

**(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 SIX-MONTH PERIOD ENDED
30 JUNE 2017 WITH LIMITED REVIEW REPORT**

21 August 2017

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

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

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries (together "the Group") as at 30 June 2017, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with Turkish Accounting Standards 34 Interim Financial Reporting ("TAS 34") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

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

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

Hakkı Özgür Sıvacı, SMMM
Partner
21 August 2017
Ankara, Türkiye

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ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2017**

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

	Note References	Current Period Reviewed 30 June 2017	Prior Period Audited 31 December 2016
ASSETS			
Current Assets			
Cash and Cash Equivalents	3	681.737	1.168.776
Trade Receivables	5	1.468.216	2.039.695
<i>From Related Parties</i>	4	225.631	311.655
<i>From Third Parties</i>		1.242.585	1.728.040
Other Receivables		100.498	84.712
<i>From Third Parties</i>		100.498	84.712
Inventories	7	1.429.456	1.187.398
Prepaid Expenses	8	664.591	387.240
<i>From Related Parties</i>	4	104.174	59.063
<i>From Third Parties</i>		560.417	328.177
Other Current Assets		240.198	201.707
Non-Current Assets			
Financial Investments		516.179	516.179
Trade Receivables	5	866.412	385.592
<i>From Related Parties</i>	4	50.486	36.187
<i>From Third Parties</i>		815.926	349.405
Other Receivables		673	295
<i>From Third Parties</i>		673	295
Equity Accounted Investments	6	74.429	57.387
Property, Plant and Equipment	9	987.752	967.522
Intangible Assets	9	797.686	697.131
Prepaid Expenses	8	446.541	393.699
<i>From Related Parties</i>	4	267.313	199.841
<i>From Third Parties</i>		179.228	193.858
Deferred Tax Assets	11	507.708	384.573
Other Non-Current Assets		174.484	133.045
TOTAL ASSETS		8.956.560	8.604.951

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2017

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

	Note References	Current Period Reviewed 30 June 2017	Prior Period Audited 31 December 2016
LIABILITIES			
Current Liabilities		2.443.448	2.242.768
Short-term Financial Liabilities	22	251.581	306.243
Short-term Portion of Long-term Financial Liabilities	22	81.818	65.665
Trade Payables	5	993.564	1.052.907
<i>To Related Parties</i>	4	89.841	79.170
<i>To Third Parties</i>		903.723	973.737
Employee Benefit Obligations	13	24.075	36.836
Other Payables		58.620	6.248
<i>To Related Parties</i>	4	42.824	69
<i>To Third Parties</i>		15.796	6.179
Government Grants and Incentives		33.116	28.268
Deferred Income	8	635.799	370.581
<i>To Related Parties</i>	4	171.920	17.456
<i>To Third Parties</i>		463.879	353.125
Corporate Tax Liability		1.096	427
Short-term Provisions		357.087	353.818
<i>For Employee Benefits</i>	13	44.118	43.362
<i>Other</i>	10	312.969	310.456
Other Current Liabilities		6.692	21.775
Non-Current Liabilities		2.334.228	2.670.716
Long-term Financial Liabilities	22	81.153	122.415
Trade Payables	5	642.630	253.144
<i>To Related Parties</i>	4	23.642	21.721
<i>To Third Parties</i>		618.988	231.423
Other Payables		95	45
<i>To Third Parties</i>		95	45
Deferred Income	8	1.390.792	2.091.979
<i>To Related Parties</i>	4	335.835	314.324
<i>To Third Parties</i>		1.054.957	1.777.655
Long-term Provisions		219.558	203.133
<i>Long-term Provisions for Employee Benefits</i>	13	161.387	150.997
<i>Other</i>	10	58.171	52.136

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2017**

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

	Note References	Current Period Reviewed 30 June 2017	Prior Period Audited 31 December 2016
EQUITY		4.178.884	3.691.467
Equity Attributable to Equity Holders of the Parent		4.178.373	3.691.004
Share Capital	14	1.000.000	1.000.000
Inflation Adjustments on Share Capital Differences	14	98.621	98.621
Other Comprehensive Income that will not be			
Reclassified to Profit or Loss		216.508	219.355
<i>Gain on Revaluation of Property</i>		216.072	216.072
<i>Gain on Remeasurement of Defined Benefit Plans</i>		436	3.283
Other Cumulative Comprehensive Income will be			
Reclassified to Profit/Loss		487.171	486.030
<i>Gain on Revaluation of Available for Sale</i>			
<i>Financial Assets</i>		485.346	485.346
<i>Cumulative Translation Adjustments</i>		1.825	684
Restricted Reserves	14	124.062	94.159
Retained Earnings		1.687.436	997.648
Net Profit for the Period		564.575	795.191
Non-Controlling Interests		511	462
TOTAL LIABILITIES AND EQUITY		8.956.560	8.604.951

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

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

	Notes References	Current Period Reviewed 1 January- 30 June 2017	Current Period Not Reviewed 1 April- 30 June 2017	Current Period Reviewed 1 January- 30 June 2016	Current Period Not Reviewed 1 April- 30 June 2016
PROFIT OR LOSS					
Revenue	15	2.157.493	1.167.067	1.414.820	780.977
Cost of Sales (-)	15	(1.641.555)	(884.161)	(1.051.430)	(598.397)
GROSS PROFIT		515.938	282.906	363.390	182.580
General Administrative Expenses (-)		(82.524)	(42.551)	(79.739)	(40.821)
Marketing Expenses (-)		(53.750)	(30.821)	(29.967)	(17.927)
Research and Development Expenses (-)		(26.939)	(14.314)	(33.482)	(21.883)
Other Operating Income	17	644.711	234.225	112.630	68.301
Other Operating Expenses (-)	17	(576.147)	(268.796)	(127.130)	(57.597)
OPERATING PROFIT		421.289	160.649	205.702	112.653
Income From Investment Activities	18	9.126	161	8.344	121
Shares of profit/(losses) of Equity Accounted Investees		5.722	(2.398)	(227)	3.515
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		436.137	158.412	213.819	116.289
Financial Income	19	62.283	19.057	46.127	18.299
Financial Expense (-)	20	(55.124)	(11.662)	(48.990)	(35.153)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		443.296	165.807	210.956	99.435
Tax Income from Continuing Operations	11	121.327	77.936	25.004	24.746
- Current Corporate Tax Expense(-)		(1.096)	125	(537)	(376)
- Deferred Tax Income		122.423	77.811	25.541	25.122
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		564.623	243.743	235.960	124.181
Profit for the Period Attributable to					
Non-Controlling Interest		48	53	(54)	80
Owners of the Company	21	564.575	243.690	236.014	124.101
		564.623	243.743	235.960	124.181
Earnings for per 100 Shares (in full kuruş)	21	56,46	24,37	23,60	12,41

