to distribute TL 65 as dividend payments to shareholders and reserve TL 6,2 as retained earnings from net profit of the year 2016. Remaining TL 26,2 will be added to extraordinary reserves (31 December 2016: TL 200).

All of the gross TL 75.500 of dividend to be distributed has not been paid to the shareholders as of 31 March 2017.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**15. REVENUE AND COST OF SALES**

<b>a) Revenue</b>	<b>1 January- 31 March 2017</b>	<b>1 January- 31 March 2016</b>
Domestic sales	897.057	528.413
Export sales	93.550	105.854
Other revenues	110	--
Sales discounts (-)	(248)	(280)
Sales returns (-)	(43)	(144)
	<b>990.426</b>	<b>633.843</b>

<b>b) Cost of sales(-)</b>	<b>1 January- 31 March 2017</b>	<b>1 January- 31 March 2016</b>
Cost of raw materials and supplies	312.482	160.492
Personnel expenses	16.358	13.567
Production overheads	59.376	62.465
Depreciation expenses	17.451	14.821
Change in work in progress	(30.276)	(17.203)
Change in finished goods	4.714	(9.129)
Development expenses <sup>1</sup>	283.909	198.381
Cost of services sold	54.160	11.621
Cost of merchandise goods sold	17.301	7.899
Cost of other sales	21.920	10.118
	<b>757.395</b>	<b>453.032</b>

**16. CONSTRUCTION CONTRACTS**

	<b>31 March 2017</b>	<b>31 December 2016</b>
Construction costs incurred plus recognized profits less recognized losses to date	9.665.024	9.862.184
Less: earned allowances	(9.761.202)	(10.051.137)
	<b>(96.178)</b>	<b>(188.953)</b>
Amounts due from customers under construction contracts (Note 5)	184.045	286.385
Amounts due to customers under construction contracts (Note 5)	(280.223)	(475.338)
	<b>(96.178)</b>	<b>(188.953)</b>

<sup>1</sup> Development expenses consist of raw material, design and personnel expenses TL 99.936 (31 March 2016: TL 89.711) of development expenses is comprised of labour cost.



**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**17. OTHER OPERATING INCOME AND EXPENSES****a) Other operating income**

	<b>1 January- 31 March 2017</b>	<b>1 January- 31 March 2016</b>
Foreign currency exchange differences from operations	399.906	38.008
Discount income	6.084	5.365
Other income	4.496	956
	<b>410.486</b>	<b>44.329</b>

**b) Other operating expenses (-)**

	<b>1 January- 31 March 2017</b>	<b>1 January- 31 March 2016</b>
Foreign currency exchange differences from operations	297.313	63.323
Discount income	8.774	5.222
Other expense and losses	1.264	988
	<b>307.351</b>	<b>69.533</b>

**18. INCOME FROM INVESTING ACTIVITIES**

	<b>1 January- 31 March 2017</b>	<b>1 January- 31 March 2016</b>
Dividend income	8.938	8.171
Gain on sale of fixed assets	27	51
	<b>8.965</b>	<b>8.222</b>

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017

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

#### 19. FINANCIAL INCOME

	1 January- 31 March 2017	1 January- 31 March 2016
Foreign currency exchange gain from bank loans	30.177	21.042
Interest income	12.914	6.690
Other financial income	135	97
	<b>43.226</b>	<b>27.829</b>

#### 20. FINANCIAL EXPENSES

	1 January- 31 March 2017	1 January- 31 March 2016
Foreign currency exchange losses from bank loans (-)	38.786	9.940
Interest cost of borrowings (-)	3.453	1.339
Discount expenses at bank loans (-)	1.223	2.558
	<b>43.462</b>	<b>13.837</b>

#### 21. 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 31 March 2017 and 31 March 2016, earnings per share calculations are as follows:

	1 January- 31 March 2017	(Restated) 1 January- 31 March 2016
Net profit – TL	320.884	111.914
Weighted average number of shares outstanding (in thousands)	100.000.000	100.000.000
<b>Earnings per 100 shares</b>	<b>32,09</b>	<b>11,19</b>

As the Company's capital was increased to TL 1.000.000 from TL 500.000 as of 25 May 2016, the prior period weighted average share has been presented taking into account the share in the current period in order to be able to make a comparison.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017

