

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF AND FOR THE THREE-MONTH PERIOD ENDED
31 MARCH 2018

2 May 2018

This report contains condensed consolidated interim financial information and related disclosures and footnotes comprising 59 pages.

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ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF INTERIM FINANCIAL POSITION AS OF 31 MARCH 2018**

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

	Note References	31 March 2018	Restated(*) 31 December 2017
ASSETS			
Current Assets		6.473.949	6.058.387
Cash and Cash Equivalents	3	480.402	1.262.904
Trade Receivables	5	2.188.302	1.581.229
<i>From Related Parties</i>	4	804.755	460.841
<i>From Third Parties</i>		1.383.547	1.120.388
Other Receivables		99.602	112.761
<i>From Related Parties</i>	4	--	34
<i>From Third Parties</i>		99.602	112.727
Inventories	7	2.506.513	2.221.631
Prepaid Expenses	8	915.534	657.683
<i>From Related Parties</i>	4	132.644	92.555
<i>From Third Parties</i>		782.890	565.128
Other Current Assets		283.596	222.179
Non-Current Assets		5.723.103	5.580.209
Financial Investments		568.914	568.914
Trade Receivables	5	1.477.700	1.574.956
<i>From Related Parties</i>	4	932.349	1.085.679
<i>From Third Parties</i>		545.351	489.277
Other Receivables		666	661
<i>From Third Parties</i>		666	661
Equity Accounted Investees	6	85.413	83.324
Property, Plant and Equipment	9	1.112.198	1.090.843
Intangible Assets	9	955.644	891.216
Prepaid Expenses	8	529.712	442.731
<i>From Related Parties</i>	4	301.704	165.487
<i>From Third Parties</i>		228.008	277.244
Deferred Tax Assets	11	689.186	650.775
Other Non-Current Assets		303.670	276.789
TOTAL ASSETS		12.197.052	11.638.596

(*) The group has applied TFRS 15 and TFRS 9 with the date of initial application of 1 January 2015. Details are presented in note 2.2.

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

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

	Note References	31 March 2018	Restated (*) 31 December 2017
LIABILITIES			
Current Liabilities		3.910.871	3.691.713
Short-term Financial Liabilities	21	406.916	404.312
Short-term Portion of Long-term Financial Liabilities	21	50.933	67.624
Trade Payables	5	1.691.467	1.790.231
<i>To Related Parties</i>	4	538.643	512.270
<i>To Third Parties</i>		1.152.824	1.277.961
Employee Benefit Obligations	13	44.026	46.133
Other Payables		86.670	1.494
<i>To Related Parties</i>	4	84.656	65
<i>To Third Parties</i>		2.014	1.429
Government Grants and Incentives		40.326	41.643
Deferred Income	8	1.120.568	900.106
<i>To Related Parties</i>	4	887.573	686.837
<i>To Third Parties</i>		232.995	213.269
Corporate Tax Liability		2.117	717
Short-term Provisions		464.033	425.907
<i>For Employee Benefits</i>	13	43.954	42.301
<i>Other</i>	10	420.079	383.606
Other Current Liabilities		3.815	13.546
Non-Current Liabilities		3.246.178	3.178.760
Long-term Financial Liabilities	21	47.751	62.207
Trade Payables	5	1.237.203	1.262.015
<i>To Related Parties</i>	4	1.064.823	1.048.376
<i>To Third Parties</i>		172.380	213.639
Other Payables		92	105
<i>To Third Parties</i>		92	105
Deferred Income	8	1.749.148	1.642.766
<i>To Related Parties</i>	4	1.290.827	1.461.346
<i>To Third Parties</i>		458.321	181.420
Long-term Provisions		211.984	211.667
<i>Long-term Provisions for Employee Benefits</i>	13	169.059	168.742
<i>Other</i>	10	42.925	42.925

(*)The group has applied TFRS 15 and TFRS 9 with the date of initial application of 1 January 2015. Details are presented in note 2.2.

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018**

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

	Note	31 March	Restated(*)
	References	2018	31 December
		2017	
EQUITY		5.040.003	4.768.123
Equity Attributable to Equity Holders of the Parent		5.039.480	4.767.581
Share Capital	14	1.000.000	1.000.000
Inflation Adjustments on Share Capital	14	98.621	98.621
Other Comprehensive Income that will not be			
Reclassified to Profit or Loss		209.087	209.087
<i>Gain on Revaluation of Property</i>		<i>207.431</i>	<i>207.431</i>
<i>Gain/ Loss on Remeasurement of Defined Benefit Plans</i>		<i>1.656</i>	<i>1.656</i>
Other Cumulative Comprehensive Income will or may be Reclassified to Profit/Loss		545.828	540.690
<i>Gain on Revaluation of Available for Sale Financial Assets</i>		<i>535.444</i>	<i>535.444</i>
<i>Cumulative Translation Adjustments</i>		<i>10.384</i>	<i>5.246</i>
Restricted Reserves	14	172.686	124.062
Retained Earnings		2.661.897	1.419.220
Net Profit		351.361	1.375.901
Non-Controlling Interests		523	542
TOTAL LIABILITIES AND EQUITY		12.197.052	11.638.596

(*)The group has applied TFRS 15 and TFRS 9 with the date of initial application of 1 January 2015. Details are presented in note 2.2.