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

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

Note References	Current Period Reviewed 1 January- 30 June 2017	Current Period Not Reviewed 1 April- 30 June 2017	Current Period Reviewed 1 January- 30 June 2016	Current Period Not Reviewed 1 April- 30 June 2016
OTHER COMPREHENSIVE INCOME				
Items that will not to be reclassified subsequently in Profit or Loss				
Loss on Remeasurement of Defined Benefit Plans	(3.559)	(3.559)	2.880	1.988
13				
Deferred Tax Income / (Expense)	712	712	(576)	(398)
Items that may be reclassified subsequently to profit or loss				
Foreign Currency Exchange Differences	1.141	(2.341)	103	16
	1.141	(2.341)	103	16
OTHER COMPREHENSIVE INCOME	(1.706)	(5.188)	2.407	1.606
TOTAL COMPREHENSIVE INCOME	562.917	238.555	238.367	125.787
Total Comprehensive Income Attributable to				
Non-Controlling Interest	48	53	(54)	80
Owners of the Company	562.869	238.502	238.421	125.707
	562.917	238.555	238.367	125.787

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 CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

(Amounts are expressed in thousands of 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 be Reclassified Subsequently to Profit or Loss			Retained Earnings			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	Equity Attributable to Owners of the Company		
Balance as of 1 January 2016 (Opening Balance)	500.000	100.321	216.072	(14.924)	406.802	(95)	86.943	1.332.234	212.930	2.840.283	453	2.840.736
Transfers	--	--	--	--	--	--	7.216	163.714	(170.930)	--	--	--
Capital Increase	500.000	(1.700)	--	--	--	--	--	(498.300)	--	--	--	--
Total Comprehensive Income	--	--	--	2.304	--	103	--	--	236.014	238.421	(54)	238.367
Dividends	--	--	--	--	--	--	--	--	(42.000)	(42.000)	--	(42.000)
Balance as of 30 June 2016 (Closing Balance)	1.000.000	98.621	216.072	(12.620)	406.802	8	94.159	997.648	236.014	3.036.704	399	3.037.103
Balance as of 1 January 2017 (Opening Balance)	1.000.000	98.621	216.072	3.283	485.346	684	94.159	997.648	795.191	3.691.004	463	3.691.467
Transfers	--	--	--	--	--	--	29.903	689.788	(719.691)	--	--	--
Total Comprehensive Income	--	--	--	(2.847)	--	1.141	--	--	564.575	562.869	48	562.917
Dividends	--	--	--	--	--	--	--	--	(75.500)	(75.500)	--	(75.500)
Balance as of 30 June 2017 (Closing Balance)	1.000.000	98.621	216.072	436	485.346	1.825	124.062	1.687.436	564.575	4.178.373	511	4.178.884

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 SIX-MONTH PERIOD ENDED 30 JUNE 2017

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

	Note References	Current Period Reviewed 1 January- 30 June 2017	Prior Period Reviewed 1 January- 30 June 2016
A. Cash Flows from Operating Activities		(191.976)	118.409
Profit/Loss		564.623	235.960
Adjustments to Reconcile Profit		(126.545)	142.732
- Adjustments for Depreciation and Amortization Expense		61.747	54.498
- Adjustments for Impairment Loss		1.589	2.461
<i>Adjustments for Impairment Loss of Receivables</i>	5	--	62
<i>Adjustments for Impairment Loss of Inventories</i>	7	1.589	2.399
- Adjustments for Provisions		67.377	118.110
<i>Adjustments for Provisions Related with Employee Benefits</i>	13	14.489	25.550
<i>Adjustments for Lawsuit and/or Penalty Provisions</i>		491	60.716
<i>Adjustments for Warranty Provisions</i>		52.340	35.698
<i>Adjustments for (Reversal of) Other Provisions</i>		57	(3.854)
- Adjustments for Interest (Income) Expenses		(8.257)	(4.359)
<i>Adjustments for Interest Income</i>		(25.587)	(15.810)
<i>Adjustments for Interest Expense</i>		17.330	11.451
- Adjustments for Undistributed (Profits)/Losses of Equity Accounted Investments		(5.722)	227
- Adjustments for Tax Income		(121.327)	(25.004)
- Adjustments for Losses on Disposal of Non-Current Assets	9	35.209	12.655
- Adjustments for Stage of Completion of Construction or Service Contracts in Progress		(120.490)	(7.462)
Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		(24.015)	(11.548)
- Other Adjustments to Reconcile Profit (Loss)		(12.656)	3.154
Changes in Working Capital		(578.384)	(212.915)
- Adjustments for Decrease (Increase) in Trade Receivables		568.960	(191.558)
- Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(16.164)	(18.599)
- Adjustments for Decrease (Increase) in Inventories		(151.226)	(82.676)
- Decrease (Increase) in Prepaid Expenses		(414.698)	(180.947)
- Adjustments for Increase (Decrease) in Trade Payable		(31.800)	(17.579)
- Increase (Decrease) in Employee Benefit Obligations	13	(12.761)	(1.777)
- Adjustments for Increase (Decrease) in Other Operating Payables		2.089	5.261
- Increase (Decrease) in Government Grants and Incentives		4.848	310
- Increase (Decrease) in Deferred Income		(435.969)	273.447
- Other Adjustments for Other Increase (Decrease) in Working Capital		(91.663)	1.203
Cash Flows From Operations		(140.306)	165.777
Payments Related with Provisions for Employee Benefits	13	(6.902)	(8.814)
Payments Related with Other Provisions		(44.341)	(35.921)
Income Taxes Refund (Paid)		(427)	(2.633)
B. Cash Flows From Investing Activities		(226.464)	(104.537)
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		1.086	367
Cash Outflows Due to Purchase of Property, Plant and Equipment		(63.966)	(35.837)
Cash Outflows Due to Purchase of Intangible Assets	9	(161.015)	(75.554)
Dividends Received	18	8.939	8.171
Other Cash Inflows (Outflows)		(11.508)	(1.684)
C. Cash Flows From Financing Activities		(81.580)	(138.642)
Proceeds from Borrowings		376.651	196.288
Repayments of Borrowings		(442.727)	(326.291)
Payments of Finance Lease Liabilities		--	(55)
Dividends Paid	14	(25.167)	(14.000)
Interest Paid	20	(7.199)	(2.687)
Interest Received		16.862	8.103
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		(500.020)	(124.770)
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		12.222	(3.362)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(487.798)	(128.132)
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1.167.894	680.153
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	3	680.096	552.021