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

#### 22. FINANCIAL LIABILITIES

##### Financial Liabilities

		<b>31 March 2017</b>	<b>31 December 2016</b>
Short-term financial liabilities	Unsecured loan	235.038	303.928
Other short-term financial liabilities	Unsecured loan	2.383	2.315
Current portion of long-term financial liabilities	Secured loan	83.054	65.665
<b>Total short-term financial liabilities</b>		<b>320.475</b>	<b>371.908</b>
Other long-term financial liabilities	Secured loan	90.013	120.140
Other long-term financial liabilities	Unsecured loan	1.174	2.275
<b>Total long-term financial liabilities</b>		<b>91.188</b>	<b>122.415</b>
<b>Total financial liabilities</b>		<b>411.663</b>	<b>494.323</b>

As of 31 March 2017, TL 16.979 of the short term financial borrowings which has 0 interest rate is for SGK payments. The remaining portion of the short-term borrowings consist of Discounted Foreign Currency Credits amounting to TL 218.059 and maturity dates due between April-November 2017, interest rates which range between 1,9-10,6 percent. The short-term portions of long-term financial liabilities consist of USD 47.564 with principal payment of USD 22.826 and interest rates of 2,1 percent and 3,5 percent, with the maturity date of April-October 2017 of the Undersecretariat of Defense Industries.

As of 31 March 2017, other financial liabilities amounting to TL 3.557 are comprised of interest-free sources obtained from the Technology Development Foundation of Turkey for project financing purposes. The rest of the short and long term other financial liabilities consist of loans amounting to USD 24.738 in long term with interest rates of 2,1 percent and 3,5 percent from Undersecretariat for Defense Industries. A letter of guarantee amounting to USD 47.564 was given for the loan.

As of 31 December 2016, the borrowings in short-term borrowings consist of Discounted Foreign Currency Credits amounting to TL 303.928 and maturity dates due between January-May 2017, interest rates which range between 1,6-9,4 percent. The short-term portions of long-term financial liabilities consist of principal payments of USD 18.659 with maturities of USD 52.385 and interest rates of 2,1 percent and 3,5 percent, respectively, with the maturity date of March-October 2017 of the Undersecretariat of Defense Industries.

As of 31 December 2016, other financial liabilities amounting to TL 4.590 are comprised of interest-free sources obtained from the Technology Development Foundation of Turkey for project financing purposes. The rest of the short and long term other financial liabilities consist of loans amounting to USD 34.138 in long term with interest rates of 2,1 percent and 3,5 percent from Undersecretariat for Defense Industries. A letter of guarantee amounting to USD 52.385 was given for the loan.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

**23. FOREIGN EXCHANGE POSITION**

<b>FOREIGN EXCHANGE POSITION</b>						
<b>31 March 2017</b>	<b>TL Equivalent (Functional currency)</b>	<b>USD</b>	<b>TL equivalent by using closing rates</b>	<b>EURO</b>	<b>TL equivalent by using closing rates</b>	<b>Other<sup>1</sup></b>
1. Trade Receivables	1.520.575	244.769	890.617	152.321	595.315	34.643
2a. Monetary financial assets (including cash, bank)	678.526	165.669	602.802	19.369	75.702	22
2b. Non- monetary financial assets	262.314	32.366	117.765	38.036	148.654	25.550
3. Other	4.801	54	196	1.178	4.605	--
<b>4. Current assets (1+2+3)</b>	<b>2.466.216</b>	<b>442.858</b>	<b>1.611.380</b>	<b>210.904</b>	<b>824.276</b>	<b>60.215</b>
5. Trade receivables	252.250	31.422	114.331	35.289	137.919	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	232.806	10.523	38.289	81.008	316.605	3.041
7. Other	6.063	517	1.882	1.053	4.116	65
<b>8. Long-term assets (5+6+7)</b>	<b>491.119</b>	<b>42.462</b>	<b>154.502</b>	<b>117.350</b>	<b>458.640</b>	<b>3.106</b>
<b>9. Total assets (4+8)</b>	<b>2.957.335</b>	<b>485.320</b>	<b>1.765.882</b>	<b>328.254</b>	<b>1.282.916</b>	<b>63.321</b>
10. Trade payables	308.647	32.724	119.071	47.392	185.222	4.354
11. Financial liabilities	127.551	35.055	127.551	--	--	--
12a. Other monetary financial liabilities	381	26	96	71	278	7
12b. Other non-monetary financial liabilities	35.425	33.559	122.108	13.113	51.248	--
<b>13. Current liabilities (10+11+12)</b>	<b>472.004</b>	<b>101.364</b>	<b>368.826</b>	<b>60.576</b>	<b>236.748</b>	<b>4.361</b>
14. Trade payables	--	--	--	--	--	--
15. Financial liabilities	91.188	25.061	91.188	--	--	--
16a. Other monetary financial liabilities	44	9	33	3	11	--
16b. Other non-monetary financial liabilities	1.650.900	452.287	1.645.691	257.304	1.005.620	--
<b>17. Non-current liabilities (14+15+16)</b>	<b>1.742.132</b>	<b>477.357</b>	<b>1.736.912</b>	<b>257.307</b>	<b>1.005.631</b>	--