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

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

	Notes References	1 January- 31 March 2018	Restated(*) 1 January- 31 March 2017
PROFIT OR LOSS			
Revenue	15	1.365.199	1.074.069
Cost of Sales (-)	15	(1.033.314)	(761.077)
GROSS PROFIT		331.885	312.992
General Administrative Expenses (-)		(44.339)	(39.973)
Marketing Expenses (-)		(25.397)	(22.930)
Research and Development Expenses (-)		(18.841)	(12.624)
Other Operating Income	16	508.878	410.486
Other Operating Expenses (-)	16	(375.395)	(307.350)
OPERATING PROFIT		376.791	340.601
Income from investing activities	17	29	8.964
Shares of profit/(losses) of Equity Accounted Investees	6	(2.001)	8.120
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		374.819	357.685
Financial Income	18	61.527	79.204
Financial Expense (-)	19	(121.298)	(130.878)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		315.048	306.011
Tax Income from Continuing Operations			
- Current Corporate Tax Expense(-)	11	36.294	37.687
- Deferred Tax Income		(2.117)	(1.221)
		38.411	38.908
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		351.342	343.698
Profit for the Period Attributable to			
Non-Controlling Interest		(19)	(5)
Owners of the Company	20	351.361	343.703
		351.342	343.698
Earnings for per 100 Shares (in full kuruş)	20	35,14	34,37

(*) The group has applied TFRS 15 and TFRS 9 with the date of initial application of 1 January 2015. Details are presented in note 2.2.

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018**

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

<u>Note References</u>	<u>1 January- 31 March 2018</u>	<u>Restated(*) 1 January- 31 March 2017</u>
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	351.342	343.698
Items that will not to be reclassified subsequently in Profit or Loss	--	--
Items that may be reclassified subsequently to profit or loss	5.138	3.483
Foreign Currency Exchange Differences	5.138	3.483
OTHER COMPREHENSIVE INCOME	5.138	3.483
TOTAL COMPREHENSIVE INCOME	356.480	347.181
Total Comprehensive Income Attributable to		
Non-Controlling Interest	(19)	(5)
Owners of the Company	356.499	347.186
	356.480	347.181

(*) The group has applied TFRS 15 and TFRS 9 with the date of initial application of 1 January 2015. Details are presented in note 2.2.

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

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

	Share Capital	Inflation Adjustments on Share Capital	Other Comprehensive Income / Expense that will not 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							
			Revaluation Reserve	Remeasurement of Defined Benefit Plans	Fair Value Reserve	Cumulative Translation Adjustments	Restricted Reserves	Retained Earnings	Net Profit/(Loss) for the Period	Equity Attributable to Owners of the Company	Non-Controlling Interests	Total
Balance as of 1 January 2017 (as previously reported)	1.000.000	98.621	216.072	3.283	485.346	684	94.158	997.649	795.191	3.691.004	463	3.691.467
Effect of TFRS 15	--	--	--	--	--	--	--	(228.939)	(36.921)	(265.860)	--	(265.860)
Effect of TFRS 9	--	--	--	--	--	--	--	(6.531)	4.175	(2.356)	--	(2.356)
Balance as of 1 January 2017 Restated(*)	1.000.000	98.621	216.072	3.283	485.346	684	94.158	762.179	762.445	3.422.788	463	3.423.251
Transfers (restated)	--	--	--	--	--	--	29.904	657.041	(686.945)	--	--	--
Restated Total Comprehensive Income	--	--	--	--	--	3.483	--	--	343.703	347.186	(5)	347.181
Dividends	--	--	--	--	--	--	--	--	(75.500)	(75.500)	--	(75.500)
Balance as of 31 March 2017 Restated(*)	1.000.000	98.621	216.072	3.283	485.346	4.167	124.062	1.419.220	343.703	3.694.474	458	3.694.932
Balance as of 1 January 2018 (as previously reported)	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
Effect of TFRS 15	--	--	--	--	--	--	--	(265.860)	(13.506)	(279.366)	--	(279.367)
Effect of TFRS 9	--	--	--	--	--	--	--	(2.356)	1.637	(719)	--	(719)
Balance as of 1 January 2018 Restated (*)	1.000.000	98.621	207.431	1.656	535.444	5.246	124.062	1.419.220	1.375.901	4.767.581	542	4.768.123
Transfers	--	--	--	--	--	--	48.624	1.242.677	(1.291.301)	--	--	--
Total Comprehensive Income	--	--	--	--	--	5.138	--	--	351.361	356.499	(19)	356.480
Dividends	--	--	--	--	--	--	--	--	(84.600)	(84.600)	--	(84.600)
Balance as of 31 March 2018	1.000.000	98.621	207.431	1.656	535.444	10.384	172.686	2.661.897	351.361	5.039.480	523	5.040.003

(*) The group has applied TFRS 15 and TFRS 9 with the date of initial application of 1 January 2015. Details are presented in note 2.2.

