(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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 WITH INDEPENDENT AUDITORS' REPORT THEREON

20 February 2018
This report contains independent audit report consolidated financial statements and footnotes comprising 101 pages.

CONTENT PAGE

NOTE

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

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

	Note References	Audited 31 December 2017	Audited 31 December 2016
ASSETS			
Current Assets		**5.798.135**	**5.062.438**
Cash and Cash Equivalents	3	1.262.904	1.168.776
Trade Receivables	6	1.601.765	2.039.695
From Related Parties	*5*	*460.841*	*311.655*
From Third Parties		*1.140.924*	*1.728.040*
Other Receivables	7	112.761	84.712
From Related Parties	*5*	*34*	--
From Third Parties		*112.727*	*84.712*
Inventories	9	1.944.389	1.187.398
Prepaid Expenses	10	654.137	380.150
From Related Parties	*5*	*92.555*	*59.062*
From Third Parties		*561.582*	*321.088*
Other Current Assets	18	222.179	201.707
Non-Current Assets		**5.120.082**	**3.535.423**
Financial Investments	30	568.914	516.179
Trade Receivables	6	1.198.294	385.592
From Related Parties	*5*	*828.846*	*36.187*
From Third Parties		*369.448*	*349.405*
Other Receivables	7	661	295
From Third Parties		*661*	*295*
Equity Accounted Investments	8	83.324	57.387
Property, Plant and Equipment	11	1.090.843	967.522
Intangible Assets	12	868.997	697.131
Prepaid Expenses	10	442.731	393.699
From Related Parties	*5*	*165.487*	*199.841*
From Third Parties		*277.244*	*193.858*
Deferred Tax Assets	28	589.529	384.573
Other Non-Current Assets	18	276.789	133.045
TOTAL ASSETS		**10.918.217**	**8.597.861**

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

		Audited	
	Note References	**31 December 2017**	**31 December 2016**
LIABILITIES			
Current Liabilities		**2.671.635**	**2.235.678**
Short-term Financial Liabilities	31	404.312	306.243
Short-term Portion of Long-term Financial Liabilities	31	67.624	65.665
Trade Payables	6	1.369.800	1.052.907
To Related Parties	*5*	*195.946*	*79.170*
To Third Parties		*1.173.854*	*973.737*
Employee Benefit Obligations	17	46.133	36.836
Other Payables	7	1.494	6.248
To Related Parties	*5*	*65*	*69*
To Third Parties		*1.429*	*6.179*
Government Grants and Incentives	13	41.643	28.268
Deferred Income	10	300.459	370.581
To Related Parties	*5*	*144.197*	*17.456*
To Third Parties		*156.262*	*353.125*
Corporate Tax Liability	28	717	427
Short-term Provisions		425.907	346.729
For Employee Benefits	*17*	*42.301*	*43.362*
Other	*15*	*383.606*	*303.367*
Other Current Liabilities	18	13.546	21.774
Non-Current Liabilities		**3.198.374**	**2.670.716**
Long-term Financial Liabilities	31	62.207	122.415
Trade Payables	6	1.262.015	253.144
To Related Parties	*5*	*1.048.376*	*21.721*
To Third Parties		*213.639*	*231.423*
Other Payables	7	105	45
To Third Parties		*105*	*45*
Deferred Income	10	1.642.766	2.091.979
To Related Parties	*5*	*1.461.346*	*314.324*
To Third Parties		*181.420*	*1.777.655*
Long-term Provisions		231.281	203.133
Long-term Provisions for Employee Benefits	*17*	*168.742*	*150.997*
Other Non-Current Liabilities	*15*	*62.539*	*52.136*

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

		Audited	
	Note References	**31 December 2017**	**31 December 2016**
EQUITY		**5.048.208**	**3.691.467**
Equity Attributable to Equity Holders of the Parent		**5.047.666**	**3.691.004**
Share Capital	19	1.000.000	1.000.000
Inflation Adjustments on Share Capital Differences	19	98.621	98.621
Other Comprehensive Income / (Expense) that will not be Reclassified to Profit or Loss		209.087	219.355
Gain on Revaluation of Property	27	*207.431*	*216.072*
Gain/ Loss on Remeasurement of Defined Benefit Plans	27	*1.656*	*3.283*
Other Cumulative Comprehensive Income / (Expense) will be Reclassified to Profit/Loss		540.690	486.030
Gain on Revaluation of Available for Sale Financial Assets	*27*	*535.444*	*485.346*
Cumulative Translation Adjustments	27	*5.246*	*684*
Restricted Reserves	19	124.062	94.159
Prior Years' Profit		1.687.436	997.648
Net Profit for the Period		1.387.770	795.191
Non-Controlling Interests		**542**	**463**
TOTAL LIABILITIES AND EQUITY		**10.918.217**	**8.597.861**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Note References	Audited 1 January- 31 December 2017	Audited 1 January- 31 December 2016
PROFIT OR LOSS			
Revenue	20	5.360.279	3.768.116
Cost of Sales (-)	20	(4.005.346)	(2.845.098)
GROSS PROFIT		**1.354.933**	**923.018**
General Administrative Expenses (-)	22	(177.622)	(150.732)
Marketing Expenses (-)	22	(164.431)	(83.758)
Research and Development Expenses (-)	22	(97.300)	(82.603)
Other Operating Income	23	1.935.905	489.676
Other Operating Expenses (-)	23	(1.678.420)	(285.598)
OPERATING PROFIT		**1.173.065**	**810.003**
Income From Investing Activities	24	9.302	8.737
Shares of Profit/(Losses) of Equity Accounted Investees	8	9.302	213
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		**1.191.669**	**818.953**
Financial Income	25	99.494	66.361
Financial Expense (-)	26	(120.140)	(151.291)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**1.171.023**	**734.023**
Tax Income from Continuing Operations		**216.826**	**61.178**
- Current Corporate Tax Expense(-)	28	(2.036)	(1.548)
- Deferred Tax Income	28	218.862	62.726
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**1.387.849**	**795.201**
Profit for the Period Attributable to			
Non-Controlling Interest		79	10
Owners of the Company	29	1.387.770	795.191
		1.387.849	**795.201**
Earnings for per 100 Shares (in full kuruş)	**29**	**138,78**	**79,52**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

		Audited	
	Note References	1 January- 31 December 2017	1 January- 31 December 2016
PROFIT FOR THE PERIOD		**1.387.849**	**795.201**
OTHER COMPREHENSIVE INCOME			
Items that will not to be Reclassified Subsequently in Profit or Loss		**(10.268)**	**18.207**
Gain on Revaluation of Property	27	3.034	--
Gain on Remeasurement of Defined Benefit Plans	17	(2.033)	22.759
Deferred Tax Expense	28	(11.269)	(4.552)
Items that may be Reclassified Subsequently to Profit or Loss		**54.660**	**79.323**
Gain on Revaluation of Available for Sale Financial Assets	27	52.735	82.678
Cumulative Translation Adjustments	27	4.562	779
Deferred Tax Expense	27-28	(2.637)	(4.134)
OTHER COMPREHENSIVE INCOME		**44.392**	**97.530**
TOTAL COMPREHENSIVE INCOME		**1.432.241**	**892.731**
Total Comprehensive Income Attributable to			
Non-Controlling Interest		79	10
Owners of the Company		1.432.162	892.721
		1.432.241	**892.731**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

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

			Other Comprehensive Income / Expense that will not to be Reclassified Subsequently to Profit or Loss		Other Comprehensive Income / Expense that may not to be Reclassified Subsequently to Profit or Loss			Retained Earnings				
	Share Capital	Inflation Adjustments on Share Capital	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	Non-Controlling Interests	Total
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	--	--	--	18.207	78.544	779	--	--	795.191	**892.721**	10	**892.731**
Dividends	--	--	--	--	--	--	--	--	(42.000)	**(42.000)**	--	**(42.000)**
Balance as of 31 December 2016 (Closing 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**
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)	--	--	--
Capital Increase	--	--	--	--	--	--	--	--	--	--	--	--
Total Comprehensive Income	--	--	(8.641)	(1.627)	50.098	4.562	--	--	1.387.770	**1.432.162**	79	**1.432.241**
Dividends	--	--	--	--	--	--	--	--	(75.500)	**(75.500)**	--	**(75.500)**
Balance as of 31 December 2017 (Closing Balance)	**1.000.000**	**98.621**	**207.431**	**1.656**	**535.444**	**5.246**	**124.062**	**1.687.436**	**1.387.770**	**5.047.666**	**542**	**5.048.208**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

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

		Audited	
	Note References	**1 January- 31 December 2017**	**1 January- 31 December 2016**
A.Cash Flows from Operating Activities		**652.285**	**980.527**
Profit/Loss		1.387.849	795.201
Adjustments to Reconcile Profit (Loss)		**236.897**	**677.591**
- Adjustments for Depreciation and Amortization Expense	11-12	132.625	110.160
- Adjustments for Impairment Loss (Reversal of Impairment Loss)		5.642	4.411
Adjustments for Impairment Loss (Reversal of Impairment Loss) of Receivables	*6*	--	*62*
Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories	*9*	*5.642*	*4.349*
-Adjustments for Provisions		218.477	290.486
Adjustments for (Reversal of) Provisions Related with Employee Benefits	*17*	*31.375*	*44.824*
Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions	*15*	*32.851*	*112.834*
Adjustments for (Reversal of) Warranty Provisions	*15*	*155.138*	*138.492*
Adjustments for (Reversal of) Other Provisions	*15*	*(887)*	*(5.664)*
-Adjustments for Interest (Income) Expenses		(2.797)	(8.474)
Adjustments for Interest Income	*23-25*	*(45.992)*	*(32.438)*
Adjustments for Interest Expense	*23-26*	*43.195*	*23.964*
- Adjustments for Undistributed Profits of Equity Accounted Investments		(9.302)	(213)
- Adjustments for Tax (Income)/Expenses	28	(216.826)	(61.178)
- Adjustments for Losses/(Gains) on Disposal of Non-Current Assets	12	111.313	27.238
- Adjustments for Stage of Completion of Construction or Service Contracts in Progress		35.761	338.914
Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		(19.559)	65.439
-Other Adjustments to Reconcile Profit (Loss)		(18.438)	(89.192)
Changes in Working Capital		**(857.533)**	**(363.676)**
- Adjustments for Decrease (Increase) in Trade Receivables		430.569	(1.135.344)
- Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(28.415)	(36.477)
- Adjustments for Decrease (Increase) in Inventories		(561.552)	(149.986)
- Decrease (Increase) in Prepaid Expenses		(507.706)	(276.581)
- Adjustments for Increase (Decrease) in Trade Accounts Payable		478.024	324.047
- Increase (Decrease) in Employee Benefit Obligations		9.297	15.248
- Adjustments for Increase (Decrease) in Other Operating Payables		(4.692)	3.383
- Increase (Decrease) in Government Grants and Assistance		13.375	5.686
- Increase (Decrease) in Deferred Income		(519.335)	931.595
- Other Adjustments for Other Increase (Decrease) in Working Capital		(167.098)	(45.247)
Cash Flows From Operations		**767.213**	**1.109.116**
Payments Related with Provisions for Employee Benefits	17	(16.724)	(29.233)
Payments Related with Other Provisions	15	(96.458)	(95.602)
Income Taxes Refund (Paid)		(1.746)	(3.754)
B.Cash Flows From Investing Activities		**(557.999)**	**(359.443)**
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		1.279	786
Purchase of Property, Plant and Equipment	11	(211.714)	(123.362)
Purchase of Intangible Assets	12	(339.502)	(229.214)
Dividends Received	24	8.938	8.171
Other Cash Inflows (Outflows)		(17.000)	(15.824)
C.Cash Flows From Financing Activities		**(21.154)**	**(222.580)**
Proceeds from Borrowings		905.412	410.750
Repayments of Borrowings		(863.072)	(600.364)
Payments of Finance Lease Liabilities		--	(67)
Dividends Paid	19	(75.500)	(42.000)
Interest Paid	26	(15.508)	(7.510)
Interest Received		27.514	16.611
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANG RATE CHANGES (A+B+C)		**73.132**	**398.504**
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**20.727**	**89.237**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**93.859**	**487.741**
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**	**1.261.753**	**1.167.894**

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

1. ORGANIZATION AND OPERATIONS OF THE GROUP

ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") was established in order to engage principally in research, development, engineering, production, tests, assembly, integration and sales, after sales support, consultancy and trading activities, to provide and conduct all sorts of activities for project preparation, engineering, consultancy, service providing, training, contracting, construction, publishing, trading, operation and internet services regarding various software, equipment, system, tools, material and platforms in the fields of electrical, electronics, microwave, electro-optics, guidance, computer, data processing, encryption, security, mechanics, chemistry and related areas within the army, navy, air force and aerospace applications to all institutions, organizations, companies and individual consumers.