<sup>1</sup> Consists of CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR currencies.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

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

<b>FOREIGN EXCHANGE POSITION</b>						
<b>31 March 2017</b>	<b>TL Equivalent (Functional currency)</b>	<b>USD</b>	<b>TL equivalent by using closing rates</b>	<b>EURO</b>	<b>TL equivalent by using closing rates</b>	<b>Other</b>
<b>18. Total liabilities (13+17)</b>	<b>2.214.136</b>	<b>578.721</b>	<b>2.105.738</b>	<b>317.883</b>	<b>1.242.379</b>	<b>4.361</b>
<b>19. Net asset/liability position of off- balance sheet derivative financial instruments (19a-19b)</b>	--	--	--	--	--	--
<b>19a. Hedged total financial assets</b>	--	--	--	--	--	--
<b>19b. Hedged total financial liabilities</b>	--	--	--	--	--	--
<b>20. Net foreign currency asset/liability (9-18+19)</b>	<b>743.199</b>	<b>(93.401)</b>	<b>(339.856)</b>	<b>10.371</b>	<b>40.537</b>	<b>58.960</b>
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>1.923.540</b>	<b>348.985</b>	<b>1.269.811</b>	<b>159.513</b>	<b>623.425</b>	<b>30.304</b>
<b>22. Fair value of derivative financial instruments used in foreign currency hedge</b>	--	--	--	--	--	--
<b>23. Hedged foreign currency assets</b>	--	--	--	--	--	--
<b>24. Hedged foreign currency liabilities</b>	--	--	--	--	--	--
<b>25. Exports</b>	<b>114.460</b>	<b>24.400</b>	<b>88.784</b>	<b>2.456</b>	<b>9.597</b>	<b>14.738</b>
<b>26. Imports</b>	<b>367.821</b>	<b>65.601</b>	<b>238.696</b>	<b>24.940</b>	<b>97.472</b>	<b>31.653</b>

Accompanying foreign exchange position which was prepared in accordance with TAS 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**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

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

<b>FOREIGN EXCHANGE POSITION</b>						
<b>31 December 2016</b>	<b>TL Equivalent (Functional currency)</b>	<b>USD</b>	<b>TL equivalent by using closing rates</b>	<b>EURO</b>	<b>TL equivalent by using closing rates</b>	<b>Other<sup>1</sup></b>
1. Trade Receivables	1.778.821	327.010	1.150.814	164.265	609.408	18.599
2a. Monetary financial assets (including cash, bank)	715.511	121.399	427.227	77.692	288.231	53
2b. Non- monetary financial assets	133.242	20.978	73.825	17.033	63.190	24.287
3. Other	6.634	128	452	1.102	4.087	2.095
<b>4. Current assets (1+2+3)</b>	<b>2.634.208</b>	<b>469.515</b>	<b>1.652.318</b>	<b>260.092</b>	<b>964.916</b>	<b>45.034</b>
5. Trade receivables	336.000	61.815	217.538	31.931	118.462	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	241.674	17.483	61.526	76.108	282.354	693
7. Other	1.993	85	298	419	1.555	140
<b>8. Long-term assets (5+6+7)</b>	<b>579.667</b>	<b>79.383</b>	<b>279.362</b>	<b>108.458</b>	<b>402.371</b>	<b>833</b>
<b>9. Total assets (4+8)</b>	<b>3.213.875</b>	<b>548.898</b>	<b>1.931.680</b>	<b>368.550</b>	<b>1.367.287</b>	<b>45.867</b>
10. Trade payables	328.888	43.343	152.532	45.473	168.701	7.655
11. Financial liabilities	313.711	89.143	313.711	--	--	--
12a. Other monetary financial liabilities	99	26	92	--	--	7
12b. Other non-monetary financial liabilities	107.078	60.337	212.337	6.167	22.878	--
<b>13. Current liabilities (10+11+12)</b>	<b>749.776</b>	<b>192.849</b>	<b>678.672</b>	<b>51.640</b>	<b>191.579</b>	<b>7.662</b>
14. Trade payables	--	--	--	--	--	--
15. Financial liabilities	122.415	34.785	122.415	--	--	--
16a. Other monetary financial liabilities	43	9	32	3	11	--
16b. Other non-monetary financial liabilities	1.299.166	381.435	1.342.347	230.229	854.126	--
<b>17. Non-current liabilities (14+15+16)</b>	<b>1.421.624</b>	<b>416.229</b>	<b>1.464.794</b>	<b>230.232</b>	<b>854.137</b>	--