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 31 MARCH 2018

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

	Note References	31 March 2018	Restated (*) 31 March 2017
A. Cash Flows from Operating Activities		(605.029)	(146.045)
Profit for the period		351.342	343.698
Adjustments to Reconcile Profit		227.010	(177.708)
- Adjustments for Depreciation and Amortization Expense		40.052	29.954
- Adjustments for Impairment Loss		3.329	1.273
<i>Adjustments for Impairment Loss of Receivables</i>	5	1.302	349
<i>Adjustments for Impairment Loss of Inventories</i>	7	2.027	924
- Adjustments for Provisions		68.508	26.767
<i>Adjustments for Provisions Related with Employee Benefits</i>	13	6.595	5.160
<i>Adjustments for / (Reversal of) Lawsuit and/or Penalty Provisions</i>		15.549	(10.566)
<i>Adjustments for Warranty Provisions</i>		44.237	23.782
<i>Adjustments for (Reversal of) Other Provisions</i>		2.127	8.391
- Adjustments for Interest (Income) Expenses		50.582	45.891
<i>Adjustments for Interest Income</i>		(74.338)	(54.976)
<i>Adjustments for Interest Expense</i>		124.920	100.867
- Share of profit/loss of Equity Accounted Investments		2.701	(8.120)
- Adjustments for Tax Income		(36.294)	(37.687)
- Adjustments for Losses on Disposal of Non-Current Assets	9	4.984	6.041
- Adjustments for Stage of Completion of Construction or Service Contracts in Progress		84.159	(198.391)
Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		10.406	(14.108)
Other Non-Cash Adjustments		(1.417)	(29.328)
Changes in Working Capital		(1.152.599)	(289.750)
- Adjustments for Decrease (Increase) in Trade Receivables		(591.798)	198.601
- Adjustments for Decrease (Increase) in Other Receivables Related with Operations		13.153	(12.511)
- Adjustments for Decrease (Increase) in Inventories		(282.059)	(87.694)
- Decrease (Increase) in Prepaid Expenses		(344.833)	(257.239)
- Adjustments for Increase (Decrease) in Trade Payables		(78.148)	(46.217)
- Increase (Decrease) in Employee Benefit Obligations	13	(2.107)	(16.473)
- Adjustments for Increase (Decrease) in Other Operating Payables		562	343
- Increase (Decrease) in Government Grants and Incentives		(1.317)	(119)
- Increase (Decrease) in Deferred Income		230.439	(15.196)
- Adjustments for Other Increase (Decrease) in Working Capital		(96.491)	(53.245)
Cash Flows From Operations		(574.247)	(123.760)
Payments Related with Provisions for Employee Benefits	13	(4.625)	(4.062)
Payments Related with Other Provisions		(25.440)	(17.796)
Income Taxes Refund (Paid)		(717)	(427)
B. Cash Flows From Investing Activities		(139.283)	(107.850)
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		39	322
Purchase of Property, Plant and Equipment		(48.610)	(34.393)
Purchase of Intangible Assets	9	(86.591)	(69.226)
Dividends Received		700	8.938
Other Cash Inflows (Outflows)		(4.821)	(13.491)
C. Cash Flows From Financing Activities		(44.782)	(72.347)
Proceeds from Borrowings		96.582	202.748
Repayments of Borrowings		(146.961)	(281.461)
Interest Paid	19	(954)	(3.453)
Interest Received		6.551	9.819
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		(789.094)	(326.242)
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		7.230	32.432
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(781.864)	(293.810)
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1.261.753	1.167.894
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	3	479.889	874.084

(*) The group has applied TFRS 15 and TFRS 9 with the date of initial application of 1 January 2015. Details are presented in note 2.2.

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

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 31 MARCH 2018

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

1. ORGANIZATION AND OPERATIONS OF THE GROUP

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

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

As of the reporting dates, the Company has been organized under five divisions under the Vice Presidency 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 Vice Presidencies above, 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 Presidency.

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, Certain management offices of the SST and REHİS Vice Presidencies' some management offices and Product Support Management of UGES Vice Presidency are located in Istanbul Teknopark.

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

The Company is registered to Capital Markets Board of Turkey ("CMB") and its shares have been quoted in Borsa İstanbul Anonim Şirketi ("BİST") since 1990. As of 31 March 2018, 15,30 percent of the Company's shares are publicly traded (31 December 2017: 15,30 percent) (Note 14).

The Company's trade registry address is Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle/Ankara. The average number of personnel employed by the Group as of 31 March 2018 is 5.544 (31 December 2017: 5.440).

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 31 MARCH 2018

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

1. ORGANIZATION AND OPERATIONS OF THE GROUP (continued)

The Company's consolidated subsidiaries are ASELSAN Baku Şirketi ("ASELSAN Baku"), Mikroelektronik Ar-Ge Tasarım ve Ticaret Limited Şirketi ("Mikro AR-GE"), ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Limited Şirketi ("ASELSANNET"), and ASELSAN Malaysia Sdn. Bhd (ASELSAN Malaysia). 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 condensed consolidated interim financial statements.