The Company was established at the end of 1975 as a corporation by Turkish Land Forces Foundation. The Company commenced its production activities in Macunköy Facilities in early 1979.

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

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

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

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

The Company is registered to Capital Markets Board of Turkey ("CMB") and its shares have been quoted in Borsa İstanbul Anonim Şirketi ("BIST") since 1990. As of 31 December 2017, 15,30 percent of the Company's shares are publicly traded (31 December 2016: 15,30 percent) (Note 19).

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.

The Company's trade registry address is Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle/Ankara. The average number of personnel employed by the Group as of 31 December 2017 is 5.440 (31 December 2016: 5.275).

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 The Basis of Presentation

Statement of Compliance to TAS

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

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

The consolidated financial statements are prepared according to historical cost accounting except for the revaluation of lands and some financial instruments.

Approval of the Consolidated Financial Statements

These consolidated financial statements have been approved for issue by the Board of Directors with the resolution number 975 on 20 February 2018. No authority other than General Assembly and legal entities has the right to amend the consolidated financial statements.

Functional Currency

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

Amounts are expressed in thousands of TL or Foreign Currency unless otherwise stated. Kuruş, Turkish Currency subunit an done TL is equal to 100 Kuruş.

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

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

2.1 The Basis of Presentation (continued)

Preparation of Financial Statements in Hyperinflationary Periods

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

Basis of Consolidation

Subsidiaries:

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

			Group's proportion of ownership and voting power held (%)		
Subsidiaries	**Location**	**Functional Currency**	**31 December 2017**	**31 December 2016**	**Principal Activity**
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
ASELSAN Malezya	Malaysia	MYR	100	--	Remote controlled weapon systems

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Subsidiaries (continued):

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

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

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

Even though the Company has voting rights less than a majority, if it has ability to manage the operation of the investee unintentionally, then the Group assess that it has control over that investee. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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

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

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Subsidiaries (continued):

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

Joint Ventures:

The details of the Group's interests in joint ventures as of the dates 31 December 2017 and 2016 are as follows:

Joint Ventures	Principal Activity	Country of incorporation and operation	Group's proportion of ownership and voting power held (%) 2017	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
YİTAL Mikroelektronik Sanayi ve Ticaret A.Ş. ("YİTAL")	Production of micro and nano-sized devices containing semiconductor	Turkey	51	--

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

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

SADEC LLC corporation was established to manufacture and sell radar, electronic, warfare and electro-optic products in Saudi Arabia on 27 December 2016; 50 percent of the share belongs to 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 company titled "YİTAL" was established in 25 September 2017 in order to operate in the field of micro and nano-sized devices containing semiconductor and similar technological materials. 51% of the company belongs to ASELSAN whereas, TÜBİTAK and Undersecretariat For Defence Industries hold 29% and 20% stake respectively. The company's establishment has been registered on October 4th, 2017.

On 31 March 2017 SADEC LLC and on 31 December 2017 YİTAL were included in the consolidated financial statements 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.

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

2.2 Comparative Information and Restatement of Prior Period Term Consolidated Financial Statements (continued)

In this context, TL 7.089 insurance expense provision under "Other Short Term Provisions" in the consolidated balance sheet for the year ended 31 December 2016 is classified under "Prepaid Expenses" account.

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 and Not Early Adopted as of 31 December 2017

Standards issued but not yet effective and not early adopted

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

IFRS 15 Revenue from Contracts with Customers

The new standard, published in September 2016, replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating performance obligations for goods and services in a contract and recognition of revenue over time. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is in the process of assessing the impact of the standard on consolidated financial position or performance of the Group.

IFRS 9 Financial Instruments

IFRS 9, published in January 2017, replaces the existing guidance in IAS 39 "*Financial Instruments: Recognition and Measurement*". It also carries forward the guidance on recognition, classification, measurement and derecogniton of financial instruments from IAS 39 to IFRS 9. The last version of IFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of IFRS 9. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is in the process of assessing the impact of the standard on consolidated financial position or performance of the Group.

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

2.4 New and Revised Turkish Accounting Standards

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

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

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

In December 2017, 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 recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises 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. IFRIC 22 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.

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

In December 2017, 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 is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 2.

IAS 40 – Transfers of Investment Property

Amendments to IAS 40 - Transfers of Investment Property issued by IASB in December 2017 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 derecognised (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.

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

2.4 New and Revised Turkish Accounting Standards

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

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

IAS 40 – Transfers of Investment Property (continued)

The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. Since The Group does not have an investment property, it is not expected that application of these amendments to IAS 40 will have impact on its consolidated financial statements.

Improvements to IFRSs

In December 2017, The IASB issued Annual Improvements to IFRSs / 2014–2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the Improvements to IFRSs

Annual Improvements to IFRSs 2014-2016 Cycle

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

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

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.

Amendments to IFRS 9 - Prepayment features with negative compensation

In December 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

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

2.4 New and Revised Turkish Accounting Standards (continued)

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

Amendments to IAS 28- Long-term *interests in Associates and Joint Ventures*

In December 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 28.

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

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

IFRS 16 Leases

On 13 January 2016, IASB issued 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. IFRS 16 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.

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

2.4 New and Revised Turkish Accounting Standards (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. IFRIC 23 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.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. 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.

IFRS 3 Business Combinations **and** ***IFRS 11 Joint Arrangements***

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

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.

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

2.4 New and Revised Turkish Accounting Standards (continued)

Annual Improvements to IFRSs 2015-2017 Cycle (continued)

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

IFRS 17 –Insurance Contracts (continued)

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 is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

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

2.5 Summary of Significant Accounting Policies

Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity;

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Transaction with related party is a transfer of resources, services or liabilities between the reporting entity and the related party, disregarding it is with or without a value.

Revenue

Revenue is measured at the fair value of the collected or uncollected receivables. Estimated returns, discounts, and allowances are deducted from afore mentioned value.

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

2.5 Summary of Significant Accounting Policies (continued)

Revenue (continued)

Sale of goods

Revenue from the sales of the Group's purchase orders and contracts is recognized when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Installation fees are recognized by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date,
- Servicing fees included in the price of products sold are recognized by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold and
- Revenue from time and material contracts is recognized at the contractual rates as labor hours are delivered and direct expenses are incurred.

Revenue from construction contracts is recognized in accordance with the accounting policy outlined in the following pages.

Dividend and interest revenue

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

2.5 Summary of Significant Accounting Policies (continued)

Revenue (continued)

Rental income

Rental income from properties is recognized on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are stated at the lower of cost and net realizable value. Inventories are valued on the basis of the project according to the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to realize sales. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of profit or loss in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

Property, Plant and Equipment

Lands held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such lands is recognized in revaluation fund accumulated in equity.

A decrease in the carrying amount arising on the revaluation of such land is recognized in profit or loss to the extent that it exceeds the balance in the accumulated in the equity, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Land is not depreciated. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. Unless the asset is disposed, no transfer is realized from revaluation reserves to the profit reserves.

Property, plant and equipment other than lands are carried at cost less accumulated depreciation and any accumulated impairment losses.

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

2.5 Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Borrowing cost is capitalized when the assets took a substantial period of time to get ready for their intended use or sale.

These assets are classified to fixed assets when the assets are completed and ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. If the ownership of the finance lease is not obvious at the end of the leasing period, it is depreciated over their expected useful lives or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The maintenance and repair expenses arising from changing any part of the fixed assets can be realized if the economic benefit of the asset is increased. All other expenses are recorded in the expense accounts in the consolidated income statement when they are realized.

The useful lives of fixed assets are as follows:

	Useful life
Buildings	5-50 years
Land improvements	7-25 years
Machinery and equipment	2-35 years
Motor vehicles	5-18 years
Furniture and fixtures	2-50 years
Other tangible assets	4-20 years

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

2.5 Summary of Significant Accounting Policies (continued)

Intangible Assets

Intangible assets acquired

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in accounting estimates for on a prospective basis.

Trademarks and licenses

Acquired trademarks and licenses are shown at historical cost. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

Internally generated intangible assets – R&D expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale,
- The intention to complete the intangible asset and use or sell it,
- The ability to use or sell the intangible asset,
- How the intangible asset will generate probable future economic benefits,
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

2.5 Summary of Significant Accounting Policies (continued)

Intangible Assets (continued)

Internally generated intangible assets – R&D expenditure (continued)

The amount initially recognized for internally-generated intangible assets is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The useful lives of the intangible assets are as follows:

	Useful life
Rights	2-15 years
Computer software	2-11 years
Development expenditures	2-11 years
Leasehold improvements	2-11 years

Impairment of Assets

Assets that have an indefinite useful life, like goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that has impaired are reviewed for possible reversal of the impairment at each reporting date.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

When the Group borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

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

2.5 Summary of Significant Accounting Policies (continued)

Financial Instruments

(i) Non-derivative financial assets

The Group initially recognizes loans, receivables and deposits on the date that they are originated. All other financial assets including financial assets at fair value through profit or loss are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets as financial assets at fair value through profit or loss, financial assets to be held until maturity, loans and receivables and available for sale financial assets.

<u>Financial assets at FVTPL</u>

If a financial asset is held for trading or is designed while recording at the first time in this way, this financial instrument is classified as the financial assets at fair value through profit or loss. If the Group is managing its investments or it deciding its purchases or sales at the fair value based on its written risk management or investment strategies, then those financial assets are designed as financial assets that reflect profit or loss to its fair value. When transaction costs are formed, it is recognized within profit or loss. Financial assets at fair value through profit or loss are measured at fair value and includingly, dividend income, changes in fair value is recognized in profit or loss.

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

2.5 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial assets held for trading consist of the Government debt securities which are actively managed by the Group's treasury department and held in order to meet the Group's short-term cash needs.

Otherwise, financial assets at fair value through profit or loss include the securities based on stocks which are classified as available for the sale.

If the Group, who has the intention to held until maturity and the ability, has the debt securities, this financial assets are classified as marketable securities to be held until maturity. Held-to-maturity investments are initially measured at fair value plus any direct attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Held-to-maturity-investments consist of debt securities.

Loans and receivables

Loans and receivables are financial assets that are not quoted in active market, with fixed or variable payments. These assets are initially measured at fair value plus any direct attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Loans and receivables contain cash and cash equivalent, trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise of cash balances that are subject to insignificant risk of change and in value and cash deposits with maturities less than three months. And they are used in order to finance short-term liabilities.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are, defined as available for sale. These assets are initially measured at fair value plus any direct attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Available for sale financial assets are comprised of equity securities and debt securities.

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

2.5 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

(ii) Non-derivative Financial Liabilities

The Group initially recognises and subordinated debt and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Group classifies non-derivative financial liabilities as other financial liabilities category. Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities consist of debt securities including preferred shares, bank overdrafts and trade and other payables.

Bank overdrafts that are reimbursable on demand and used as in cash management of the Group, are included in statement of cash flow in cash and cash equivalents.

(iii) **Capital**

Common Stocks

Common stocks are classified as equity. Incremental costs that can be directly attributable to the issue of ordinary shares are recognised as a deduction from equity considering the tax effect.

(iv) **Derivative Financial Instruments (Including Hedge Accounting)**

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

- If the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- The host contract is not itself carried at fair value through profit or loss; and
- Embedded derivatives are separated from the host contract and accounted for separately.

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

2.5 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125 percent. The Group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

Financial Lease Operations

Leasing- the group as lessor

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

Finance lease receivables are recognised at the amount of the Group's net investment in the leases. Finance lease income is recognised allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Start-up costs for the realisation and optimisation of the operational lease agreement are added to the cost of the leased asset and amortised through the leased time on a straight line basis method.

Foreign Currency Transactions

Foreign currency transactions and balances

The financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates as its functional currency. For the purpose of the consolidated financial statements, the operational results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation for consolidated financial statements.

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

2.5 Summary of Significant Accounting Policies (continued)

Foreign Currency Transactions (continued)

Foreign currency transactions and balances (continued)

In preparing the financial statements of the individual entities, transactions in currencies in foreign currencies (other than TL) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items (including advances) denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are accounted for the period in profit or loss in which they are incurred except for the following cases:

•Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

•Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and

•Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

Earnings per Share

Earnings per share, disclosed in the consolidated statement of profit or loss, are determined by dividing the net income attributable to equity holders of the parent by the weighted average number of shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the weighted average number of shares is computed by taking into consideration of the retrospective effects of the share distributions.