<sup>1</sup> Consists of CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR currencies.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017

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

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

<b>FOREIGN EXCHANGE POSITION</b>						
<b>31 December 2016</b>	<b>TL Equivalent (Functional currency)</b>	<b>USD</b>	<b>TL equivalent by using closing rates</b>	<b>EURO</b>	<b>TL equivalent by using closing rates</b>	<b>Other</b>
<b>18. Total liabilities (13+17)</b>	<b>2.171.400</b>	<b>609.078</b>	<b>2.143.466</b>	<b>281.872</b>	<b>1.045.716</b>	<b>7.662</b>
<b>19. Net asset/liability position of off- balance sheet derivative financial instruments (19a-19b)</b>	--	--	--	--	--	--
<b>19a. Hedged total financial assets</b>	--	--	--	--	--	--
<b>19b. Hedged total financial liabilities</b>	--	--	--	--	--	--
<b>20. Net foreign currency asset/liability (9-18+19)</b>	<b>1.042.475</b>	<b>(60.180)</b>	<b>(211.786)</b>	<b>86.678</b>	<b>321.571</b>	<b>38.205</b>
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>2.065.176</b>	<b>342.918</b>	<b>1.206.797</b>	<b>228.412</b>	<b>847.389</b>	<b>10.990</b>
<b>22. Fair value of derivative financial instruments used in foreign currency hedge</b>	--	--	--	--	--	--
<b>23. Hedged foreign currency assets</b>	--	--	--	--	--	--
<b>24. Hedged foreign currency liabilities</b>	--	--	--	--	--	--
<b>25. Exports</b>	<b>485.404</b>	<b>138.617</b>	<b>487.819</b>	<b>19.667</b>	<b>72.961</b>	--
<b>26. Imports</b>	<b>1.206.547</b>	<b>227.080</b>	<b>799.141</b>	<b>88.573</b>	<b>328.596</b>	<b>78.810</b>

Accompanying foreign exchange position which was prepared in accordance with TAS 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.

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

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

**Foreign currency sensitivity**

The Group is exposed to foreign currency risk with respect to USD and EURO. As of 31 March 2017, USD 1: TL 3,6386 (31 December 2016: TL 3,5192), EURO 1: TL 3,9083 (31 December 2016: TL 3,7099).

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 outstanding foreign currency denominated monetary items and present 10 percent change in foreign currency rates. This analysis does not include Group companies' balance sheet items which have functional currency other than TL. The effects of 10 percent changes in foreign currency rate on financial statements is as follows;

<b>Foreign currency sensitivity table</b>				
<b>31 March 2017</b>				
	<b>Profit/Loss</b>		<b>Equity<sup>1</sup></b>	
	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>
<b>Appreciation of USD against TL by 10%:</b>				
1- USD denominated net assets/(liabilities)	126.981	(126.981)	126.981	(126.981)
2- Hedged amount against USD risk (-)	--	--	--	--
<b>3- Net effect of USD (1+2)</b>	<b>126.981</b>	<b>(126.981)</b>	<b>126.981</b>	<b>(126.981)</b>
<b>Appreciation of EURO against TL by 10%:</b>				
4- EURO denominated net assets/(liabilities)	62.343	(62.343)	62.343	(62.343)
5- Hedged amount against EURO risk (-)	--	--	--	--
<b>6- Net effect of EURO (4+5)</b>	<b>62.343</b>	<b>(62.343)</b>	<b>62.343</b>	<b>(62.343)</b>
<b>Appreciation of other<sup>2</sup> currencies against TL by 10%:</b>				
7- Other currencies denominated net assets/(liabilities)	3.030	(3.030)	3.030	(3.030)
8- Hedged amount against other currencies risk (-)	--	--	--	--
<b>9- Net effect of other currencies (7+8)</b>	<b>3.030</b>	<b>(3.030)</b>	<b>3.030</b>	<b>(3.030)</b>

<sup>1</sup> Comprises of profit/loss effect.