2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2.1 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 ("POASA").

The condensed consolidated financial statements of the Group for the quarter ended 31 March 2018 are prepared in accordance with TAS 34 "Interim Financial Reporting". Interim condensed consolidated financial statements do not include all the information and disclosures required to be included in the annual financial statements and should be read in conjunction with the annual financial statements prepared by the Group as at 31 December 2017.

Condensed consolidated financial statements are the first financial statements for which TFRS 15 and TFRS 9 applied. The changes in significant accounting policies are explained in note 2.2.

Preparation of the Consolidated Financial Statements

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

These consolidated financial statements have been approved for issue by the Board of Directors on 2 May 2018 with the resolution number 990. No authority other than General Assembly and legal entities has the right to amend the consolidated interim financial statements.

Functional and Presentation 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 condensed consolidated interim financial statements.

All amounts have been rounded to the nearest thousand, unless otherwise indicated and are expressed in thousands of TL or Foreign Currency unless otherwise stated. Kuruş is Turkish Currency subunit and 1 TL is equal to 100 Kuruş.

Accounting in hyperinflationary economies

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.

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation

Subsidiaries

The details of the of the Group are as follows:

Subsidiaries	Location	Functional Currency	Group's proportion of ownership and voting power held (%)		Main Activity
			31 March 2018	31 December 2017	
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 Malaysia ¹	Malaysia	MYR	100	100	Remote controlled weapon systems

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

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

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

Even though the Group 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 Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

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

¹ "ASELSAN Malaysia Sdn. Bhd." has been established in order to operate in the field of remote controlled weapon systems, of which ASELSAN owns present 100. The Company's capital is MYR 100, and the establishment has been registered in July 2017. According to the new business and project potentials in Malaysia, the Company has a plan to grow and establish local partnerships.

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

2.1 The Basis of Presentation (continued)

Subsidiaries (continued)

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to align with the Group accounting policies.

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

Joint Ventures:

The details of the Group's interests in joint ventures as of the dates 31 March 2018 and 31 December 2017 are as follows:

Joint Ventures	Main Activity	Country of incorporation and operation	Group's proportion of ownership and voting power held (%)	
			31 March 2018	31 December 2017
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 Anonim Şirketi ("YİTAL")	Production of micro and nano-sized devices containing semiconductor	Turkey	51	--

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Joint Ventures (continued):

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

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

ASELSAN Bilkent has been established in November 2014 and it is owned by the Company and İhsan Doğramacı Bilkent University with 50 percent ownership each. Construction of the company's facility have been completed in January 2016. It has been established to produce all varieties of semi-conductive and micro and nano sized devices containing similar technological materials. The facility was 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 has been established in order to operate in the field of micro and nano-sized devices containing semiconductor and similar technological materials. 51 percent of the company belongs to ASELSAN whereas, TÜBİTAK and Undersecretariat For Defence Industries hold 29 percent and 20 percent stake respectively. The entity's establishment was registered on 4 October, 2017.

The Group's joint ventures; IGG ASELSAN and ASELSAN Kazakhstan which were established in 2011, ASELSAN Jordan which was established in 2012 and ASELSAN Optik and ASELSAN Bilkent which were established in 2014, and SADEC LLC which was established in 2016, were included in the condensed consolidated interim financial statements by using the equity method.

2.2 Comparative Information and Restatement of Prior Period 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.

The group has applied TFRS 15 Revenue from Contracts with Customers and TFRS 9 Financial Instruments, that are effective from 1 January 2018 to prior periods retrospectively with the date of initial application of 1 January 2015, in accordance with the transition requirements of the respective standards and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

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2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
2.2 Comparative Information and Restatement of Prior Period Consolidated Financial Statements (continued)

- a) The following tables summarise the impacts of adopting TFRS 15 and TFRS 9 on the Group's statement of profit or loss and other comprehensive income for the 3 month period ended 31 March 2017 and annual consolidated statement of financial position and statement of profit or loss and other comprehensive income as at and for the years ended 31 December 2017 and 31 December 2016 :