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

2.5 Summary of Significant Accounting Policies (continued)

Events After the Reporting Period

Events after the reporting periods include all events that take place between the balance sheet date and the date of authorization for the release of the financial statements, although the events occurred after the announcements related to the net profit/loss or even after the public disclosure of other selective financial information.

In the case that events occur requiring an adjustment, the Group adjusts the amount recognized in its consolidated financial statements to reflect the adjustments after the balance sheet date.

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties related with the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

2.5 Summary of Significant Accounting Policies (continued)

Operating Segments

Operations of the Company are technical system design, development, production and after-sales services for various products for defense industry. One kind of operating segment has occurred in consequence of similarities between methods that are used for products, quality of services and processes, client's type and class, and distribution or presentation of products. It is not required to disclose segment reporting for the consolidated subsidiaries, since revenue profit/loss and assets are below 10 percent of consolidated amounts.

Construction Contracts

Cost of contracts is recognized when incurred. These costs include the costs that relate directly to the specific contract and the costs that are attributable to contract activity in general and can be allocated to the contract and the other costs that are specifically chargeable to the customer under the terms of the contract. A major part of the costs include the development expenses of the projects.

Where the outcome of a construction contract cannot be estimated reliably, revenue is recognized to the extent of contract costs incurred that it is probable that it will be recoverable.

Where the outcome of a construction contract can be estimated reliably, revenue is recognized over the terms of the contract term. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

The Group uses the "percentage-of-completion method" to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

Each project contract is evaluated by the technical teams regarding the expected change in the upcoming costs and the profitability of the contracts that is determined as of the balance sheet dates. If purchases and collections made by more than one currency regarding a contract, then the upcoming purchasing and invoicing is forecasted based on the amount stated in the contract and the weighted average currency in the following financial years. Besides the amounts of the contracts subjected to escalation as of the reporting date, are estimated based on the contract details.

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

2.5 Summary of Significant Accounting Policies (continued)

Construction Contracts (continued)

Government grants, if any, are also taken into consideration while calculating the profitability of the contract. The grants are recognized by offsetting from the costs in accordance with TAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”.

The Group presents the amount as an asset if the gross amount due from customers for customer work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within “Trade Receivables”.

The Group presents the amount as a liability if the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

Government Grants and Incentives

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

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

2.5 Summary of Significant Accounting Policies (continued)

Taxes Calculated on the Basis of the Company's Earnings

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that future taxable profits will be available against which they can be used.

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

2.5 Summary of Significant Accounting Policies (continued)

Taxes Calculated on the Basis of the Company's Earnings (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Tax, provided that it is not related with a transaction directly recognized in equity, is classified in the statement of profit or loss. Otherwise, tax is recognized in equity.

Employee Benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per TAS 19 "Employee Benefits" ("TAS 19").

The retirement benefit obligation recognized in the consolidated financial statements represents the present value of the defined benefit obligation.

The actuarial gains and losses are recognized in other comprehensive income.

Dividend and bonus plans

The Group recognizes a liability and an expense for bonuses and dividend, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

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

2.5 Summary of Significant Accounting Policies (continued)

Employee Benefits (continued)

Dividend and bonus plans (continued)

The Group recognizes the cost of providing additional retirement bonuses to employees who have completed 20 years of service and earned the right to retirement benefits. In 26 November 2015, according Board of Directors' resolution numbered 869/6c, the Company has decided to terminate payment of retirement bonus employees worked for 20 years for the Company and is qualified pensioner, beginning from 30 July 2016. These compensations are deducted from the net present values of the unrealized liability amounts and are recognized in the accompanying consolidated financial statements.

Statement of Cash Flows

Current period statement of cash flows is categorized and reported as operating, investing and financing.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Non-Current Assets Held for Sale

Non-current assets are classified as "assets held for sale" when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. The assets can be a part of the Entity, disposal group as a single fixed asset.

2.6 Critical Accounting Judgments and Estimates

Critical judgments in applying the Group's accounting policies

In the process of applying the accounting policies, which are described in note 2.5, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements:

Deferred tax

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized.

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

2.6 Critical Accounting Judgments and Estimates (continued)

Critical judgments in applying the Group's accounting policies (continued)

Deferred tax (continued)

The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then provision is set for some portion of or all of the deferred tax assets (Note 28).

Liabilities with respect to employee benefits

The Group makes various assumptions on discount, inflation rate, wage increase rate, the probability of quitting voluntarily for calculating provisions for employee benefits and retirement pays (Note 17).

Useful lives of tangible and intangible assets

The Group amortizes the non-current assets based on the useful lives of those assets stated in the accounting policies (Note 11-12).

Percentage of completion

The Group uses the percentage of completion method in accounting for contracts in accordance with TAS 11 "Construction Contracts". Use of percentage of completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. Moreover for projects that are estimated to end up with a loss, provision for loss is calculated (Note 15). The estimation of the total cost of the projects consists of the risks that may cause major changes in the adjustments of the fair values of assets and liabilities for the subsequent periods.

If purchases and collections made by more than one currency regarding the projects TAS 11 "Construction Contracts" the upcoming purchasing and invoicing is forecasted with respect of contract amount and cost are determined considering weighted average currency.

Escalation

As of the reporting dates, the amounts of the projects subject to escalation are calculated with respect to the provisions of the contracts and estimated in accordance with TAS 11 "Construction Contracts".

Provision for guarantee expenses

The Group calculates provision, according to the budgeted estimations for specific parts of the sales under the scope of warranty that needs specific guarantee calculations, and according to the realizations in previous years for the remaining part of the sales (Note 15).

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

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

2.6 Critical Accounting Judgments and Estimates (continued)

Critical judgments in applying the Group's accounting policies (continued)

Development Expenses

As of reporting dates, the Management assess the recoverability of the expenses regarding the Group's development activities. These expenses are started to be amortized with respect to their useful lives when their development phases are completed and it becomes probable that there is an associated economic benefit. When the development phase is completed and no economic benefit is foreseen, the related expenses are recognized in consolidated income statement (Note 12).

3. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash	153	141
Bank		
- Time deposit	1.100.402	1.108.300
- Demand deposit	161.170	59.348
Other	28	105
Cash and cash equivalents on the cash flow statement	**1.261.753**	**1.167.894**
Interest income accruals	1.151	882
	1.262.904	**1.168.776**

As of 31 December 2017, the Group has time deposits denominated in foreign currencies with maturities between January-February 2018 (31 December 2016: January-March 2017), with the interest rates between 1,85 percent and 5,01 percent (31 December 2016: 0,5 percent to 3,8 percent) amounting to TL 942.195 (31 December 2016: TL 656.603).

As of 31 December, 2017, the Group has time deposits denominated in TL terms with maturities between January-February 2018 (31 December 2016: January-March 2017) and TL 158.205 (31 December 2016: TL 451.697) at the interest rate of 14,25 percent and 15,75 percent (31 December 2016: 10,4 and 12,2 percent) .

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

4. INTERESTS IN OTHER ENTITIES

a) Subsidiaries

Details of the Group's material subsidiaries as of 31 December are as follow:

			Group's proportion of ownership and voting power held (%)		
Name of Subsidiary	**Place of incorporation and operation**	**Currency**	**2017**	**2016**	**Principal Activity**
ASELSANNET	Turkey	TL	100	100	Communication systems
ASELSAN Baku	Azerbaijan	AZN	100	100	Marketing and sales of group products
Mikro Ar-Ge	Turkey	TL	85	85	R&D on microelectronic projects
ASELSAN Malezya	Malaysia	MYR	100	--	Remote controlled weapon systems

Composition of the Group

Explained in Note 1.

Change in the Group's ownership interest in a subsidiary:

Change in the Group's subsidiaries ownership is explained in Note 2.1

b) Joint Ventures

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other ventures are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

SADEC LLC is consolidated as of 31 March 2017 and YİTAL is consolidated as of 31 December 2017 by using equity method.

5. 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 1-2 years.

The trade payables to related parties generally arise from the purchase activities with maturities of 1-9 months.

Total amount of salaries and other short-term benefits paid for key management for the period ended 31 December 2017 is TL 9.629 (31 December 2016: TL 8.658).

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

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

5. RELATED PARTY DISCLOSURES (continued)

	31 December 2017									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
Balances with related parties	**Trading**	**Prepaid Expenses**	**Other Receivables**	**Trading**	**Prepaid Expenses**	**Trading**	**Deferred Income**	**Other Payables**	**Trading**	**Deferred Income**
Main shareholder										
TSKGV	28	--	--	--	--	--	--	--	--	--
Other shareholder										
Axa Sigorta Anonim Şirketi (''Axa Sigorta'')	--	--	--	--	--	--	--	65	--	--
Main shareholder's subsidiaries and associates										
Hava Elektronik Harp Sis. Müh. Tic. Anonim Şirketi (''HAVELSAN EHSİM'')	--	1.165	--	--	--	--	--	--	--	--
Hava Elektronik San. ve Tic. Anonim Şirketi (''HAVELSAN'')	11.095	21.482	--	957	7.365	21.569	--	--	--	--
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi ("HTR")	--	2.319	--	--	--	6.875	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	2	12.878	--	--	1.683	6.403	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	714	2.090	--	--	15.056	41.273	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	55.650	7.577	--	172	--	16.324	119.354	--	144.705	60.871
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	65.044	92	--	81.252	--	690	2.317	--	64.381	285.669
Marketable securities										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	--	1.235	--	--	--	8.901	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	32.335	787	--	49.371	124.686	32.577	9.035	--	11.473	52.520
Joint ventures and its related parties										
ASELSAN Bİlkent Nan	--	215	--	--	4.405	1.890	--	--	--	--
İhsan Doğramacı Bilkent University	--	4.455	--	--	41	6.135	--	--	--	--
ASELSAN Optik	1.882	22.261	--	--	--	12.436	--	--	--	--
IGG	21.535	--	--	8.552	--	--	--	--	--	--
IGG ASELSAN	747	--	--	--	--	916	--	--	--	--
ASELSAN Kazakhstan	52.547	--	--	11.512	--	195	956	--	--	--
ASELSAN Jordan	24.545	--	--	--	--	--	--	--	--	--
TÜBİTAK BİLGEM	--	6.072	--	--	254	3.770	--	--	--	--
TÜBİTAK-UME	--	228	--	--	--	3	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	10.063	--	--	15.316		--	--	--	14.506	13.631
TÜBİTAK SAGE Savunma Sanayii	--	9.699	--	6.560	11.997	11.000	--	--	--	--
TÜBİTAK UZAY TEKNOLOJİLERİ	--	--	--	--	--	--	--	--	--	--
Savunma Sanayi Müsteşarlığı ("SSM")	184.440	--	--	655.154		24.989	12.535	--	813.311	1.048.655
YİTAL	--	--	14	--	--	--	--	--	--	--
Ankaref Bilişim Teknolojileri Limited Şirketi ("ANKAREF")	--	--	20	--	--	--	--	--	--	--
SADEC LLC	214	--	--	--	--	--	--	--	--	--
	460.841	**92.555**	**34**	**828.846**	**165.487**	**195.946**	**144.197**	**65**	**1.048.376**	**1.461.346**

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

5. RELATED PARTY DISCLOSURES (continued)

	31 December 2016									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
Balances with related parties	**Trading**	**Advances given**	**Non-trading**	**Trading**	**Advances given**	**Trading**	**Advances received**	**Non-trading**	**Trading**	**Advances received**
Main shareholder										
TSKGV	318	--	--	--	--	--	--	--	--	--
Other shareholder										
Axa Sigorta Anonim Şirketi (’’Axa Sigorta’’)	--	--	--	--	--	--	--	69	--	--
Main shareholder’s subsidiaries and associates										
Hava Elektronik Harp Sis. Müh. Tic. Anonim Şirketi (’’HAVELSAN EHSİM’’)	39	745	--	--	--	--	--	--	--	--
Hava Elektronik San. ve Tic. Anonim Şirketi (’’HAVELSAN’’)	17.524	20.401	--	3.004	--	--	75	--	--	--
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi (“HTR”)	--	1.561	--	--	--	2.027	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi (“İŞBİR”)	--	9.146	--	--	2.350	4.072	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi (“NETAŞ”)	--	12.097	--	--	16.667	26.402	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi (“STM”)	25.116	9.028	--	--	--	16.651	623	--	--	3.028
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi (“TUSAŞ”)	49.763	--	--	23.118	--	569	14.755	--	21.721	266.200
Marketable securities										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi (“ASPİLSAN”)	--	762	--	--	--	5.098	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi (“ROKETSAN”)	65.647	--	--	10.065	180.824	17.275	2.003	--	--	45.096
Joint ventures and its related parties										
İhsan Doğramacı Bilkent University	--	2.056	--	--	--	3.621	--	--	--	--
ASELSAN Optik	1.178	3.266	--	--	--	2.419	--	--	--	--
IGG	28.916	--	--	--	--	--	--	--	--	--
IGG ASELSAN	845	--	--	--	--	851	--	--	--	--
ASELSAN Kazakhstan	68.575	--	--	--	--	185	--	--	--	--
ASELSAN Jordan	53.351	--	--	--	--	--	--	--	--	--
SADEC LLC	383	--	--	--	--	--	--	--	--	--
	311.655	**59.062**	**--**	**36.187**	**199.841**	**79.170**	**17.456**	**69**	**21.721**	**314.324**