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

(Amounts are expressed in thousands of 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 Deputy with regard to investment and production requirements of projects. These divisions comprise The Communication and Information Technologies Deputy "HBT", Radar, Electronic Warfare and Intelligence Systems Deputy "REHİS", Defense Systems Technologies Deputy "SST" and Microelectronics, Guidance & Electro-Optics Division Deputy "MGEO" and Transportation, Security, Energy and Automation Systems Deputy "UGES".

In addition to the Deputies above, the Company organization also includes the Financial Management Deputy, Corporate Services Deputy, Technology and Strategy Management Deputy and Human Resources Management Deputy making a total of nine Deputy.

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 Vice Presidencies' some management offices and Product Support Management of UGES Deputy 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 30 June 2017, 15,30 percent of the Company's shares are publicly traded (31 December 2016: 15,30 percent) (Note 14).

The Company's trade registry address is Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle/Ankara. The average number of personnel employed by the Group as of 30 June 2017 is 5.358 (31 December 2016: 5.608).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

(Amounts are expressed in thousands of 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 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 investments. 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 on 21 August 2017 with the resolution number 949 No authority other than General Assembly and legal entities has the right to amend the consolidated financial statements.

Functional Currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment ("Functional Currency") in which the entity operates. The Group'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 and 1TL 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

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

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

Basis of Consolidation

Subsidiaries:

The details of the subsidiaries which are included in full consolidation of the Group are as follows:

Subsidiaries	Location	Functional Currency	Group's proportion of ownership and voting power held (%)		Principal Activity
			30 June 2017	31 December 2016	
ASELSANNET	Turkey	TL	100	100	Communication systems
ASELSAN Baku	Azerbaijan	AZN	100	100	Marketing and sales of the group products
Mikro AR-GE	Turkey	TL	85	85	Microelectronic R&D projects

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 Group 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 Group and the others,
- potential voting rights held by the Group, and others,
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate the Group has, or does have, the current ability to direct the relevant activities at the time that decisions need to be made (including voting patterns at previous shareholders' meeting).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

(Amounts are expressed in thousands of 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)

Subsidiaries (continued)

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 Group gains control until the date when the Group 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.

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

Joint Ventures:

The details of the Group's interests in joint ventures as of the dates 30 June 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 (%)	
			30 June 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

(Amounts are expressed in thousands of 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):

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.

ASELSAN Optik has been established on March 2014 and it is owned by the Company 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 the Company 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 the Company 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 been 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 the Company and 50 percent belongs to TAQNIA DST. It is planned that the necessary infrastructure and production facility investments of the company will be completed within two years.

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.

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.

In this context, TL 6.819 interest expense arising from severance pay calculation under "Operating Profit" in the consolidated income statement for the year ended 30 June 2016 is classified under "Finance Expense" account.

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

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

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.

2.4 New and Revised Turkish Accounting Standards

Standards Issued But Not Yet Effective

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 15 Revenue from Contracts with Customers

As issued in September 2016 by POA, 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 assessing the potential impact on its consolidated financial statements resulting from the application of TFRS 15.

TFRS 9 Financial Instruments – Classification and Measurement

TFRS 9 Financial Instruments, has been published by POA in January 2017, replaces the existing guidance in TAS 39 Financial Instruments: Recognition and Measurement. This version includes referrals in earlier versions of TFRS 9 and revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. TFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRS 9.

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

(Amounts are expressed in thousands of 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 (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 IFRS 2 – Classification and Measurement of Share-based Payment Transactions

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

Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2014–2016 Cycle. The amendments for IFRS 12 are effective as of 1 January 2017, and other amendments are effective as of 1 January 2018. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 1 "First Time Adoption of International Financial Reporting Standards"

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters within the context of 'Annual Improvements to IFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

IFRS 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 IFRS 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 IFRS 5.

IAS 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 IFRS 9.

(Amounts are expressed in thousands of 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 (continued)

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

IAS 40 – Transfers of Investment Property

Amendments to IAS 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 consolidated 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 does not expect that application of IAS 40 will have significant impact on its consolidated financial statements.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

On 8 December 2016, IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration to clarify 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. This IFRIC is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 22.

IFRS 16 Leases

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

(Amounts are expressed in thousands of 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 (continued)

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

IFRIC 23 –Uncertainty Over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

IFRS 17 –Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Group does not expect that application of IFRS 17 will have significant impact on its consolidated financial statements.

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

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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

	30 June 2017	31 December 2016
Cash	142	141
Bank		
- Time deposit	599.820	1.108.300
- Demand deposit	80.105	59.348
Other	29	105
Cash and cash equivalents on the cash flow statement	680.096	1.167.894
Interest income accruals	1.641	882
	681.737	1.168.776

As of 30 June 2017, the Group has time deposits denominated in foreign currencies with maturities between July-August 2017 (31 December 2016: January-March 2017), with the interest rates between 0,5 percent and 4,4 percent (31 December 2016: 0,5 percent to 3,8 percent) amounting to TL 494.967 (31 December 2016: TL 656.603).

As of 30 June 2017, the Group has time deposits denominated in TL terms with maturities between July-August 2017 (31 December 2016: January-March 2017) and TL 104.853 (31 December 2016: TL 451.697) at the interest rate of 6,5 percent and 15,15 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 1-6 months.

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

Total amount of salaries and other short-term benefits paid for key management for the period ended 30 June 2017 is TL 4.972 (30 June 2016: TL 4.300).