31 December 2016	As Previously Reported	TFRS 15		TFRS 9	Restated 31 December 2016
		Effect of Change in Measurement	Effect of Significant Financing Component	Effect of Impairment	
ASSETS					
Current Assets	5.062.438	233.991	--	(19.060)	5.277.369
Trade Receivables	2.039.695	--	--	(19.060)	2.020.635
Inventories	1.187.398	226.295	--	--	1.413.693
Prepaid Expenses	380.150	7.696	--	--	387.846
Non-Current Assets	3.535.423	60.870	202.925	589	3.799.807
Trade Receivables	385.592	38.269	147.089	--	570.950
Intangible Assets	697.131	11.972	--	--	709.103
Deferred Tax Assets	384.573	10.629	55.836	589	451.627
TOTAL ASSETS	8.597.861	294.861	202.925	(18.471)	9.077.176
LIABILITIES					
Current Liabilities	2.235.678	337.375	426.271	--	2.999.324
Trade Payables	1.052.907	337.375	--	--	1.390.282
Deferred Income	370.581	--	426.271	--	796.852
Non-Current Liabilities	2.670.716	--	--	(16.115)	2.654.601
Long Term Provisions	203.133	--	--	(16.115)	187.018
EQUITY	3.691.467	(42.514)	(223.346)	(2.356)	3.423.251
Equity Attributable to Equity					
Holders of the Parent	3.691.004	(42.514)	(223.346)	(2.356)	3.422.788
Retained Earnings	997.649	(92.132)	(136.807)	(6.531)	762.179
Net Profit	795.191	49.618	(86.539)	4.175	762.445
TOTAL LIABILITIES AND EQUITY	8.597.861	294.861	202.925	(18.471)	9.077.176
PROFIT OR LOSS					
Revenue	3.768.116	122.289	(39.837)	--	3.850.568
Cost of Sales (-)	(2.845.098)	(60.266)	--	5.219	(2.900.145)
GROSS PROFIT	923.018	62.023	(39.837)	5.219	950.423
OPERATING PROFIT	818.740	62.023	(39.837)	5.219	846.145
OPERATING PROFIT BEFORE FINANCE EXPENSE					
FINANCE EXPENSE	818.953	62.023	(39.837)	5.219	846.358
Financial Income	66.361	--	140.567	--	206.928
Financial Expense (-)	(151.291)	--	(208.904)	--	(360.195)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS					
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	734.023	62.023	(108.174)	5.219	693.091
Tax Income from Continuing Operations	61.178	(12.405)	21.635	(1.044)	69.364
- Deferred Tax Income	62.726	(12.405)	21.635	(1.044)	70.912
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	795.201	49.618	(86.539)	4.175	762.455
Earnings per 100 Shares (in full kuruş)	79,52	4,96	(8,65)	0,42	76,24
Total Comprehensive Income	892.731	49.618	(86.539)	4.175	859.985

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2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
2.2 Comparative Information and Restatement of Prior Period Consolidated Financial Statements (continued)

31 December 2017	As Previously Reported	TFRS 15		TFRS 9	Restated 31 December 2017
		Effect of Change in Measurement	Effect of Significant Financing Component	Effect of Impairment	
ASSETS					
Current Assets	5.798.135	280.788	--	(20.536)	6.058.387
Trade Receivables	1.601.765	--	--	(20.536)	1.581.229
Inventories	1.944.389	277.242	--	--	2.221.631
Prepaid Expenses	654.137	3.546	--	--	657.683
Non-Current Assets	5.120.082	164.082	295.842	203	5.580.209
Trade Receivables	1.198.294	153.101	223.561	--	1.574.956
Intangible Assets	868.997	22.219	--	--	891.216
Deferred Tax Assets	589.529	(11.238)	72.281	203	650.775
TOTAL ASSETS	10.918.217	444.870	295.842	(20.333)	11.638.596
LIABILITIES					
Current Liabilities	2.671.635	420.431	599.647	--	3.691.713
Trade Payables	1.369.800	420.431	--	--	1.790.231
Deferred Income	300.459	--	599.647	--	900.106
Non-Current Liabilities	3.198.374	--	--	(19.614)	3.178.760
Long Term Provisions	231.281	--	--	(19.614)	211.667
EQUITY	5.048.208	24.439	(303.805)	(719)	4.768.123
Equity Attributable to Equity Holders of the Parent	5.047.666	24.439	(303.805)	(719)	4.767.581
Retained Earnings	1.687.436	(42.514)	(223.346)	(2.356)	1.419.220
Net Profit	1.387.770	66.953	(80.459)	1.637	1.375.901
TOTAL LIABILITIES AND EQUITY	10.918.217	444.870	295.842	(20.333)	11.638.596
PROFIT OR LOSS					
Revenue	5.360.279	31.775	20.199	--	5.412.253
Cost of Sales (-)	(4.005.346)	57.045	--	2.023	(3.946.278)
GROSS PROFIT	1.354.933	88.820	20.199	2.023	1.465.975
OPERATING PROFIT	1.173.065	88.820	20.199	2.023	1.284.107
OPERATING PROFIT BEFORE FINANCE EXPENSE	1.191.669	88.820	20.199	2.023	1.302.711
Financial Income	99.494	--	146.048	--	245.542
Financial Expense (-)	(120.140)	--	(263.151)	--	(383.291)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	1.171.023	88.820	(96.904)	2.023	1.164.962
Tax Income from Continuing Operations	216.826	(21.866)	16.445	(386)	211.018
- Deferred Tax Income	218.862	(21.866)	16.445	(386)	213.054
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	1.387.849	66.954	(80.459)	1.637	1.375.980
Earnings per 100 Shares (in full kurus)	138,78	6,95	(8,04)	0,16	137,60
Total Comprehensive Income	1.432.241	66.953	(80.459)	1.637	1.420.372