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

5. RELATED PARTY DISCLOSURES (continued)

	1 January-31 December 2017	1 January-31 December 2016
Transactions with related parties	**Purchases**	**Purchases**
Main Shareholder		
TSKGV	672	654
Main shareholder's subsidiaries and associates		
NETAŞ	105.512	57.910
STM	10.334	22.674
İŞBİR	29.776	18.326
HTR - HAVELSAN	15.745	7.903
MERCEDES-BENZ TÜRK ANONİM ŞİRKETİ ("MERCEDES")	--	2.335
TUSAŞ	738	840
HAVELSAN	22.630	541
HAVELSAN EHSİM	41	--
Marketable securities		
ROKETSAN	91.264	96.518
ASPİLSAN	15.655	7.790
Joint ventures and its related parties		
İhsan Doğramacı Bilkent University	12.526	10.423
TÜBİTAK BİLGEM	9.055	--
TÜBİTAK-UME	184	--
TÜBİTAK SAGE Savunma Sanayii	15.418	--
ANKAREF	405	--
	329.955	**225.914**

Transactions with related parties are generally related to the purchases and sales of goods and services related to projects under TAS 11 "Construction Contracts"

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

5. RELATED PARTY DISCLOSURES (continued)

	1 January- 31 December 2017	1 January- 31 December 2016
Transactions with related parties	**Sales**	**Sales**
Main Shareholder		
TSKGV	319	604
Main shareholder's subsidiaries and associates		
TUSAŞ	298.815	197.259
STM	358.910	76.244
HAVELSAN	1.324	9.347
HAVELSAN HTR	611	--
HAVELSAN EHSİM	--	46
İŞBİR	2	--
NETAŞ	939	7
Marketable securities		
ROKETSAN	59.188	62.542
Joint ventures and its related parties		
IGG	2.758	6.700
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	51.947	--
TÜBİTAK SAGE Savunma Sanayii	6.177	--
TÜBİTAK UZAY TEKNOLOJİLERİ	21	--
SSM	2.687.614	--
	3.468.625	**352.749**

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

6. TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

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

Short-term trade receivables	**31 December 2017**	**31 December 2016**
Trade receivables	1.134.180	1.706.200
Trade receivables from related parties (Note 5)	460.841	311.655
Unbilled receivables from construction contracts in progress	--	17.640
Notes receivable	6.744	4.200
Doubtful trade receivables	921	921
Allowance for doubtful trade receivables (-)	(921)	(921)
	1.601.765	**2.039.695**

Long-term trade receivables	**31 December 2017**	**31 December 2016**
Unbilled receivables from construction contracts in progress	299.134	233.168
Trade receivables	70.314	115.997
Unbilled receivables from construction contracts in progress-Related party (Note 5)	812.177	35.577
Trade receivables from related parties (Note 5)	16.669	610
Notes receivables	--	240
	1.198.294	**385.592**

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

6. TRADE RECEIVABLES AND PAYABLES (continued)

a) Trade receivables (continued)

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

	31 December 2017	31 December 2016
Opening balance	921	859
Provision for the period	--	62
Closing balance	**921**	**921**

The sectorial distribution of trade receivables is as follows:

	31 December 2017	31 December 2016
Public sector	1.235.632	1.177.776
Private sector	832.703	644.348
Receivables from companies operating abroad	731.724	603.163
Total receivables	**2.800.059**	**2.425.287**

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

b) Trade payables

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

Short-term trade payables	31 December 2017	31 December 2016
Trade payables	1.123.688	749.756
Unearned revenue related to construction contracts in progress	48.269	221.962
Due to related parties (Note 5)	170.205	78.843
Unearned revenue related to construction contracts in progress-Related party (Note 5)	25.741	327
Other trade payables	1.897	2.019
	1.369.800	**1.052.907**

Long-term trade payables	31 December 2017	31 December 2016
Unearned revenue related to construction contracts in progress	213.639	231.328
Unearned revenue related to construction contracts in progress- Related party (Note 5)	1.048.376	21.721
Trade payables	--	95
	1.262.015	**253.144**

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

7. OTHER RECEIVABLES AND PAYABLES

a) Other receivables

Short-term other receivables	31 December 2017	31 December 2016
Receivables from tax office[1]	110.943	81.623
Deposits and guarantees given	1.378	1.170
Other receivables from related parties (Note 5)	34	--
Other[2]	406	1.919
	112.761	**84.712**

Long-term other receivables	31 December 2017	31 December 2016
Deposits and guarantees given	**661**	**295**

b) Other payables

Short-term other payables	31 December 2017	31 December 2016
Short-term other payables	1.352	805
Deposits and guarantees received	77	5.374
Short-term other payables to related parties (Note 5)	65	69
	1.494	**6.248**

Long-term other payables	31 December 2017	31 December 2016
Deposits and guarantees received	**105**	**45**

[1] Mainly comprises Value Added Tax (VAT) returns and are expected to be offseted in the following periods.

[2] Consists of project delay penalties which will be revoked to companies and blocked receivables due to Eximbank loan.

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

8. EQUITY ACCOUNTED INVESTMENTS

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

31 December 2017	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN Kazakhstan	49	64.621	94.567	159.188	72.649	5.770	78.419
ASELSAN Jordan	49	43.753	15.004	58.757	32.764	--	32.764
ASELSAN Optik	50	28.345	39.119	67.464	34.091	18.657	52.748
IGG ASELSAN	49	12.911	1.724	14.635	4.453	345	4.798
ASELSAN Bilkent	50	33.606	68.520	102.126	1.586	83.615	85.201
SADEC LLC	50	16.419	514	16.933	482	105	587
YİTAL	51	4.369	12	4.381	74	--	74
		204.024	**219.460**	**423.484**	**146.099**	**108.492**	**254.591**

31 December 2017	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN Kazakhstan	49	77.333	(64.016)	13.317	39.576	6.525
ASELSAN Jordan	49	33.585	(32.490)	1.095	12.736	537
ASELSAN Optik	50	29.908	(28.309)	1.599	7.359	800
IGG ASELSAN	49	7.133	(6.774)	359	4.820	175
ASELSAN Bilkent	50	6.565	(7.186)	(621)	8.463	(310)
SADEC LLC	50	--	(5.730)	(5.730)	8.173	(2.865)
YİTAL	51	1	(59)	(58)	2.197	(30)
		154.525	**(144.564)**	**9.961**	**83.324**	**4.832**

During 2017, there was a capital payment amounted TL 9.122 by International Golden Group in IGG ASELSAN joint venture, in cash.

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

8. 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
IGG ASELSAN	50	8.400	(8.100)	300	6.559	150
ASELSAN Optik	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**

In 2016, n joint ventures' ASELSAN Kazakhstan, ASELSAN Optik and ASELSAN Bilkent capital increase, in cash. The capital increase amounts of joint ventures' shares are for ASELSAN Bilkent TL 2.250, for ASELSAN Kazakistan TL 5.160 and for IGG ASELSAN 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.

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

9. INVENTORIES

	31 December 2017	31 December 2016
Raw materials	974.457	587.699
Work in progress	590.719	369.145
Goods in transit [1]	209.176	96.450
Finished goods	97.221	91.098
Trade goods	62.307	36.071
Other inventories	36.170	26.954
Allowance for impairment on inventories (-)	(25.661)	(20.019)
	1.944.389	**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 below net realizable value within the current year. Therefore, there is a provision for inventories amounting to TL 25.661 in the statement of financial position (31 December 2016: TL 20.019).

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

	2017	2016
Opening balance	20.019	15.670
Provision released	(8)	(3)
Provision for the period	5.650	4.352
Closing balance	**25.661**	**20.019**

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

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

10. PREPAID EXPENSES AND DEFERRED INCOME

Short-term prepaid expenses	31 December 2017	31 December 2016
Order advances given for inventory purchases	520.419	294.636
Short-term order advances given to related parties for inventory purchases (Note 5)	92.555	59.062
Prepaid expenses	41.163	26.452
	654.137	**380.150**

Long-term prepaid expenses	31 December 2017	31 December 2016
Long-term order advances given to related parties for inventory purchases (Note 5)	165.487	199.841
Order advances given for inventory purchases	245.756	155.029
Order advances given for fixed assets purchases	28.191	32.686
Prepaid expenses	3.297	6.143
	442.731	**393.699**

Short-term deferred income	31 December 2017	31 December 2016
Order advances received	101.477	310.676
Deferred income	54.785	42.449
Order advances received from related parties (Note 5)	144.197	17.456
	300.459	**370.581**

Short-term order advances received comprises advances received from 33 customers (31 December 2016: 35 customers) of which first 10 customers constitutes 97,9 percent of the total (31 December 2016: 95,7 percent).

Long-term deferred income	31 December 2017	31 December 2016
Order advances received	181.417	1.777.653
Order advances received from related parties (Note 5)	1.461.346	314.324
Deferred income	3	2
	1.642.766	**2.091.979**

Long-term order advances received comprises advances received from 12 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).

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

11. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other fixed assets[1]	Leasehold improvements	Construction in progress[2]	Total
Cost and revaluation										
Opening balance as of 1 January 2017	246.318	15.259	175.925	710.762	3.839	155.280	85.809	197.205	61.277	1.651.674
Additions[3]	--	199	--	107.103	1.178	34.903	15	637	69.949	213.984
Revaluation fund	2.947		--	--	--	--	--	--	--	2.947
Disposals	--	--	--	(47)	(477)	(14)	--	--	(899)	(1.437)
Transfers	--	2.771	17.574	11.105	--	--	5.814	--	(37.264)	--
Closing balance as of 31 December 2017	**249.265**	**18.229**	**193.499**	**828.923**	**4.540**	**190.169**	**91.638**	**197.842**	**93.063**	**1.867.168**
Accumulated depreciation										
Opening balance as of 1 January 2017	--	9.123	66.917	428.067	2.303	110.997	48.744	18.001	--	684.152
Charge for the period	--	823	6.549	53.088	349	16.153	8.698	7.035	--	92.695
Disposals	--	--	--	(44)	(477)	(1)	--	--	--	(522)
Closing balance as of 31 December 2017	**--**	**9.946**	**73.466**	**481.111**	**2.175**	**127.149**	**57.442**	**25.036**	**--**	**776.325**
Net book value as of 31 December 2017	**249.265**	**8.283**	**120.033**	**347.812**	**2.365**	**63.020**	**34.196**	**172.806**	**93.063**	**1.090.843**

[1] Comprises of the mould model devices manufactured by the Group with net book value of TL 34.196 (31 December 2016: TL 37.065).

[2] Comprises of investments in molds, models, devices and construction works.

[3] TL 2.270 of additions are free of charge investment income (31 December 2016: TL 735)

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other fixed assets	Leasehold improvements	Construction in progress	Total
Cost and revaluation										
Opening balance as of 1 January 2016	245.174	13.781	173.516	639.741	3.765	132.896	76.522	197.070	46.669	1.529.134
Additions	1.144	1.478	2.409	71.627	783	22.454	9.284	135	14.783	124.097
Disposals	--	--	--	(606)	(709)	(70)	--	--	(172)	(1.557)
Transfers	--	--	--	--	--	--	3	--	(3)	--
Closing balance as of 31 December 2016	**246.318**	**15.259**	**175.925**	**710.762**	**3.839**	**155.280**	**85.809**	**197.205**	**61.277**	**1.651.674**
Accumulated depreciation										
Opening balance as of 1 January 2016	--	8.503	60.804	385.200	2.775	95.650	40.502	10.858	--	604.292
Charge for the period	--	620	6.113	43.448	237	15.394	8.242	7.143	--	81.197
Disposals	--	--	--	(581)	(709)	(47)	--	--	--	(1.337)
Closing balance as of 31 December 2016	**--**	**9.123**	**66.917**	**428.067**	**2.303**	**110.997**	**48.744**	**18.001**	**--**	**684.152**
Net book value as of 31 December 2016	**246.318**	**6.136**	**109.008**	**282.695**	**1.536**	**44.283**	**37.065**	**179.204**	**61.277**	**967.522**

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

The details of the depreciation expenses with respect to the plant, property and equipment is as follows:

	31 December 2017	31 December 2016
Cost of sales	63.173	55.305
General administrative expenses	17.523	15.480
Inventories	11.728	10.116
Marketing expenses	271	296
	92.695	**81.197**

There is no tangible assets acquired through financial leasing as of 31 December 2017 and 2016.