<sup>2</sup> Consists of CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR currencies.



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

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

**Foreign currency sensitivity (continued)**

<b>Foreign currency sensitivity table</b>				
<b>31 December 2016</b>				
	<b>Profit/Loss</b>		<b>Equity<sup>1</sup></b>	
	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>
<b>Appreciation of USD against TL by 10%:</b>				
1- USD denominated net assets/(liabilities)	120.680	(120.680)	120.680	(120.680)
2- Hedged amount against USD risk (-)	--	--	--	--
<b>3- Net effect of USD (1+2)</b>	<b>120.680</b>	<b>(120.680)</b>	<b>120.680</b>	<b>(120.680)</b>
<b>Appreciation of EURO against TL by 10%:</b>				
4- EURO denominated net assets/(liabilities)	84.739	(84.739)	84.739	(84.739)
5- Hedged amount against EURO risk (-)	--	--	--	--
<b>6- Net effect of EURO (4+5)</b>	<b>84.739</b>	<b>(84.739)</b>	<b>84.739</b>	<b>(84.739)</b>
<b>Appreciation of other<sup>2</sup> currencies against TL by 10%:</b>				
7- Other currencies denominated net assets/(liabilities)	1.099	(1.099)	1.099	(1.099)
8- Hedged amount against other currencies risk (-)	--	--	--	--
<b>9- Net effect of other currencies (7+8)</b>	<b>1.099</b>	<b>(1.099)</b>	<b>1.099</b>	<b>(1.099)</b>

<sup>1</sup> Comprises of profit/loss effect.

<sup>2</sup> Consists of CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR currencies.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

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

<b>31 March 2017</b>	<b>Financial assets at fair value</b>	<b>Loans and receivables (including cash and cash equivalents)</b>	<b>Available for sale financial assets</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying value</b>	<b>Note</b>
<b><u>Financial assets</u></b>						
Cash and cash equivalents	--	876.144	--	--	876.144	3
Blocked deposits	--	56.164	--	--	56.164	
Financial investments	147	--	516.032	--	516.179	
Equity Accounted Investees	--	78.971	--	--	78.971	6
Trade receivables	--	2.151.549	--	--	2.151.549	5
<b><u>Financial liabilities</u></b>						
Borrowings	--	--	--	411.663	411.663	
Trade payables	--	--	--	1.058.635	1.058.635	5
Other payables	--	--	--	82.134	82.134	

<b>31 December 2016</b>	<b>Financial assets at fair value</b>	<b>Loans and receivables (including cash and cash equivalents)</b>	<b>Available for sale financial assets</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying value</b>	<b>Note</b>
<b><u>Financial assets</u></b>						
Cash and cash equivalents	--	1.168.776	--	--	1.168.776	3
Blocked deposits	--	63.062	--	--	63.062	
Financial investments	147	--	516.032	--	516.179	
Equity Accounted Investees	57.387	--	--	--	57.387	6
Trade receivables	--	2.425.287	--	--	2.425.287	5
<b><u>Financial liabilities</u></b>						
Borrowings	--	--	--	494.323	494.323	
Trade payables	--	--	--	1.306.051	1.306.051	5
Other payables	--	--	--	6.293	6.293	

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.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2017**

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

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

<b>31 March 2017</b>	<b>Fair value level as of reporting date</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>TL</b>	<b>TL</b>	<b>TL</b>
ROKETSAN	--	--	516.032
	--	--	<b>516.032</b>

<b>31 December 2016</b>	<b>Fair value level as of reporting date</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>TL</b>	<b>TL</b>	<b>TL</b>
ROKETSAN	--	--	516.032
	--	--	<b>516.032</b>

The movement of the fair value level as of 31 March 2017 is as follows:

	<b>Fair value level as of reporting date</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>TL</b>	<b>TL</b>	<b>TL</b>
<b>1 January 2017</b>	--	--	<b>516.032</b>
Additions	--	--	--
<b>31 March 2017</b>	--	--	<b>516.032</b>

**25. EVENTS AFTER THE REPORTING PERIOD**

Amount of contracts signed by Group after the reporting date is approximately USD 76.272.