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

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

31 March 2017	As Previously Reported	TFRS 15		TFRS 9	Restated 31 March 2017
		Effect of Change in Measurement	Effect of Significant Financing Component	Effect Impairment	
PROFIT OR LOSS					
Revenue	990.426	89.875	(6.232)	--	1.074.069
Cost of Sales (-)	(757.395)	(3.333)	--	(349)	(761.077)
GROSS PROFIT	233.031	86.542	(6.232)	(349)	312.992
OPERATING PROFIT	260.640	86.542	(6.232)	(349)	340.601
OPERATING PROFIT BEFORE FINANCE EXPENSE	277.724	86.542	(6.232)	(349)	357.685
Financial Income	43.226	--	35.978	--	79.204
Financial Expense (-)	(43.462)	--	(87.416)	--	(130.878)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	277.488	86.542	(57.670)	(349)	306.011
Tax Income from Continuing Operations	43.392	(17.308)	11.533	70	37.687
- Deferred Tax Income	44.613	(17.308)	11.533	70	38.908
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	320.880	69.234	(46.137)	(279)	343.698
	320.885	69.234	(46.137)	(279)	343.703
Earnings per 100 Shares (in full kurus)					
PROFIT OR LOSS	32,09	6,92	(4,61)	--	34,37
Total Comprehensive Income	324.363	69.234	(46.137)	(279)	347.181

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

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

b) TFRS 15 Revenue from Contracts with Customers

TFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including TAS 18 Revenue, TAS 11 Construction Contracts and TFRYK 13 Customer Loyalty Programmes.

General model for revenue recognition

TFRS 15 requires revenue recognition for all contracts with customers to follow the five-step approach to revenue recognition.

Step 1: Identifying the contract

A contract exists only if it is legally enforceable, the collection of the consideration is probable, the rights to goods and services and payment terms can be identified, the contract has commercial substance; and the contract is approved and the parties are committed to their obligations.

If either contracts were negotiated as a single commercial package, or consideration in one contract depends on the other contract or goods or services (or some of the goods or services) are a single performance obligation the Group accounts the contracts as a single contract.

Step 2: Identifying the performance obligations

Group defines 'performance obligation' as a unit of account for revenue recognition. The Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either a good or service that is distinct; or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

A contract may contain promises to deliver a series of distinct goods or services that are substantially the same. At contract inception, an entity determines whether the series of goods or services is a single performance obligation.

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

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

b) TFRS 15 Revenue from Contracts with Customers (Continued)

Step 3: Determining the transaction price

In order to determine the transaction price, the Group assesses how much consideration it expects to be entitled to by fulfilling the contract. In arriving at the assessment, the Group considers variable elements of consideration, as well as the existence of a significant financing component.

Significant financing component

The Group revises the promised amount of consideration for the effect of a significant financing component to the amount that reflects what the cash selling price of the promised good or service.

As a practical expedient, the Group does not adjust the transaction price for the effects of a significant financing component if, at contract inception, the entity expects the period between customer payment and the transfer of goods or services to be one year or less. In cases where advance for the services are received and the payment scheme is broadly aligned with the Group's performance throughout the period, the Group concludes that the period between performance and payment is never more than 12 months, therefore the expedient is applied.

Variable consideration

The Group identifies items such as price concessions, incentives, performance bonuses, completion bonuses, price adjustment clauses, penalties, discounts, credits, or similar items may result in variable consideration if there is any in a customer contract.

Step 4: Allocating the transaction price to performance obligations

If distinct goods or services are delivered under a single arrangement, then the consideration is allocated based on relative stand-alone selling prices of the distinct goods or services (performance obligations). If directly observable stand-alone selling prices are not available, the total consideration in the service contracts is allocated based on their expected cost plus a margin.

Step 5: Recognition of revenue

The Group recognises revenue over-time if any of the following conditions is met:

- customer simultaneously receives and consumes the benefits as the entity performs, or
- the customer controls the asset as the entity creates or enhances it, or
- Group's performance does not create an asset for which the entity has an use; and alternative there is a right to payment for performance to date.

For each performance obligation that is satisfied over time, an entity selects a single measure of progress, which depicts the transfer of control of the goods or services to the customer. The Group uses a method that measures the work performed reliably.

The Group uses cost incurred to measure the progress towards to completion of the project where the input method is used and uses units transferred to measure the progress towards to completion of the project where the output method is used.

If a performance obligation is not satisfied over time, then the Group recognise revenue at the point in time at which it transfers control of the good or service to the customer.

Onerous contracts

The Group recognises a provision in accordance with TAS 37 "Provisions, Contingent Liabilities and Contingent Assets" when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits.

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

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

b) TFRS 15 Revenue from Contracts with Customers (continued)

Contract modifications

The Group recognises a contract modification as a separate contract if the modification results in a promise to deliver additional goods or services that are distinct and an increase in the price of the contract by an amount of consideration that reflects the entity's stand-alone selling price of those goods or services adjusted to reflect the circumstances of the contract. If the goods or services are distinct, then the entity accounts for the modification as if it were a termination of the existing contract and the creation of a new contract. If the modification to the contract does not add distinct goods or services, then the entity accounts for it on a combined basis with the original contract, as if the additional goods or services were part of the initial contract.