Total value of tangible assets that completed its useful life but still in use is TL 1.173.581 as of 31 December 2017. (31 December 2017: 1.026.223)

There is no collateral, pledges, and mortgages on tangible assets as of 31 December 2017 and 2016.

There is no realized interest cost as of 31 December 2017 and 2016.

Fair value measurement of the Group's land and buildings

The lands owned by the Group are revalued and presented at fair value as of 31 December 2017. The fair value of the lands owned by the Group is revalued by Metrik Gayrimenkul Değerleme Danışmanlık Anonim Şirketi ("Metrik Değerleme"), an independent appraisal company. Metrik Değerleme is authorized by the CMB and provides real estate appraisal services in accordance with the capital market legislation. The fair value of the lands is determined according to "Market Value Approach (Equivalent Comprasion Method)". Gains resulting from revaluation are recognized under "Gain on Revaluation of Property" in other comprehensive income statement.

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

There are no restrictions on the distribution of revaluation funds. The valuation difference on the lands is TL 230.391 (31 December 2016: TL 227.444).

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Fair value measurement of the Group's land and buildings (continued)

Details of the Group's lands and information regarding fair value hierarchy as of 31 December 2017 are as follows:

		Fair value as of reporting date		
	31 December 2017	**Level 1 TL**	**Level 2 TL**	**Level 3 TL**
Macunköy	173.421			173.421
Akyurt	74.513			74.513
Gölbaşı	1.110			1.110
Gölbek	166			166
Denizli	55			55
	249.265			**249.265**

		Fair value as of reporting date		
	31 December 2016	**Level 1 TL**	**Level 2 TL**	**Level 3 TL**
Macunköy	170.421	--	--	170.421
Akyurt	74.513	--	--	74.513
Gölbaşı	1.144	--	--	1.144
Gölbek	220	--	--	220
Denizli	20	--	--	20
	246.318	**--**	**--**	**246.318**

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Fair Value Level as of Reporting Date		
	Level 1 TL	**Level 2 TL**	**Level 3 TL**
1 January 2017	--	--	**246.318**
Additions	--	--	2.947
31 December 2017	**--**	**--**	**249.265**

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

12. INTANGIBLE ASSETS (continued)

	Rights	Development Costs	Other intangible assets[1]	Total
Cost				
Opening balance as of 1 January 2017	42.689	818.547	100.745	961.981
Additions	5.512	296.912	37.080	339.504
Disposals	--	(111.313)	--	(111.313)
Transfers	3.187	(3.187)	--	--
Closing balance as of 31 December 2017	**51.388**	**1.000.959**	**137.825**	**1.190.172**
Accumulated Amortization				
Opening balance as of 1 January 2017	23.291	162.277	79.282	264.850
Charge for the period	4.442	31.641	20.242	56.325
Closing balance as of 31 December 2017	**27.733**	**193.918**	**99.524**	**321.175**
Net book value as of 31 December 2017	**23.655**	**807.041**	**38.301**	**868.997**

	Rights	Development Costs	Other intangible assets[2]	Total
Cost				
Opening balance as of 1 January 2016	33.428	644.911	81.668	760.007
Additions	2.757	207.378	19.079	229.214
Disposals	--	(27.238)	(2)	(27.240)
Transfers	6.504	(6.504)	--	--
Closing balance as of 31 December 2016	**42.689**	**818.547**	**100.745**	**961.981**
Accumulated Amortization				
Opening balance as of 1 January 2016	20.159	134.859	67.477	222.495
Charge for the period	3.132	27.418	11.807	42.357
Disposals	--	--	(2)	(2)
Closing balance as of 31 December 2016	**23.291**	**162.277**	**79.282**	**264.850**
Net book value as of 31 December 2016	**19.398**	**656.270**	**21.463**	**697.131**

[1] Other intangible assets include licences related to computer software.

[2] Other intangible assets include licences related to computer software.

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

12. INTANGIBLE ASSETS (continued)

The details of amortization expenses regarding intangible assets is as follows:

	31 December 2017	31 December 2016
Research and development expenses	31.642	24.929
Cost of sales	16.783	11.159
Inventories	4.667	3.278
Marketing expenses	1.139	1.977
General administrative expenses	2.094	1.014
	56.325	**42.357**

13. GOVERNMENT GRANTS AND INCENTIVES

The deferred incentive income shown under short and long-term liabilities in the consolidated statement of financial position is as follows:

	31 December 2017	31 December 2016
Current government grants and incentives	**41.643**	**28.268**

As part of the Decision on Government Incentives on Investments, there are 6 investment incentives taken from General Directorate of Turkish Undersecreteriat of the Treasury. The incentives allow VAT exemption and customs tax exemption. VAT exemption is applied in both domestic and international purchases while customs tax exemption is applied for international purchases.

In Corporate Tax Calculation, no tax payable is calculated because of R&D deduction and deductions due to investment incentive certificates cannot be applied. For this reason, no deferred tax effect is calculated for the temporary differences arising from investment incentives.

Government grants show the unearned proportion of the grant after the costs related with the completed parts of the projects are deducted from the grants taken by the Group for the ongoing projects that was obtained as of the reporting date.

The incentive obtained consists of the incentives that are accrued in accordance with TÜBİTAK's R&D recognition letter prepared with respect to the Group's ongoing projects.

The Group obtains capital support from "Support and Price Stabilization Fund" of Central Bank of Turkey via Undersecretariat of Foreign Trade's consent. The Scientific and Technological Research Council of Turkey ("TÜBİTAK") and Technology Development Foundation of Turkey ("TTGV") act as intermediary in accordance with Communiqué No:98/10 published by the Money-Loans and Coordination Board.

In accordance with Law on Technology Development Zones numbered 4691, Group utilizes withholding income tax incentive, social security premium incentive and stamp tax exceptions. Such incentives are utilized through not paying withholding income tax incentive, social security premium incentive and stamp tax exceptions calculated based on research and development and software personnel payroll. Income generated in accordance with law on Technology Development Zones numbered 4691 is exempt from corporate income tax until 31 December 2023.

13. GOVERNMENT GRANTS AND INCENTIVES (continued)

The research and development expenditure deduction rate used as a tax benefit has been increased from 40 percent to 100 percent in accordance with the amended article 10 of the Tax Law numbered 5520, the amended article 89 of Law numbered 193 and 5746 with respect to the Support of Research and Development Activities. The aforementioned law was enacted as of April 2008 after its issue in the Official Gazette dated 12 March 2008, numbered 26814. In accordance to the Law regarding the Incentive of Research and Development Activities numbered 6676 published on Official Gazettes numbered 29636 on 26 February 2016 and The Law Regarding the Amendments on Delegated Legislation, the content of the law and incentives has been broadened and additional exceptions has been given. Research and development expenditure may be used as a tax deduction in the determination of the taxable income. If taxable income levels are not sufficient to absorb all available tax deductions, any unused research and development tax deduction is allowed to be carried forward to the next tax period. The remaining amount from previous year is increased according to revaluation ratio defined at Tax Procedure Law. According to the item No. 8 of the related law, all the costs related with research and development can be subjected to deduction until 31 December 2023.

14. BORROWING COSTS

As of 31 December 2017, there is no borrowing cost regarding the qualifiying assets. (31 December 2016: None).

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

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

Other short-term provisions	31 December 2017	31 December 2016
Provision for warranties[1]	253.253	183.555
Provision for onerous contracts	106.318	91.555
Provision for delay penalties[2]	15.787	19.705
Provision for legal cases	5.917	5.332
Provision for cost expenses	1.527	2.955
Other	804	265
	383.606	**303.367**

The movement of the provision for warranties is as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Opening balance	183.555	117.809
Provision for the period	155.138	145.576
Realized during the period	(85.440)	(72.746)
Provision reversed during the period	--	(7.084)
Closing balance	**253.253**	**183.555**

The movement of the provision for onerous contracts is as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Opening balance	91.555	41.804
Reclass from long-term provisions to short-term provisions	--	16.128
Reclass from short-term provisions to long-term provisions	(13.618)	--
Provision for the period	34.290	34.463
Realized during the period	(4.867)	(644)
Provision reversed during the period	(1.042)	(196)
Closing balance	**106.318**	**91.555**

[1] The Group's provision for warranty is based on sales under warranty are estimated in accordance with historical data. Provision for warranty is calculated by using warranty rate included in the contract as long as the invoice issued throughout the life of the contract

[2] Provision for delay penalties and fines are calculated in accordance with interest for default ratio due to delays incurred unusually and within the client's knowledge.

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

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (continued)

a) Provisions (continued)

The movement of the provision for delay penalties is as follows:

	1 January-31 December 2017	1 January-31 December 2016
Opening balance	19.705	10.779
Provision for the period	7.010	31.711
Realized during the period	(10.918)	(22.785)
Provision reversed during the period	(10)	--
Closing balance	**15.787**	**19.705**

The movement of the provision for legal cases is as follows:

	1 January-31 December 2017	1 January-31 December 2016
Opening balance	5.332	2.649
Provision for the period	2.349	2.934
Realized during the period	(100)	(71)
Provision reversed during the period	(1.664)	(180)
Closing balance	**5.917**	**5.332**

Other long-term provisions	31 December 2017	31 December 2016
Provision for delay penalties	42.925	36.022
Provision of onerous contracts	19.614	16.114
	62.539	**52.136**

The movement of the provision for onerous contacts is as follows:

	1 January-31 December 2017	1 January-31 December 2016
Opening balance	36.022	23.518
Reclass from long-term provisions to short-term provisions	--	(16.128)
Reclass from short-term provisions to long-term provisions	13.618	--
Provision during the period	427	29.598
Provision reversed during the period	(7.142)	(966)
Closing balance	**42.925**	**36.022**

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

15. PROVISION, CONTINGENT ASSET AND LIABILITIES (continued)

a) Provisions (continued)

The movement of the provision for delay penalties is as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Opening balance	16.114	--
Provision during the period	3.500	16.114
Closing balance	**19.614**	**16.114**

b) Legal cases

As of the dates 31 December, 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	1.017	1.395
b)	Execution proceedings carried out by the Group	8.691	5.210
c)	Ongoing lawsuits filed against the Group	5.917	5.332
d)	Lawsuits finalized against the Group within the period	99	139
e)	Lawsuits finalized in favor of the Group within the period	2.304	4.076

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

16. COMMITMENTS AND CONTINGENCIES

a) Operating lease

As of 31 December 2017, the Group has two lands that are rented for 49 years and 46 years. In 2017 the Group has paid rent amounting to TL 197 (31 December 2016: TL 195) and TL 404 (31 December 2016: TL 350) for property lands rented for 49 years and 46 years respectively. Rent payments escelated every year based on the "Producer Price Index (PPI)" rate. The rental period will end on 23 January 2061.

As of 31 December 2017, the Group has paid rent amounting to TL 3.680 (31 December 2016: TL 3.355) for vehicles rented during the year.

b) Guarantees received

	31 December 2017	31 December 2016
Letters of guarantees received from the suppliers	1.307.008	1.040.467
Collaterals received from the customers	13.546	11.130
Letters of guarantees received from the customers	3.313	2.780
Collaterals received from the suppliers	--	2.430
Mortgages received from the customers	265	265
Guarantees received from the customers	--	6
Guarantees received from the suppliers	--	--
	1.324.132	**1.057.078**

c) Collaterals / Pledges / Mortgages (“CPM”) given

The collaterals/pledges/mortgages (“CPM”) given by the Group as of 31 December 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 267.826, carried out with the partnership of HAVELSAN the Group is responsible for fulfilling the obligations of HAVELSAN if HAVELSAN is unable to fulfill them.