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

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4. RELATED PARTY DISCLOSURES (continued)

	30 June 2017								
	Receivables				Payables				
	Short-term		Long-term		Short-term		Long-term		
	Trading	Prepaid Expenses	Trading	Prepaid Expenses	Trading	Deferred Income	Other Payables ¹	Trading	Deferred Income
Balances with related parties									
Main shareholder									
TSKGV	20	--	--	--	--	--	36.162	--	--
Other shareholder									
Axa Sigorta Anonim Şirketi ("Axa Sigorta")	--	--	--	--	--	--	120	--	--
Main shareholder's subsidiaries and associates									
Hava Elektronik Harp Sistemleri Mühendislik Ticaret Anonim Şirketi ("HAVELSAN EHSİM")	--	1.092	--	--	--	--	--	--	--
Hava Elektronik Sanayi ve Ticaret Anonim Şirketi ("HAVELSAN")	13.521	29.068	3.271	--	311	--	--	--	--
HAVELSAN Teknoloji Radar Sanayi ve Ticaret Anonim Şirketi ("HTR")	686	1.516	--	272	2.006	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	2.061	--	2.308	7.099	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	76	17.581	--	1.619	29.271	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	689	14.896	--	1.552	10.659	135.676	--	--	32.557
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	39.194	--	23.466	--	1.342	36.244	--	19.686	257.067
Financial Investments									
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	--	911	--	--	1.981	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	52.104	25.071	11.578	260.533	29.336	--	--	--	45.874
Joint ventures and its related parties									
İhsan Doğramacı Bilkent University	--	4.856	--	41	1.207	--	--	--	--
ASELSAN Optik	--	5.756	--	988	3.223	--	--	--	--
IGG	22.663	--	8.894	--	--	--	--	3.956	337
IGG ASELSAN	488	1.366	--	--	1.821	--	--	--	--
ASELSAN Kazakistan	64.747	--	3.277	--	1.543	--	--	--	--
ASELSAN Jordan	31.057	--	--	--	42	--	--	--	--
SADEC LLC	386	--	--	--	--	--	--	--	--
Publicly Offered Shares	--	--	--	--	--	--	6.542	--	--
	225.631	104.174	50.486	267.313	89.841	171.920	42.824	23.642	335.835

¹ Other payables mainly comprised of dividends payable.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES
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4. RELATED PARTY DISCLOSURES (continued)

	31 December 2016								
	Receivables				Payables				
	Short-term		Long-term		Short-term		Long-term		
	Trading	Prepaid Expenses	Trading	Prepaid Expenses	Trading	Deferred Income	Other Payables	Trading	Deferred Income
Balances with related parties									
<u>Main shareholder</u>									
TSKGV	318	--	--	--	--	--	--	--	--
<u>Other shareholder</u>									
Axa Sigorta	--	--	--	--	--	--	69	--	--
<u>Main shareholder's subsidiaries and associates</u>									
HAVELSAN EHSİM	39	745	--	--	--	--	--	--	--
HAVELSAN	17.524	20.402	3.004	--	--	75	--	--	--
HTR	--	1.561	--	--	2.027	--	--	--	--
İŞBİR	--	9.146	--	2.350	4.072	--	--	--	--
NETAŞ	--	12.097	--	16.667	26.402	--	--	--	--
STM	25.116	9.028	--	--	16.651	623	--	--	3.028
TUSAŞ	49.763	--	23.118	--	569	14.755	--	21.721	266.200
<u>Financial Investments</u>									
ASPİLSAN	--	762	--	--	5.098	--	--	--	--
ROKETSAN	65.647	--	10.065	180.824	17.275	2.003	--	--	45.096
<u>Joint ventures and its related parties</u>									
İhsan Doğramacı Bilkent Üniversitesi	--	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	--	--	--	--	--	--	--	--
SADEC LLC	383	--	--	--	--	--	--	--	--
	311.655	59.063	36.187	199.841	79.170	17.456	69	21.721	314.324

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

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

4. RELATED PARTY DISCLOSURES (continued)

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Transactions with related parties	Purchases	Purchases	Purchases	Purchases
<u>Main Shareholder</u>				
TSKGV	332	166	327	163
<u>Main shareholder's subsidiaries and associates</u>				
NETAŞ	37.558	11.133	11.171	2.542
İŞBİR	13.784	10.031	1.998	1.784
HTR	5.578	2.392	2.869	1.862
TUSAŞ	146	53	622	622
HAVELSAN EHSİM	41	41	--	--
STM	--	--	11.819	11.819
Mercedes Benz Türk Anonim Şirketi	--	--	2.335	--
HAVELSAN	--	--	544	544
<u>Financial Investments</u>				
ROKETSAN	7.769	5.026	11.400	477
ASPILSAN	3.325	1.793	1.834	1.143
<u>Joint ventures and its related parties</u>				
İhsan Doğramacı Bilkent University	2.596	818	5.820	3.035
	71.129	31.453	50.739	23.991

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017**

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

4. RELATED PARTY DISCLOSURES (continued)

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Transactions with related parties	Sales	Sales	Sales	Sales
<u>Main Shareholder</u>				
TSKGV	162	82	170	98
<u>Main shareholder's subsidiaries and associates</u>				
TUSAŞ	61.695	26.147	75.637	52.793
STM	6.028	4.570	10.138	1.222
HAVELSAN	873	873	4.009	2.311
HTR	611	611	--	--
NETAŞ	307	307	7	7
<u>Financial Investments</u>				
ROKETSAN	10.256	509	18.622	7.934
<u>Joint ventures and its related parties</u>				
IGG	--	--	213	213
	79.932	33.099	108.796	64.578

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 30 JUNE 2017**

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

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

	30 June 2017	31 December 2016
Short-term trade receivables		
Trade receivables	1.240.795	1.706.200
Trade receivables from related parties (Note 4)	225.631	311.655
Unbilled receivables from construction contracts in progress	--	17.640
Notes receivable	1.790	4.200
Doubtful trade receivables	921	921
Allowance for doubtful trade receivables (-)	(921)	(921)
	1.468.216	2.039.695