Impacts identified

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below

Under TFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Type of product/service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Product sales	Customers obtain control of products when the goods are delivered to and have been accepted at their premises. Invoices are generated and revenue is recognized at that point in time. Invoices are usually payable within 1 year.	Under TAS 18, revenue for these contracts or orders was recognized when a reasonable estimate of the returns could be made, provided that all other criteria for revenue recognition were met. If a reasonable estimate could not be made, then revenue recognition was deferred until the return period lapsed or a reasonable estimate of returns could be made. There has been no significant impact in the financial statements resulting from the sale of products due to the application of TFRS 15 accounting policies.
Long term contracts	Long term contracts include the design, production integration and delivery of a product or a group of products. Design is available for the customer and customer can benefit from design on its own or together with other readily available resources. Whether the client has the intellectual and industrial property rights to the design are specified in the contracts.	Under TAS 11 "Construction contracts" where the outcome of a contract could be estimated reliably, revenue was recognised over the the contract term. The Group used the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion was measured by the reference to the contracts cost incurred up to the reporting date as a percentage of total estimated cost for each contract.

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

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

b) TFRS 15 Revenue from Contracts with Customers (continued)

Type of product/service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Long term contracts	<p>Design creates a customer specific asset with no alternative use to the Group. Production and integration is to make the designed product ready for economic benefit for the customer. It is clearly stated in the contracts whether the Group has a legally enforceable right to payment for performance completed to date. The contract may include an advance payment. Advance payments help to ensure the financing of the Group to meet its obligations. The Group's long term contracts may include technology acquisition, training, maintenance-repair, and spare parts delivery obligations other than design and production. Performance obligations that do not meet the criteria for over time revenue recognition are accounted for point in time using output method.</p>	<p>For long term contracts, TFRS15 had a significant impact on the Group's accounting policies. In long-term contracts, performance obligations are classified as design, production and other. Other performance obligation consists of acquisition of technology, training, maintenance-repair, delivery of spare parts. Transaction prices include a significant financing component due to the long term nature of contracts and the inclusion of advance payments. The timing of payments provides a significant benefit to the customer or business by financing the transfer of goods or services to the customer. The performance obligations that meet the over time revenue recognition criteria are measured by the input method and are accounted for by the percentage of completion method. If a performance obligation does not meet the over time criteria, it is accounted for at a point in time. Revenue is recognized when the Customer takes control of the promised asset. TFRS 15 has significant effects for long term contracts for two main reasons:</p> <p>a) Changes on methods of recognition of revenue With the TFRS 15, it has been assessed that some of the performance obligations of these contracts do not meet the over time accounting criteria, and revenue is recognized at a point in time and with the output method. The impact of this change on the financial statements is presented in the note 2.2 b.</p> <p>b) Significant financing component Under TFRS 15, for long term contracts involving an important financing component, when the contracted goods or services are transferred, the contract price is adjusted to reflect the cash selling price. The impact of this change on the financial statements is presented in the note 2.2 b.</p>

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

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

TFRS 9 Financial Instruments

TFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces TAS 39 Financial Instruments: Recognition and Measurement.

i. Classification – Financial assets

TFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

TFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value Through Other Comprehensive Income ("FVOCI") and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing TAS 39 categories of held to maturity, loans and receivables and available for sale. Financial investments classified as "Available for Sale Financial Assets" in accordance with TAS 39 are classified as FVOCI in accordance with TFRS 9.

Under TFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Group does not have any embedded derivatives as of reporting date.

ii. Impairment – Financial assets and contract assets

TFRS 9 replaces the 'incurred loss' model in TAS 39 with a forward-looking 'expected credit loss' (ECL) model. This requires considerable judgement about how changes in economic factors affect ECLs, which is determined on a probability-weighted basis.

The new impairment model applies to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under TFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement (simplified approach) is always applied to trade receivables and contract assets without a significant financing component.

iii. Classification – Financial liabilities

TFRS 9 largely retains the existing requirements in TAS 39 for the classification of financial liabilities.

However, under TAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under TFRS 9 these fair value changes are generally presented as follows:

the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2015 .

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

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

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

TFRS 9 Financial Instruments (continued)

iv. Hedge accounting

When initially applying TFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of TAS 39 instead of the requirements in TFRS 9. During selection of the accounting policies, TFRS 9 gives option of continuing with TAS 39 hedge accounting principles and deferring hedge accounting rules in accordance with TFRS 9. The Group does not apply hedge accounting.

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 Summary of Significant Accounting Policies

Standards Issued But Not Yet Effective and Not Early Adopted as of 31 March 2018

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.