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

16. COMMITMENTS AND CONTINGENCIES (continued)

c) Guarantees given (continued)

31 December 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	13.304.922	1.916.017	1.694.666	984.226	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	16.337	495	4.200	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
Total	**13.201.259**	**1.916.512**	**1.698.866**	**984.226**	**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 31 December 2017 is 0,32 percent. TL 16.749 is the collateral amount pertaing to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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

16. COMMITMENTS AND CONTINGENCIES (continued)

c) 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 pertaing to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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

17. EMPLOYEE BENEFITS

a) Obligations for employee benefits

	31 December 2017	31 December 2016
Social security premiums payable	36.593	28.380
Taxes and funds payable	8.403	7.838
Due to personnel	1.137	618
	46.133	**36.836**

b) Short-term provisions for employee benefits

	31 December 2017	31 December 2016
Provision for vacation pay liability	**42.301**	**43.362**

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

	2017	2016
Opening balance	43.362	38.115
Provision for the period	7.167	21.140
Provision paid during the period	(6.231)	(10.314)
Provision realized during the period	(1.997)	(5.579)
Closing balance	**42.301**	**43.362**

c) Long-term provisions for employee benefits

	31 December 2017	31 December 2016
Provision for severance pay	155.107	138.248
Provision for retirement pay	13.635	12.749
	168.742	**150.997**

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

	2017	2016
Opening balance	150.997	163.412
Service cost	11.472	15.099
Interest cost	13.645	13.666
Termination cost	1.088	498
Actuarial gains/(loss)	2.033	(22.759)
Payments	(10.493)	(18.919)
Closing balance	**168.742**	**150.997**

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 25 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.

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

17. EMPLOYEE BENEFITS (continued)

Provision for severance pay (continued)

Certain provisions regarding services before retirement, has been annulled on 23 May 2002 during the revision of the related law. As of 31 December 2017 severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL[1] 4.732 (31 December 2016: TL [1] 4.297)

As of 1 January 2018, the ceiling for the severance payments is TL 5.002 [1]

The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the entity's obligation under defined benefit plans.

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:

	31 December 2017 (%)	**31 December 2016 (%)**
Interest rate	11,65	10,59
Inflation rate	8,50	7
Discount ratio	3,22	3,36
Estimation of probability of retirement ratio	97	98

[1] Amounts are shown in original Turkish Lira values.

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

18. OTHER ASSETS AND LIABILITIES

a) Other current assets

	31 December 2017	31 December 2016
VAT carried forward[1]	145.786	105.202
Restricted cash[2]	57.550	63.062
Other VAT	4.332	4.088
Job advances	344	1.039
Other[3]	14.167	28.316
	222.179	**201.707**

b) Other non-current assets

	31 December 2017	31 December 2016
VAT carried forward[1]	253.298	119.687
Prepaid taxes and funds	17.741	8.619
Other[3]	5.750	4.739
	276.789	**133.045**

c) Other short-term liabilities

	31 December 2017	31 December 2016
Taxes and funds payable	11.566	9.874
Other[3]	1.980	11.900
	13.546	**21.774**

[1] Taxpayers (Contractor/the Group) who deliver goods and provides services to the Natural Security Institutions (such as MOD and UDI) are to be approved by purchasers (contacting authority) in terms of content and nature accordingly. Value Added Tax (VAT) is exempted as of 1 March 2009 in accordance with General Declaration on Value Added Tax with the Serial Number 112 in the Official Gazette as of 12 February 2009. These amounts usually are not collected, but they are offseted with other tax liabilities.

[2] The amount consists of the restricted cash with regard to 1007 and the European Union projects.

[3] Mainly comprises of other assets and liabilities of consolidated subsidiaries.

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

19. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

Shareholders	Share (%)	31 December 2017	Share (%)	31 December 2016
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 members are assigned from the holders of nominative "Group A" type shareholders or from the ones nominated by "Group A" type shareholders. Moreover, when new shares are issued the proportion of nominative "Group A" shares are preserved. In accordance with the CMB's legislation, other Board of Directors members, not including elected Independent Board of Director Members, are assigned from nominative "Group A" shareholders or elected from amoung candidate nominated by "Group A" shareholders.

Restricted reserves

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

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

Retained Earnings

Accumulated profits apart from net profit for the year and extraordinary reserves which is accumulated profit by nature are shown under retained earnings. As of 31 December 2017 the extraordinary reserves balance presented in retained earnings is TL 677.863 (31 December 2016: TL 248.547). According to the statutory records, the Company's profit for the period is TL 890.749 (31 December 2016: TL 534.070) and its other funds available for profit distribution is TL 706.805 (31 December 2016: TL 259.858) and the details are as followings.

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

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

Retained Earnings (continued)

	31 December 2017	31 December 2016
Capital reserves and extraordinary reserves	706.805	259.858

Profit distribution

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

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

On 15 March 2017, in accordance with the consolidated financial statements, the General Assembly of the Company has decided to allocate legal reserve amounting to TL 29.903 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 Aselsannet has decided to distribute TL 4.000 as dividend payments to shareholders and reserve TL 650 as retained earnings from net profit of the year 2016. Remaining TL 11.886 will be added to 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: 200).

All of the gross TL 75.500 of dividend to be distributed has been paid to the shareholders as of 31 December 2017.

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

20. REVENUE AND COST OF SALES

a) Revenue	**1 January- 31 December 2017**	**1 January- 31 December 2016**
Domestic sales	4.581.260	3.294.613
Export sales	784.165	485.404
Other revenues	1.068	324
Sales returns (-)	(4.417)	(10.480)
Sales discounts (-)	(1.797)	(1.745)
	5.360.279	**3.768.116**

b) Cost of sales(-)	**1 January- 31 December 2017**	**1 January- 31 December 2016**
Cost of raw materials and supplies	1.498.776	969.267
Development expenses[1]	1.435.576	1.045.267
Cost of services sold	418.136	274.865
Production overheads	385.232	275.449
Cost of merchandise goods sold	121.428	70.314
Personnel expenses	101.245	79.994
Depreciation expenses	79.956	66.464
Change in finished goods	(6.123)	(16.762)
Change in work in progress	(221.574)	(94.352)
Cost of other sales	192.694	174.592
	4.005.346	**2.845.098**

[1] Development expenses consist of raw material, design and personnel expenses TL 482.354 (31 December 2016: TL 384.658) of development expenses is comprised of labour cost.

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

21. CONSTRUCTION CONTRACTS

	31 December 2017	31 December 2016
Construction costs incurred plus recognized profits less recognized losses to date	11.627.027	9.862.184
Less: earned allowances	(11.851.741)	(10.051.137)
	(224.714)	**(188.953)**
Amounts due from customers under construction contracts (Note 6)	1.111.311	286.385
Amounts due to customers under construction contracts (Note 6)	(1.336.025)	(475.338)
	(224.714)	**(188.953)**

22. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES

	1 January - 31 December 2017	1 January - 31 December 2016
General administrative expenses (-)	177.622	150.732
Marketing expenses (-)	164.431	83.758
Research and development expenses (-)	97.300	82.603
	439.353	**317.093**

a) General administrative expenses (-)	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses	112.474	100.498
Depreciation and amortization expenses	19.617	16.494
Expertise and consultancy expenses	6.609	5.788
Outsourcing expenses	4.503	2.803
Electricity expenses	3.332	2.963
Maintenance and repair expenses	3.060	1.999
Travel expenses	2.815	1.613
Personnel transportation expenses	2.379	1.743
Rent expenses	2.345	1.814
Insurance expenses	2.071	1.950
Personnel meal expenses	1.830	1.291
Course and seminar expenses	1.375	893
Property and environmental cleaning tax	1.326	1.286
Telephone expenses	660	716
Other	13.226	8.881
	177.622	**150.732**

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

22. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES (continued)

b) Marketing expenses (-)	1 January- 31 December 2017	1 January- 31 December 2016
Commission expenses	68.252	28.006
Exhibition expenses	22.678	11.093
Personnel expenses	15.626	14.338
Stamp duty expenses	12.654	7.278
Shipping and delivery expenses	5.746	3.708
Travel expenses	5.708	4.447
Consultancy expenses	4.240	1.072
Advertising expenses	3.514	2.400
Representation expenses	2.723	1.232
Packaging expenses	2.477	1.515
Depreciation and amortization expenses	1.410	2.273
Samples expenses	1.334	840
Rent expenses	1.243	687
Insurance expenses	203	789
Other	16.623	4.080
	164.431	**83.758**

c) Research and development expenses (-)	1 January- 31 December 2017	1 January- 31 December 2016
Personnel expenses	42.185	33.930
Depreciation and amortization expenses	31.642	24.929
Equipment costs	12.473	13.226
Other	11.000	10.518
	97.300	**82.603**

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

23. OTHER OPERATING INCOME AND EXPENSES

a) Other operating income

	1 January-31 December 2017	1 January-31 December 2016
Foreign currency exchange gains	1.898.836	464.616
Discount income	12.947	12.211
Free of charge investment income[1]	--	734
Other income	24.122	12.115
	1.935.905	**489.676**

b) Other operating expenses (-)

	1 January-31 December 2017	1 January-31 December 2016
Foreign currency exchange losses	1.645.224	267.334
Discount income	19.585	9.378
Other expense and losses	13.611	8.886
	1.678.420	**285.598**

24. INCOME FROM INVESTING ACTIVITIES

	1 January-31 December 2017	1 January-31 December 2016
Dividend income	8.938	8.171
Gain on sale of fixed assets	364	566
	9.302	**8.737**

25. FINANCIAL INCOME

	1 January-31 December 2017	1 January-31 December 2016
Foreign currency exchange gains on bank loans	66.449	45.546
Interest income	32.520	20.227
Other financial income	525	588
	99.494	**66.361**

[1] Free of charge investment income comprises of fixed assets donated by public bodies and utilized within the scope of research projects conducted with universities. Subsequent to the completion of these projects, the subject matter fixed assets have been incorporated to the Group without any charge.

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

26. FINANCIAL EXPENSES

	1 January- 31 December 2017	1 January- 31 December 2016
Foreign currency exchange losses from bank loans (-)	82.885	123.039
Interest cost related with employee benefits (-)	13.645	13.666
Interest cost of borrowings (-)	15.508	7.510
Discount expenses at bank loans (-)	8.102	7.076
	120.140	**151.291**

27. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

	31 December 2017	31 December 2016
Gain from revaluation of available for sale financial assets	535.444	485.346
Revaluation of property	207.431	216.072
Loss on remeasurement of defined benefit plans	5.246	3.283
Cumulative Translation Adjustments	1.656	684
	749.777	**705.385**

Revaluation reserve available for sale financial assets	1 January- 31 December 2017	1 January- 31 December 2016
Opening balance	485.346	406.802
Gain on revaluation and reclassification of available for sale financial assets	52.735	82.678
Deferred tax liability arising from revaluation	(2.637)	(4.134)
Closing balance	**535.444**	**485.346**

Gain on revaluation or reclassification of available for sale financial assets arises due to revaluation of financial investments. When available for sale financial assets are sold, any related amount included in revaluation reserve is transferred to profit or loss.

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

27. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS (continued)

Revaluation of property	**1 January- 31 December 2017**	**1 January- 31 December 2016**
Opening balance (Prior reported)	216.072	216.072
Restatement effect	--	--
Opening balance (Restated)	--	216.072
Increase arising from revaluation of property	3.035	--
Deferred tax on revaluation	(11.676)	--
Current period value increase deferred tax effect[1]	(303)	--
Closing balance	**207.431**	**216.072**

Revaluation of property increase arises from revaluation of the lands. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Foreign currency exchange differences:	**1 January- 31 December 2017**	**1 January- 31 December 2016**
Opening balance	684	(95)
Currency differences from net asset currency translation of oversea establishments	4.562	779
Deferred tax on revaluation	--	--
Closing balance	**5.246**	**684**

Gain/Loss on remeasurement of defined benefit plans	**1 January- 31 December 2017**	**1 January- 31 December 2016**
Opening balance	3.283	(14.924)
Gain/Loss on remeasurement of defined benefit plans	(2.033)	22.759
Deferred tax on gain/loss on remeasurement of defined benefit plans	406	(4.552)
Closing balance	**1.656**	**3.283**

[1] 75% of the income derived by entities from the sale of participation shares and real estates (immovable property) preferential rights, founders' shares and redeemed shares which are carried in assets at least for two years is exempt from corporate tax as of 31 December 2017. However, according to the amendments by Law numbered 7061, this rate is educed from 75% to 50% with regard to immovable properties and tax declarations starting from 2018 will be calculated using 50% for immovable properties.