	30 June 2017	31 December 2016
Long-term trade receivables		
Unbilled receivables from construction contracts in progress	723.557	233.168
Trade receivables	92.092	115.997
Unbilled receivables from construction contracts in progress-Related party (Note 4)	49.878	35.577
Trade receivables from related parties (Note 4)	608	610
Notes receivables	277	240
	866.412	385.592

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

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

	30 June 2017	30 June 2016
Opening balance	921	859
Provision for the period	--	62
Closing balance	921	921

The sectorial distribution of trade receivables is as follows:

	30 June 2017	31 December 2016
Public sector	902.518	1.177.776
Receivables from companies operating abroad	768.071	603.163
Private sector	664.039	644.348
Total receivables	2.334.628	2.425.287

Receivables from public sector represent the receivables 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:

Short-term trade payables	30 June 2017	31 December 2016
Trade payables	719.913	749.756
Unearned revenue related to construction contracts in progress	182.432	221.962
Due to related parties (Note 4)	73.006	78.843
Unearned revenue related to construction contracts in progress-Related party (Note 4)	16.835	327
Other trade payables	1.378	2.019
	993.564	1.052.907

Long-term trade payables	30 June 2017	31 December 2016
Trade payables	--	95
Unearned revenue related to construction contracts in progress	618.988	231.328
Unearned revenue related to construction contracts in progress- Related party (Note 4)	23.642	21.721
	642.630	253.144

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6. EQUITY ACCOUNTED INVESTMENTS

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

30 June 2017	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN Kazakhstan	49	50.006	91.009	141.015	61.623	4.914	66.537
ASELSAN Jordan	49	51.778	14.580	66.358	40.585	--	40.585
ASELSAN Optik	50	16.189	31.071	47.260	13.186	20.454	33.640
ASELSAN Bilkent	50	13.765	62.376	76.141	5.796	52.607	58.403
IGG ASELSAN	49	9.020	3.425	12.445	1.279	24.522	25.801
SADEC LLC	50	19.525	397	19.922	669	--	669
		160.283	202.858	363.141	123.138	102.497	225.635

30 June 2017	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN Kazakhstan	49	28.155	(18.055)	10.100	36.494	4.949
ASELSAN Jordan	49	24.963	(22.202)	2.761	12.629	1.353
ASELSAN Optik	50	12.393	(11.891)	502	6.810	251
ASELSAN Bilkent	50	502	(310)	192	8.869	96
IGG ASELSAN	49	139	(3.495)	(3.356)	--	--
SADEC LLC	50	--	(1.854)	(1.854)	9.627	(927)
		66.152	(57.807)	8.345	74.429	5.722

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6. EQUITY ACCOUNTED INVESTMENTS (continued)

31 December 2016	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
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
		171.517	193.594	365.111	152.682	99.994	252.676

31 December 2016	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
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
		138.362	(137.934)	428	57.387	213

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. Since ASELSAN has a capital commitment to SADEC LLC, there is no consolidation effect on the Group's financial statements.

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7. INVENTORIES

	30 June 2017	31 December 2016
Raw materials	799.588	587.699
Work in progress	403.985	369.145
Goods in transit ¹	103.505	96.450
Finished goods	88.483	91.098
Other inventories	29.443	26.954
Trade goods	26.060	36.071
Allowance for impairment on inventories (-)	(21.608)	(20.019)
	1.429.456	1.187.398

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 whose net realizable value is below their costs within the current year. Therefore, there is a provision for inventories amounting to TL 21.608 in the statement of financial position (30 June 2016: TL 18.069).

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

	2017	2016
Opening balance	20.019	15.670
Provision for the period	1.593	2.399
Provision released	(4)	--
Closing balance	21.608	18.069

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

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8. PREPAID EXPENSES AND DEFERRED INCOME

	30 June 2017	31 December 2016
Short-term prepaid expenses		
Order advances given for inventory purchases	520.949	294.636
Short-term order advances given to related parties for inventory purchases (Note 4)	104.174	59.063
Prepaid expenses	39.468	33.541
	664.591	387.240

	30 June 2017	31 December 2016
Long-term prepaid expenses		
Long-term order advances given to related parties for inventory purchases (Note 4)	267.313	199.841
Order advances given for inventory purchases	146.512	155.029
Order advances given for fixed assets purchases	29.008	32.686
Prepaid expenses	3.708	6.143
	446.541	393.699

	30 June 2017	31 December 2016
Short-term deferred income		
Order advances received	463.725	310.676
Order advances received from related parties (Note 4)	171.920	17.456
Deferred income	154	42.449
	635.799	370.581

Short-term order advances received comprises advances received from 46 customers (31 December 2016: 35 customers) of which first 10 customers constitutes 99,2 percent of the total (31 December 2016: 95,7 percent).

	30 June 2017	31 December 2016
Long-term deferred income		
Order advances received	1.054.955	1.777.653
Order advances received from related parties (Note 4)	335.835	314.324
Deferred income	2	2
	1.390.792	2.091.979

Long-term order advances received comprises advances received from 27 customers (31 December 2016: 24 customers) of which the first 10 customers constitutes 99,9 percent of the total (31 December 2016: 99,6 percent).

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9. TANGIBLE AND INTANGIBLE ASSETS

Cost	Property, Plant and Equipment	Intangible Assets
Opening balance as of 1 January 2017	1.651.675	961.982
Additions	65.541	161.015
Disposals	(1.154)	(35.209)
Closing balance as of 30 June 2017	1.716.062	1.087.788
Accumulated Depreciation and Amortization		
Opening balance as of 1 January 2017	684.154	264.851
Period Cost	44.411	25.251
Disposals	(255)	--
Closing balance as of 30 June 2017	728.310	290.102
Net book value as of 30 June 2017	987.752	797.686
Net book value as of 31 December 2016	967.522	697.131
Cost		
Opening balance as of 1 January 2016	1.529.134	760.007
Additions	36.147	75.554
Disposals	(1.058)	(12.655)
Closing balance as of 30 June 2016	1.564.223	822.906
Accumulated Depreciation and Amortization		
Opening balance as of 1 January 2016	604.292	222.495
Period cost	40.063	21.111
Disposals	(864)	--
Closing balance as of 30 June 2016	643.491	243.606
Net book value as of 31 June 2016	920.732	579.300
Net book value as of 31 December 2015	924.842	537.512