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

28. INCOME TAXES

Corporate tax liabilities:	31 December 2017	31 December 2016
Current corporate tax provision	2.036	1.548
Less: Prepaid taxes and funds	(1.319)	(1.121)
	717	**427**

Tax income:	1 January-31 December 2017	1 January-31 December 2016
Current corporate tax expense	(2.036)	(1.548)
Deferred tax income	218.862	62.726
	216.826	**61.178**

	1 January-31 December 2017		
Tax effects related to components of other comprehensive income	**Amount before tax**	**Tax income/expense**	**Net of tax amount**
Defined benefit plan revaluation gains/losses	(2.033)	406	(1.627)
Changes in non-current assets value increase fund	3.034	(11.675)	(8.641)
Cumulative Translation Adjustments	4.562	--	4.562
Gain on revaluation of available for sale financial assets	52.735	(2.637)	50.098
Other comprehensive income in the period	**58.298**	**(13.906)**	**44.392**

	1 January-31 December 2016		
Tax effects related to components of other comprehensive income	**Amount before tax**	**Tax income/expense**	**Net of tax amount**
Defined benefit plan revaluation gains/losses	22.759	(4.552)	18.207
Cumulative Translation Adjustments	779	--	779
Gain on revaluation of available for sale financial assets	82.678	(4.134)	78.544
Other comprehensive income in the period	**106.216**	**(8.686)**	**97.530**

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

28. INCOME TAXES (continued)

Tax recognized directly in equity	1 January- 31 December 2017	1 January- 31 December 2016
Deferred tax:		
Directly recognized in equity:		
- Revaluation of property	(11.675)	--
- Gain on revaluation of available for sale financial assets	(2.637)	(4.134)
- Actuarial gain/expense	406	(4.552)
Deferred tax recognized directly in equity	**(13.906)**	**(8.686)**

Corporate tax

The Group is subject to Turkish corporate taxes. The corporate income tax is declared until the relevant accounting period-end's following fourth month, twenty-fifth day's evening and it is batch paid until the end of the related month. In accordance with the tax legislation, quarterly 20 percent (31 December 2016: 20 percent) on profits of advance tax is being calculated and paid. The amounts paid in this way are deducted by the tax on annual earning.

In accordance with the tax legislation in Turkey, financial losses could be carried forward for a maximum of five years that the year they appeared. Besides, tax returns and the related accounting records may be reviewed within five years by the tax administration.

Provision is made in the accompanying consolidated financial statements for the estimated change based on the Group's results for the year. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate entity bases.

Corporate tax rate that will be accrued based on rate able profit of the company is calculated on a basis by including disallowed deductions written of as expense when determining commercial profit with excluding tax-exempt profits and other discounts (also previous year losses and investments allowances used, if preferred)

The tax rate in 2017 is 20 percent (31 December 2016: 20 percent).

28. INCOME TAXES (continued)

Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising from its financial statements as reported for TFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TFRS and tax purposes and the differences are given below.

In Turkey, corporate tax rate is 20 percent as of 31 December 2017 (2016: 20 percent). However, according to the Article 91 of the Law numbered 7061 “Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation” which was published on the Official Gazette numbered 30261 on 5 December 2017 and according to the provisional clause 10 added to the Corporate Tax Law numbered 5520; corporate tax rate for the taxation periods of 2018, 2019 and 2020 is amended to 22 percent, which would later be applied as 20 percent at the end of these periods. During these periods, Council of Ministers is entitled to decrease the corporate tax rate of 22 percent to 20 percent.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

The dividend income (excluding the participation certificates of investment funds and profit shares derived from the share certificates of investment trusts) derived by entities from the participation in the capital of another resident entity is exempt from corporate tax. Furthermore, 75 percent of the income derived by entities from the sale of participation shares and real estates (immovable property) preferential rights, founders' shares and redeemed shares which are carried in assets at least for two years is exempt from corporate tax as of 31 December 2017. However, according to the amendments by Law numbered 7061, this rate is educed from 75 percent to 50 percent with regard to immovable properties and tax declarations starting from 2018 will be calculated using 50 percent for immovable properties. In order to be able to benefit from the exemption, the relevant income should be kept under a fund account in the liabilities and should not be withdrawn from the enterprise for 5 years. The sales amount should be collected by the end of the second calendar year following the year of sale.

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

28. INCOME TAXES (continued)

Deferred Tax

The details of deferred tax assets and liabilities of the Group are as follows:

Deferred Tax Assets:	**31 December 2017**	**31 December 2016**
Discount on receivables	4.217	1.902
Adjustment to costs and provision for expected losses of construction contracts	718.491	429.590
Allowance for impairment on inventories	2.039	3.971
Provision for delay penalties	7.788	7.164
Provision for warranties	56.000	36.886
Provision for severance pay	31.021	27.650
Provision for retirement bonus pay	2.727	2.550
Provision for annual leave	9.306	8.672
Provision for legal cases	61	51
Accumulated research and development incentive	772.335	513.261

Deferred Tax Liabilities:	**31 December 2017**	**31 December 2016**
Discount on payables	(2.764)	(1.831)
Adjustment of progress payments for long- term construction projects	(926.323)	(580.319)
Depreciation of fixed assets / amortization of intangible assets	(34.140)	(28.057)
Fixed assets revaluation fund	(23.048)	(11.372)
Gain on revaluation of available for sale financial assets	(28.181)	(25.545)
Deferred tax assets	**1.603.985**	**1.031.697**
Deferred tax liabilities	**(1.014.456)**	**(647.124)**
Deferred tax assets – net	**589.529**	**384.573**

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

28. INCOME TAXES (continued)

Deferred tax (continued)

Movement of deferred tax assets/(liabilities):	**1 January- 31 December 2017**	**1 January- 31 December 2016**
Opening balance as of 1 January	384.573	330.533
Charged to statement of profit or loss	218.862	62.726
Charged to equity	(13.906)	(8.686)
	589.529	**384.573**

Tax reconciliations:	**Effective Tax Rate (%)**	**1 January- 31 December 2017**	**Effective Tax Rate (%)**	**1 January- 31 December 2016**
Profit before tax from continuing operations		1.171.023		734.023
Income tax rate		%20		%20
Tax at the domestic income tax rate	20	234.205	20	146.805
Tax effects of:				
- revenue that is exempt from taxation	(1)	(11.000)	(2)	(12.401)
- expenses that are not deductible in determining taxable profit	(1)	8.880	1	7.268
- R&D incentives and other income exempt from taxation	(35)	(409.408)	(27)	(203.156)
- Change effect of determining statutory tax rate as 22% for 3 years	(3)	(38.542)	--	--
- Subsidiaries and associates revenue that is exempt from taxation	--	(1.622)	--	(187)
- effect of other adjustments	--	661	--	493
Tax income recognized in profit or loss	**(19)**	**(216.826)**	**(8)**	**(61.178)**

29. EARNINGS PER SHARE

Earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period.

The Group does not have diluted shares.

For the years ended 31 December 2017 and 2016, earnings per share calculations are as follows:

	1 January-31 December 2017	1 January-31 December 2016
Weighted average number of shares outstanding (in thousands)	100.000.000	100.000.000
Net profit – TL	1.388.064	795.191
Earnings per 100 shares	**138,78**	**79,52**
Diluted earnings per 100 shares	**138,78**	**79,52**

30. FINANCIAL INVESTMENTS

Financial Investments

Non-Current Financial Investments

	31 December 2017	31 December 2016
a) Available for sale financial investments	568.767	516.032
b) Financial investments valued at cost that do not have a quoted market value	147	147
	568.914	**516.179**

a) Available for sale financial investments

	31 December 2017	31 December 2016
Available for sale financial investments that are not traded in an active market	568.767	516.032
	568.767	**516.032**

ROKETSAN which is Group's marketable security is revalued and stated at fair value. As of 31 December 2017, the revaluation was performed by Oyak Yatırım Menkul Değerler Anonim Şirketi which is an independent valuation company. The fair value was determined according to "Discounted Cash Flow", "Similar Company Comparison" and "Realized Company Mergers and Acquisitions" methodologies. Discount ratio used in "Discounted Cash Flow"method is 15 percent (31 December 2016: 15 percent).

Company Name	Ratio(%)	31 December 2017	Ratio (%)	31 December 2016
ROKETSAN	**14,897**	568.767	14,897	516.032

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

30. FINANCIAL INVESTMENTS (continued)

a) Available for sale financial investments (continued)

Roketsan shares, shown under available for sale financial investments, are reported on the third level in the fair value hierarchy (Note 33).

Financial Investments (continued)

b) Financial investments valued at cost that do not have a quoted market value

The Group's marketable security and participation rate and the amount shown in financial investments are as follows:

Company Name	Ratio (%)	31 December 2017	Ratio (%)	31 December 2016
ASPİLSAN	1	147	1	147
		147		**147**

The above available-for-sale equity investments amounting to TL 147 (31 December 2016: TL 147) do not have a quoted market value and their fair values cannot be reliably measured due to a wide range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. For this reason they are stated at cost less provision for diminution in value, if any.

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

31. FINANCIAL LIABILITIES

Financial Liabilities

		31 December 2017	31 December 2016
Short-term financial liabilities	Unsecured loan	401.822	303.928
Other short-term financial liabilities	Unsecured loan	2.490	2.315
Current portion of long-term financial liabilities	Secured loan	67.624	65.665
Total short-term financial liabilities		**471.936**	**371.908**
Other long-term financial liabilities	Secured loan	62.207	120.140
Other long-term financial liabilities	Unsecured loan	--	2.275
Total long-term financial liabilities		**62.207**	**122.415**
Total financial liabilities		**534.143**	**494.323**

As of 31 December 2017, the borrowings in short-term borrowings consist of Discounted Foreign Currency Credits amounting to TL 401.822 and maturity dates due between January-July 2018, interest rates which range between 2,17-2,48 percent. The short-term portions of long-term financial liabilities consist of principal payments of USD 17.982 with maturities of USD 34.421 and interest rates of 2,1 percent and 3,5 percent, respectively, with the maturity date of March-October 2018 of the Undersecretariat of Defense Industries.

As of 31 December 2017, other financial liabilities amounting to TL 2.490 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 16.492 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 34.421 was given for the loan.

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

31. FINANCIAL LIABILITIES (continued)

Financial Liabilities (continued)

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

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

Bank Loans

		31 December 2017	
Currency	**Weighted average interest rate (%)**	**Short-term**	**Long-term**
TL	12,67	354.672	--
USD	2,49	117.264	62.207
		471.936	**62.207**

		31 December 2016	
Currency	**Weighted average interest rate (%)**	**Short-term**	**Long-term**
TL	9,25	58.197	--
USD	1,99	313.711	122.415
		371.908	**122.415**

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

31. FINANCIAL LIABILITIES (continued)

Financial Liabilities (continued)

The breakdown of the loan repayments with respect to their maturities is as follows:

	31 December 2017	31 December 2016
Within 1 year	471.936	371.908
Between 1-2 years	47.700	64.375
Between 2-3 years	14.507	44.504
Between 3-4 years	--	13.536
Between 4-5 years	--	--
	534.143	**494.323**

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS

a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings as explained Note 31, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group's board of directors review capital structure regularly in the meetings. The risks that are associated with every equity item together with the Group's cost of capital are evaluated by the board of directors. Based on the recommendations of the board, the Group aims to balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt on the redemption of existing debt.

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

a) Capital risk management (continued)

The Group's general strategy has not changed since 2010. The ratio of liabilities to share capital as of 31 December 2017 and 2016 is as follows:

	31 December 2017	31 December 2016
Total liabilities	534.143	494.323
Less: Cash and cash equivalents	(1.262.904)	(1.168.776)
Net asset/debt (asset)	(728.761)	(674.453)
Total equity	5.048.208	3.691.467
Total capital	4.319.447	3.017.014
Net debt (asset) / total equity ratio (%)	(%17)	(%22)

b) Financial Risk Factors:

The Group has exposure to the credit risk, liquidity risk, market risk and foreign currency risk from its activities. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the Enterprise Risk Management and Internal Control Department, headed by Finance Directorate, in the direction of the Financial Management Executive Vice Presidency, in line with the policies approved by the Board of Directors. Group's finance department identifies and evaluates financial risks and use tools to reduce risks by working in cooperation with the group's operating units.

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is mainly working with public sector and obtaining advance payments where appropriate, both from public sector and private sector entities. Financing needs arising from new contracts are satisfied by advances received when the projects start and milestone payments during the projects. The receivables are generally from public sector and hence considered collectible. The Group management does not foresee significant credit risk. Additionally, receivables are monitored regularly to minimize the collection risk.