In accordance with TFRS 13 "Fair Value Measurement" standard, fair values of the lands are considered as level three 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**

	30 June 2017	31 December 2016
Other short-term provisions		
Provision for warranty ¹	196.051	183.555
Provision for onerous contracts	82.525	91.555
Provision for delay penalties ²	17.176	19.705
Provision for legal cases	6.851	5.332
Provision for cost expenses	5.219	2.955
Provision for insurance expense	4.222	7.089
Other	925	265
	312.969	310.456
	30 June 2017	31 December 2016
Other long-term provisions		
Provision of onerous contracts	42.937	36.022
Provision for delay penalties	15.234	16.114
	58.171	52.136

b) Legal cases

As of the dates 30 June 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:

Description	2017	2016
a) Ongoing lawsuits filed by the Group	854	1.395
b) Execution proceedings carried out by the Group	8.533	5.210
c) Ongoing lawsuits filed against the Group	6.851	5.332
d) Lawsuits finalized against the Group within the period	100	139
e) Lawsuits finalized in favor of the Group within the period	916	4.076

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

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

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11. TAX

"Deferred Tax Assets" of the Group as of 30 June 2017 is TL 507.708. The amount is comprised of the items below.

	30 June 2017	31 December 2016
Carried Forward R&D Incentives Effect	638.021	513.261
TFRS Adjustment Effect	(130.313)	(128.688)
Deferred Tax Assets - Net	507.708	384.573

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

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

In accordance with the law numbered 5746 pertaining to 1 January-30 June 2017 period, the Group has calculated "Deferred Tax Asset" amounting to TL 124.760 to be capitalized from Research and Development expenses comprising "Outstanding Research and Development Deductions".

	30 June 2017	30 June 2016	31 December 2016
Profit before tax from continuing operations	443.296	210.956	734.024
Tax income recognized in profit or loss	121.327	25.004	61.178
Effective tax rate	%27	%12	%8

Effective tax rate is calculated by dividing profit before tax from continuing operations to tax income recognized in profit or loss. Increase in profit before tax from continuing operations is mainly due to the sales made by the Company within the current period. The Company does not have corporate tax liability for the current period because of the tax advantage arising from the R&D expenditures the Company has made in the previous years. The main reason for tax income in profit or loss is deferred tax income effect arising from the R&D expenditures the Company has made within the current period. The reasons for the increase in tax income recognized in profit or loss are higher R&D expenditures and revaluation of R&D incentive in the current period.

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

	30 June 2017	31 December 2016
Letters of guarantees received from the suppliers	1.149.771	1.040.467
Collaterals received from the customers	12.009	11.130
Letters of guarantees received from the customers	2.226	2.780
Mortgages received from the customers	265	265
Guarantees received from the customers	6	6
Collaterals received from the suppliers	--	2.430
	1.164.277	1.057.078

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

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

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12. COMMITMENTS AND CONTINGENCIES (continued)

b) Guarantees given (continued)

30 June 2017	TL Equivalent	TL	USD	EURO	UAE Dirham	Indian Rupee	British Pound
A. Total amount of CPM given on behalf of the legal entity							
-Collateral	11.564.785	1.544.414	1.816.825	909.438	50	10.000	1.654
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
B. Total amount of CPM given on behalf of the subsidiaries included in full consolidation							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
C. Total amount of CPM given to maintain operations and collect payables from third parties							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
D. Total amount of other CPM given							
i. Total Amount of CPM on behalf of the main partner							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
ii. Total amount of CPM given on behalf of other group companies that do not cover B and C ¹							
-Collateral	15.637	907	4.200	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
Total	11.580.422	1.545.321	1.821.025	909.438	50	10.000	1.654

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.

¹ The ratio of the other CPM given by the Group to equity as of 30 June 2017 is 0,37 percent. TL 15.637 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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

31 December 2016	TL Equivalent	TL	USD	EURO	UAE Dirham	Indian Rupee	British Pound
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 ¹							
-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	--	--	--	--	--	--	--
Total	11.283.801	1.474.186	1.839.361	890.377	26.760	10.000	1.654

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.

¹ 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.

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

	30 June 2017	31 December 2016
Social security premiums payable	16.684	28.380
Taxes and funds payable	6.863	7.838
Due to personnel	528	618
	24.075	36.836

b) Short-term provisions for employee benefits

	30 June 2017	31 December 2016
Provision for vacation pay liability	44.118	43.362

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

	2017	2016
Opening balance	43.362	38.115
Provision for the period	2.325	17.463
Provision paid during the period	(951)	(4.007)
Provision realized during the period	(618)	(3.058)
Closing balance	44.118	48.513

c) Long-term provisions for employee benefits

	30 June 2017	31 December 2016
Provision for severance pay	147.760	138.248
Provision for retirement pay	13.627	12.749
	161.387	150.997

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

	2017	2016
Opening balance	150.997	163.412
Interest cost	6.788	6.819
Service cost	5.628	4.151
Actuarial gains/(loss)	3.559	(2.880)
Termination cost	366	175
Payments	(5.951)	(4.807)
Closing balance	161.387	166.870

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.

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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 30 June 2017 severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL¹ 4.426,16 (31 December 2016: TL¹ 4.297,21)

As of July 1, 2017 severance payments are limited to a ceiling of TL 4.732¹.

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:

	30 June 2017 (%)	31 December 2016 (%)
Interest rate	10,06	10,59
Inflation rate	6	7
Discount ratio	3,36	3,36
Estimation of probability of retirement ratio	98	98

¹ Amounts are expressed in Turkish Lira.

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14. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

<u>Shareholders</u>	<u>Share (%)</u>	<u>30 June 2017</u>	<u>Share (%)</u>	<u>31 December 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
Inflation adjusted capital		1.098.621		1.098.621

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 are assigned from the holders of nominative "Group A" type shareholders or from the ones nominated by "Group A" type shareholders. Moreover, the Board of Directors shall be authorized in matters regarding issuing preferred shares or issuing shares above the nominal values. Regarding capital increases by restricting preemptive rights, the shares to be issued shall be "Group B". In accordance with the CMB's legislation, other Members of the Board of Directors, not including elected Independent Members of the Board of Directors, 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 30 June 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 30 June 2017, the extraordinary reserves balance of the Company which is arranged according to the Tax Procedure Law (TPL) presented under retained earnings is TL 677.863 (31 December 2016: TL 248.547). According to the records based on the TPL, the Company's profit for the period is TL 339.277 (31 December 2016: TL 534.070) and its other funds available for profit distribution is TL 696.125 (31 December 2016: TL 259.858) and the details are as follows.

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

Retained Earnings (continued)

	<u>30 June 2017</u>	<u>31 December 2016</u>
Capital reserves and extraordinary reserves	696.125	259.858

Profit distribution

Publicly traded companies perform dividend distribution in accordance with Capital Markets 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 29.903 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 689.788 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 Aselsan 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 50.333 of dividend payable to shareholders has not been paid to the shareholders as of 30 June 2017. (31 December 2016: None)

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15. REVENUE AND COST OF SALES

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
a) Revenue				
Domestic sales	1.813.051	915.993	1.186.889	658.475
Export sales	345.192	251.642	228.490	122.636
Other revenues	412	303	228	228
Sales returns (-)	(647)	(604)	--	--
Sales discounts (-)	(515)	(267)	(787)	(362)
	2.157.493	1.167.067	1.414.820	780.977
b) Cost of sales(-)				
Cost of raw materials and supplies	573.583	261.102	353.234	192.741
Personnel expenses	39.238	22.880	23.082	9.515
Production overheads	138.559	79.183	119.256	56.792
Depreciation expenses	35.946	18.495	30.255	15.434
Change in work in progress	(34.840)	(4.564)	(29.128)	(11.924)
Change in finished goods	2.615	(2.099)	(19.058)	(9.929)
Development expenses ¹	597.931	314.022	412.668	214.287
Cost of services sold	184.130	129.970	103.234	91.613
Cost of merchandise goods sold	31.846	14.546	27.401	19.502
Cost of other sales	72.547	50.626	30.486	20.366
	1.641.555	884.161	1.051.430	598.397

16. CONSTRUCTION CONTRACTS

	30 June 2017	31 December 2016
Construction costs incurred plus recognized profits less recognized losses to date	10.301.990	9.862.184
Less: earned allowances	(10.370.452)	(10.051.137)
	(68.462)	(188.953)
Amounts due from customers under construction contracts (Note 5)	773.435	286.385
Amounts due to customers under construction contracts (Note 5)	(841.897)	(475.338)
	(68.462)	(188.953)

¹ Development expenses consist of raw material, design and personnel expenses. TL 216.451 (30 June 2016: TL 188.177) of development expenses is comprised of personnel cost.

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

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Foreign currency exchange differences from operations	631.427	231.521	102.997	64.989
Other income	8.668	4.172	3.737	2.781
Discount interest income	4.616	(1.468)	5.896	531
	644.711	234.225	112.630	68.301

b) Other operating expenses

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Foreign currency exchange differences from operations	563.769	266.455	121.715	58.392
Discount interest expense	8.749	(25)	3.826	(1.397)
Other expense and losses	3.629	2.366	1.589	602
	576.147	268.796	127.130	57.597

18. INCOME FROM INVESTING ACTIVITIES

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Dividend income	8.939	--	8.171	--
Gain on sale of fixed assets	187	161	173	121
	9.126	161	8.344	121

19. FINANCIAL INCOME

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Foreign currency exchange gain from bank loans	41.053	10.877	35.973	14.931
Interest income	20.971	8.056	9.914	3.224
Other financial income	259	124	240	144
	62.283	19.057	46.127	18.299

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20. FINANCIAL EXPENSES

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Foreign currency exchange losses from bank loans	39.755	969	34.546	24.605
Interest cost of borrowings	7.199	159	2.687	1.348
Interest cost related with employee benefits	6.788	6.788	6.819	6.819
Discount expenses of bank loans	1.382	3.746	4.938	2.381
	55.124	11.662	48.990	35.153

21. EARNINGS PER SHARE

Earnings per share is calculated by dividing the portion of profit allocated to the Group's weighted average number of shares outstanding over the reporting term. The Group does not have diluted shares. For the periods ended 30 June 2017 and 30 June 2016, earnings per share calculations are as follows:

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Common stock (thousand)	100.000.000	100.000.000	100.000.000	100.000.000
Net profit – TL	564.575	243.690	236.014	124.101
Earnings per 100 shares (Kuruş)	56,46	24,37	23,60	12,41
Diluted Earnings per 100 shares (Kuruş)	56,46	24,37	23,60	12,41

Earning per share for the period 1 January – 30 June 2016 has been recalculated according to the number of shares after capital increase on 25 May 2016.

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22. FINANCIAL LIABILITIES

Financial Liabilities

		30 June 2017	31 December 2016
Short-term financial liabilities	Unsecured loan	249.274	303.928
Other short-term financial liabilities	Unsecured loan	2.307	2.315
Current portion of long-term financial liabilities	Secured loan	81.818	65.665
Total short-term financial liabilities		333.399	371.908
Other long-term financial liabilities	Secured loan	80.016	120.140
Other long-term financial liabilities	Unsecured loan	1.137	2.275
Total long-term financial liabilities		81.153	122.415
Total financial liabilities		414.552	494.323

As of 30 June 2017, TL 8.697 of the short term financial borrowings are interest free loan for social security payments. The remaining portion of the short-term borrowings consist of Discounted Foreign Currency Credits amounting to TL 240.577 and maturity dates due between September 2017-February 2018, interest rates between 2,1-12 percent. The short-term portions of long-term financial liabilities consist of USD 45.462 with principal payment of USD 23.329 and interest rates of 2,1 percent and 3,5 percent, with the maturity date of July 2017-April 2018 of the Undersecretariat for Defense Industries.

As of 30 June 2017, other financial liabilities amounting to TL 3.444 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 22.815 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 45.462 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 for 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.