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Carrying values of the financial assets reflect the maximum exposure to credit risk. The credit risks as of reporting date is as follows:

31 December 2017	Receivables					
	Trade Receivables		Other Receivables			
	Related party	Third party	Related party	Third party	Bank Deposits	Other
Maximum net credit risk as of the reporting date (A+B+C+D)[1]	1.289.687	1.510.372	34	113.388	1.320.273	28
- The part of maximum risk under guarantee with collateral etc.[2]	--	3.313	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	1.289.687	1.338.087	34	113.388	1.320.273	28
B. Net book value of financial assets that are past due but not impaired	--	166.340	--	--	--	--
C. Net book value of impaired assets	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	921	--	--	--	--
- Impairment (-)	--	(921)	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
- Undue (gross carrying amount)	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
D. Factors that include off balance sheet credit risks	--	--	--	--	--	--

[1] While determining the amount, components which provide increase on credit reliability, like guarantees received are not taken into consideration.

[2] The guarantees consist of the letters of guarantees, collaterals, checks and mortgages.

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Carrying values of the financial assets reflect the maximum exposure to credit risk. The credit risks as of reporting date is as follows:

31 December 2016	Receivables					
	Trade Receivables		Other Receivables			
	Related party	Third party	Related party	Third party	Bank Deposits	Other
Maximum net credit risk as of the reporting date (A+B+C+D)[1]	347.842	2.077.445	--	85.007	1.231.593	105
- The part of maximum risk under guarantee with collateral etc.[2]	--	2.780	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	347.842	2.066.914	-	85.007	1.231.593	105
B. Net book value of financial assets that are past due but not impaired	--	10.531	--	--	--	--
C. Net book value of impaired assets	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	921	--	--	--	--
- Impairment (-)	--	(921)	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
- Undue (gross carrying amount)	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
D. Factors that include off balance sheet credit risks	--	--	--	--	--	--

[1] While determining the amount, components which provide increase on credit reliability, like guarantees received are not taken into consideration.

[2] The guarantees consist of the letters of guarantees, collaterals, checks and mortgages.

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

Credit Risk (continued)

The aging of the overdue receivables is as follows:

	31 December 2017	31 December 2016
Overdue by 1-30 days	122.427	7.916
Overdue by 1-3 months	489	2.324
Overdue by 3-12 months	3.227	291
Overdue by 12 months	40.197	--
Total receivables	**166.340**	**10.531**

No collateral has been received for the overdue receivables.

It is envisaged that receivables that is overdue but not provisioned are collected.

Liquidity risk

Board of directors has built an appropriate liquidity risk management framework for the management of the Group’s short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group’s remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest payment date. The table includes both interest and principal cash flows. When receivables and payables are not constant, amounts are determined in accordance with interest rates generated from return rates as of the reporting date.

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 31 December 2017 is as follows:

Contractual Maturity Analysis	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Financial liabilities	534.143	538.750	39.906	434.845	63.999	--

Expected Maturity	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Trade payables	2.631.815	2.644.097	1.233.919	148.163	1.262.015	--
Other payables	1.599	1.599	1.494	--	105	--

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 31 December 2016 is as follows:

Contractual Maturity Analysis	**Carrying value**	**Total cash outflow according to contract (I+II+III+IV)**	**Less than 3 Months (I)**	**3-12 Months (II)**	**1-5 Years (III)**	**More than 5 Years (IV)**
Non-derivative financial instruments						
Financial liabilities	494.323	503.004	229.501	146.741	126.762	--

Expected Maturity	**Carrying value**	**Total cash outflow according to contract (I+II+III+IV)**	**Less than 3 Months (I)**	**3-12 Months (II)**	**1-5 Years (III)**	**More than 5 Years (IV)**
Non-derivative financial instruments						
Trade payables	1.306.051	1.315.256	765.609	296.481	253.166	--
Other payables	6.293	6.293	6.248	--	45	--

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

Market risk management

The Group’s activities, as detailed below, expose primarily to the financial risks from changes in foreign currency exchange rates and interest rates.

Market risk exposures are evaluated by sensitivity analysis, and stress scenario analysis.

There has been no change to the Group’s exposure to market risks or the manner in which it manages and measures the risk in the current year compared to prior year.

Foreign currency risk management

Foreign currency denominated transactions cause foreign currency risk. The core principle of the foreign currency risk management reduces to minimum foreign exchange position deficit or surplus and minimize the effect of exchange rate fluctuation. Group’s net foreign currency position is due to the operational structure of the defense industry.

Methods which are used to manage the exchange rate risk are on-balance sheet (structural) methods. The use of fixed rate of TL denominated credit instead of foreign currency loans in order to keep the foreign exchange position at desired levels and to ensure currency compatibility, determining the contract currency according to the currency which is predominant in the cost of the contracts and such as the signing of the contract in terms of the main contract currency with the subcontractors within the scope of the contracts.

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

FOREIGN EXCHANGE POSITION

31 December 2017	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other[1]
1. Trade Receivables	1.388.153	201.417	759.726	131.427	593.460	34.967
2a. Monetary financial assets (including cash, bank)	1.101.440	225.110	849.093	55.451	250.390	1.957
2b. Non- monetary financial assets	284.302	45.981	173.436	25.457	114.951	39.594
3. Other	6.883	10	36	1.499	6.770	77
4. Current assets (1+2+3)	**2.780.778**	**472.518**	1.782.291	**213.834**	965.571	**76.595**
5. Trade receivables	725.009	135.101	509.589	47.707	215.420	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	307.504	13.737	51.815	95.992	433.451	6.556
7. Other	8.091	926	3.491	891	4.024	576
8. Long-term assets (5+6+7)	**1.040.604**	**149.764**	564.895	**144.590**	652.895	**7.132**
9. Total assets (4+8)	**3.821.382**	**622.282**	2.347.186	**358.424**	1.618.466	**83.727**
10. Trade payables	569.754	85.536	322.633	50.232	226.821	20.300
11. Financial liabilities	117.264	31.089	117.264	--	--	--
12a. Other monetary financial liabilities	434	102	386	10	48	--
12b. Other non-monetary financial liabilities	111.626	39.554	149.194	24.408	110.216	--
13. Current liabilities (10+11+12)	**799.078**	**156.281**	589.477	**74.650**	337.085	**20.300**
14. Trade payables	950.502	119.582	451.050	110.608	499.452	--
15. Financial liabilities	62.207	16.492	62.207	--	--	--
16a. Other monetary financial liabilities	53	11	40	3	13	--
16b. Other non-monetary financial liabilities	1.058.003	275.266	1.038.275	233.439	1.054.092	--
17. Non-current liabilities (14+15+16)	**2.070.765**	**411.351**	1.551.572	**344.050**	1.553.557	**--**

[1] Comprises of the currencies CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR.

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

FOREIGN EXCHANGE POSITION						
31 December 2017	**TL Equivalent (Functional currency)**	**USD**	**TL equivalent by using closing rates**	**EURO**	**TL equivalent by using closing rates**	**Other**
18. Total liabilities (13+17)	**2.869.843**	**567.632**	**2.141.049**	**418.700**	**1.890.642**	**20.300**
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)	951.539	54.650	206.137	(60.276)	(272.176)	63.427
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	1.514.388	308.816	1.164.828	73.732	332.936	16.624
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	784.165	174.571	632.194	15.098	61.509	90.462
26. Imports	1.739.154	294.446	1.110.620	107.071	483.481	145.053

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

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

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (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[1]**
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] Comprises of the currencies CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR.

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (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**
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 GCASA. The difference is mainly due to the adjustments and classifications which are related with TAS 11 "Construction Contracts".

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

Foreign currency sensitivity

The Group is exposed to foreign currency risk with respect to USD and EURO. As of 31 December 2017, USD 1: TL 3,7719 (31 December 2016: TL 3.5192), EURO 1: TL 4,5155 (31 December 2016: TL 3.7099).

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

Foreign currency sensitivity table				
31 December 2017				
	Profit/Loss		**Equity[1]**	
	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)	116.483	(116.483)	116.483	(116.483)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	**116.483**	**(116.483)**	**116.483**	**(116.483)**
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	33.294	(33.294)	33.294	(33.294)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	**33.294**	**(33.294)**	**33.294**	**(33.294)**
Change of other currencies against TL by 10%:				
7- Other currencies denominated net assets/ (liabilities)	1.662	(1.662)	1.662	(1.662)
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	**1.662**	**(1.662)**	**1.662**	**(1.662)**

[1] Comprises of profit/loss effect.

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

32. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

Foreign currency sensitivity (continued)

Foreign currency sensitivity table				
31 December 2016				
	Profit/Loss		Equity	
	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)**
Changeof 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 other 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)**

Interest rate risk management

As of 31 December 2017 and 31 December 2016, since all of the loans obtained by the Group are fixed-rate loans, the Group is not exposed to significant interest rate risk.

As of 31 December 2017, the Group does not have interest bearing financial assets, therefore there is no exposure to interest risk (31 December 2016: None).

Price risk

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

Hierarchy of fair value

As of 31 December 2017 and 31 December 2016, the Group's financial assets at their fair values are as in the following page:

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

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

31 December 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
Financial assets						
Cash and cash equivalents	--	1.262.904	--	--	1.262.904	3
Blocked deposits	--	57.550	--	--	57.550	18
Financial investments	147	--	568.767	--	568.914	30
Equity Accounted Investees	83.324	--	--	--	83.324	8
Trade receivables	--	2.800.059	--	--	2.800.059	6
Financial liabilities						
Borrowings	--	--	--	534.143	534.143	31
Trade payables	--	--	--	2.631.815	2.631.815	7
Other payables	--	--	--	1.599	1.599	8

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
Financial assets						
Cash and cash equivalents	--	1.168.776	--	--	1.168.776	3
Blocked deposits	--	63.062	--	--	63.062	18
Financial investments	147	--	516.032	--	516.179	30
Equity Accounted Investees	57.387	--	--	--	57.387	8
Trade receivables	--	2.425.287	--	--	2.425.287	6
Financial liabilities						
Borrowings	--	--	--	494.323	494.323	31
Trade payables	--	--	--	1.306.051	1.306.051	6
Other payables	--	--	--	6.293	6.293	7

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.

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

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

The fair values of financial assets and financial liabilities are determined as follows:

- **Level 1:** The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

- **Level 2:** The fair value of other financial assets and financial liabilities are determined in accordance with data which can be observed by directly or indirectly and which excludes the registered prices described in Level 1 ; and

- **Level 3:** The fair value of the financial assets and financial liabilities are determined where there is no observable market data.

<u>Fair value hierarchy of financial assets that are measured at fair value:</u>

Group's available for sale financial asset, ROKETSAN is measured at fair value as of 31 December 2017. The fair value of ROKETSAN as of 31 December 2017 is TL 568.767 and was determined according to "Discounted Cash Flow", "Similar Company Comparison" and "Realized Company Mergers and Acquisitions" methodologies and its fair value hierarchy is Level 3.

Reconciliation of the Group's assets and liabilities that are measured at Level 3 fair value are presented as follow:

Available for sale financial assets	**31 December 2017**	**31 December 2016**
	Marketable Securities	**Marketable Securities**
Opening balance	516.032	433.354
Total gain/loss		
- transferred to other comprehensive income	52.735	82.678
Closing balance	**568.767**	516.032

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

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

31 December 2017	**Fair value level as of reporting date**		
	Level 1	**Level 2**	**Level 3**
	TL	**TL**	**TL**
Financial Investments	--	--	568.767
	--	**--**	**568.767**

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

The movement of the fair value level as of 31 December 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	--	--	52.735
31 December 2017	--	--	**568.767**

34. EXPLANATIONS RELATED TO CASH FLOWS STATEMENT

Reconciliation of the movements related to cash flows from financing activities and liabilities

	31 December 2016	**Cash Movements**	**Non-cash movements**			**31 December 2017**
			Additions	**Exchange rate change**	**Other non-cash movements**	
Financial Liabilities (Note 31)	494.323	42.340	8.102	(11.687)	1.065	534.143
Total liabilities arising from financing activities	**494.323**	**42.340**	**8.102**	**(11.687)**	**1.065**	**534.143**

The table above represents the changes in the cash amounts related to "Proceeds from Borrowings" and "Repayments from Borrowings" which are presented under cash flows from financing activities.

35. EVENTS AFTER THE REPORTING PERIOD

Amount of contracts signed by Group after the reporting date is approximately USD 932 Millon.