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23. FOREIGN EXCHANGE POSITION

FOREIGN EXCHANGE POSITION						
30 June 2017	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other¹ (TL equivalent)
1. Trade Receivables	1.375.843	233.834	820.080	126.482	506.310	49.453
2a. Monetary financial assets (including cash, bank)	565.964	141.799	497.305	17.134	68.586	73
2b. Non- monetary financial assets	258.960	40.812	143.133	26.048	104.271	31.384
3. Other	5.846	49	166	1.408	5.636	44
4. Current assets (1+2+3)	2.206.613	416.494	1.460.684	171.072	684.803	80.954
5. Trade receivables	652.020	125.630	440.596	52.817	211.424	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	246.814	11.965	41.961	84.158	336.885	548
7. Other	10.316	798	2.803	1.866	7.471	42
8. Long-term assets (5+6+7)	909.150	138.393	485.360	138.841	555.780	590
9. Total assets (4+8)	3.115.763	554.887	1.946.044	309.913	1.240.583	81.544
10. Trade payables	161.604	20.258	71.047	21.403	85.679	4.878
11. Financial liabilities	198.384	56.566	198.384	--	--	--
12a. Other monetary financial liabilities	2.189	621	2.179	3	10	--
12b. Other non-monetary financial liabilities	134.548	38.671	135.620	23.752	95.078	--
13. Current liabilities (10+11+12)	496.725	116.116	407.230	45.158	180.767	4.878
14. Trade payables	634.120	136.990	480.438	38.392	153.682	--
15. Financial liabilities	81.153	23.140	81.153	--	--	--
16a. Other monetary financial liabilities	44	9	32	3	12	--
16b. Other non-monetary financial liabilities	751.863	236.919	830.899	201.682	807.335	--
17. Non-current liabilities (14+15+16)	1.467.180	397.058	1.392.522	240.077	961.029	--

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

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23. FOREIGN EXCHANGE POSITION (continued)

FOREIGN EXCHANGE POSITION						
30 June 2017	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other (TL equivalent)
18. Total liabilities (13+17)	1.963.905	513.174	1.799.752	285.235	1.141.796	4.878
19. Net asset/liability position of off- balance sheet derivative financial instruments (19a-19b)	--	--	--	--	--	--
19a. Hedged total financial assets	--	--	--	--	--	--
19b. Hedged total financial liabilities	--	--	--	--	--	--
20. Net foreign currency asset/liability (9-18+19)	1.151.858	41.713	146.292	24.678	98.787	76.666
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	1.516.333	263.679	924.748	136.632	546.937	44.648
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	345.192	61.076	214.198	6.823	27.312	103.682
26. Imports	691.335	128.960	452.277	46.701	186.943	52.115

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 statutory accounts. The difference is mainly due to the adjustments and classifications which are related with TAS 11 "Construction Contracts".

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

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23. FOREIGN EXCHANGE POSITION (continued)

FOREIGN EXCHANGE POSITION						
31 December 2016	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other¹ (TL equivalent)
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
4. Current assets (1+2+3)	2.634.208	469.515	1.652.318	260.092	964.916	45.034
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
8. Long-term assets (5+6+7)	579.667	79.383	279.362	108.458	402.371	833
9. Total assets (4+8)	3.213.875	548.898	1.931.680	368.550	1.367.287	45.867
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	--
13. Current liabilities (10+11+12)	749.776	192.849	678.672	51.640	191.579	7.662
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	--
17. Non-current liabilities (14+15+16)	1.421.624	416.229	1.464.794	230.232	854.137	--

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

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23. FOREIGN EXCHANGE POSITION (continued)

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

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 statutory accounts. 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 given and advances received are considered with regard to historic values therefore "TL equivalent of currency as at balance sheet date" differentiate.

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

The Group is exposed to foreign currency risk with respect to USD and EURO. As of 30 June 2017, USD 1: TL 3,5071 (31 December 2016: TL 3,5192), EURO 1: TL 4,0030 (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 presents 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;

Foreign currency sensitivity table				
30 June 2017				
	Profit/Loss		Equity¹	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	92.475	(92.475)	92.475	(92.475)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	92.475	(92.475)	92.475	(92.475)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	54.694	(54.694)	54.694	(54.694)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	54.694	(54.694)	54.694	(54.694)
Change of other² currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	4.465	(4.465)	4.465	(4.465)
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	4.465	(4.465)	4.465	(4.465)

¹ Comprises of profit/loss effect.

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

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

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

Foreign currency sensitivity table				
31 December 2016				
	Profit/Loss		Equity¹	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	120.680	(120.680)	120.680	(120.680)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	120.680	(120.680)	120.680	(120.680)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	84.739	(84.739)	84.739	(84.739)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	84.739	(84.739)	84.739	(84.739)
Change of other² currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	1.099	(1.099)	1.099	(1.099)
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	1.099	(1.099)	1.099	(1.099)

¹ Comprises of profit/loss effect.² Consists of CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR currencies.

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

30 June 2017	Financial assets at fair value	Loans and receivables (including cash and cash equivalents)	Available for sale financial assets	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
Cash and cash equivalents	--	681.737	--	--	681.737	3
Blocked deposits	--	59.495	--	--	59.495	
Financial investments	--	--	516.032	--	516.032	
Trade receivables	--	2.334.628	--	--	2.334.628	5
<u>Financial liabilities</u>						
Borrowings	--	--	--	414.552	414.552	
Trade payables	--	--	--	1.636.194	1.636.194	5
Other payables	--	--	--	58.715	58.715	

31 December 2016	Financial assets at fair value	Loans and receivables (including cash and cash equivalents)	Available for sale financial assets	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
Cash and cash equivalents	--	1.168.776	--	--	1.168.776	3
Blocked deposits	--	63.062	--	--	63.062	
Financial investments	--	--	516.032	--	516.032	
Trade receivables	--	2.425.287	--	--	2.425.287	5
<u>Financial liabilities</u>						
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 30 JUNE 2017

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

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

30 June 2017	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
ROKETSAN	--	--	516.032
	--	--	516.032

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

The movement of the fair value level as of 30 June 2017 is as follows:

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
1 January 2017	--	--	516.032
Additions	--	--	--
30 June 2017	--	--	516.032

25. EVENTS AFTER THE REPORTING PERIOD

Amount of contracts signed by Group after the reporting date is approximately USD 5.000.

The company titled "ASELSAN Malaysia Sdn. Bhd." was established in order to operate in the field of remote controlled weapon systems, of which ASELSAN owns 100 percent. The company's capital is MYR 0,1 and the establishment has been registered on 19 July 2017