Amendments to TFRS 9 - Prepayment features with negative compensation

On December 2017, POASA has issued amendments to TFRS 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 TFRS 9. Under TFRS 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 TFRS 9

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

2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.4 Summary of Significant Accounting Policies (continued)****Standards Issued But Not Yet Effective and Not Early Adopted as of 31 March 2018 (continued)*****Standards Issued But Not Yet Effective and Not Early Adopted (continued)*****Amendments to TAS 28- Long-term Interests in Associates and Joint Ventures**

On December 2017, POASA has issued amendments to TAS 28 to clarify that entities also apply TFRS 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 TFRS 9 to such long-term interests before it applies related paragraphs of TAS 28. In applying TFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying TAS 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 TAS 28.

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

The following standards, interpretations and amendments to existing TFRS standards are issued by the IASB but these standards, interpretations and amendments to existing TFRS standards are not yet adapted/issued to TFRS by the POASA, 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 POASA 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.

TFRS 16 Leases

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

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

2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.4 Summary of Significant Accounting Policies (continued)**

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

TFRYK 23 –Uncertainty Over Income Tax Treatments

On 17 June 2017, IASB issued TFRYK 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. TAS 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 TAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRYK 23.

Annual Improvements to TFRSs 2015-2017 Cycle**Improvements to TFRSs**

TASB issued Annual Improvements to TFRSs - 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 TFRSs will have significant impact on its consolidated financial statements.

TFRS 3 Business Combinations and TFRS 11 Joint Arrangements

TFRS 3 and TFRS 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.

TAS 12 Income Taxes

TAS 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.

TAS 23 Borrowing Costs

TAS 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.

Amendments to TAS 19 - Plan Amendment, Curtailment or Settlement -

On 7 February 2018, TASB issued Plan Amendment, Curtailment or Settlement (Amendments to TAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). 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 TAS 19.

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

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

2.4 Summary of Significant Accounting Policies (continued)

Annual Improvements to TFRSs 2015-2017 Cycle (continued)

Improvements to TFRSs (continued)

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the TASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing TFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no TFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no TFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

TFRS 17 –Insurance Contracts

On 18 May 2017, TASB issued TFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. TFRS 17 replaces TFRS 4, which was brought in as an interim Standard in 2004. TFRS 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. TFRS 17 solves the comparison problems created by TFRS 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. TFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier.

The Group does not expect that application of TFRS 17 will have significant impact on its consolidated financial statements.

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3. CASH AND CASH EQUIVALENTS

	31 March 2018	31 December 2017	31 March 2017
Cash	168	153	141
Banks			
- Time deposit	463.813	1.100.402	872.028
- Demand deposit	15.870	161.170	1.814
Other	38	28	101
Cash and cash equivalents on the cash flow statement	479.889	1.261.753	874.084
Interest income accruals	513	1.151	2.060
	480.402	1.262.904	876.144

As of 31 March 2018, the Group had time deposits denominated in foreign currencies with maturities in April 2018 (31 December 2017: January-February 2018). with the interest rates between 1,8 percent and 4,50 percent (31 December 2017: 1,85 percent to 5,01 percent) amounting to TL 361.363 (31 December 2017: TL 942.197).

As of 31 March 2018, the Group had time deposits denominated in TL terms with maturities in April 2018 (31 December 2017: January-February 2017) and TL 102.450 (31 December 2017: TL 158.205) at the interest rate of 14,20 percent and 14,80 percent (31 December 2017: 14,25 and 15,75 percent).

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4. RELATED PARTY DISCLOSURES

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

The trade receivables from related parties generally arise from sales activities with maturities of 1-2 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 March 2018 is TL 2.249 (31 March 2017: TL 1.990).

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

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

	31 March 2018									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
	Trading	Prepaid Expenses	Other Receivables	Trading	Prepaid Expenses	Trading	Deferred Income	Other Payables ¹	Trading	Deferred Income
Balances with related parties										
<u>Main shareholder</u>										
TSKGV	5	--	--	--	--	--	--	71.557	--	--
<u>Other shareholder</u>										
Axa Sigorta Anonim Şirketi ("Axa Sigorta")	--	--	--	--	--	--	--	154	--	--
<u>Main shareholder's subsidiaries and associates</u>										
Hava Elektronik Harp Sistemleri Mühendislik Ticaret Anonim Şirketi ("HAVELSAN EHSİM")	--	996	--	--	--	523	--	--	--	--
Hava Elektronik Sanayi ve Ticaret Anonim Şirketi ("HAVELSAN")	11.811	14.675	--	957	13.626	20.468	--	--	--	--
HAVELSAN Teknoloji Radar Sanayi ve Ticaret Anonim Şirketi ("HTR")	--	4.205	--	--	626	5.881	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	7.223	--	--	6.455	6.165	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	872	18.683	--	--	--	57.254	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	92.125	9.600	--	169	--	25.310	161.117	--	193.666	40.259
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	81.710	92	--	84.035	--	67.680	76.050	--	56.926	279.221
<u>Financial Instruments</u>										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPILSAN")	--	345	--	--	--	3.848	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	68.898	23.661	--	42.792	257.063	23.840	26.773	--	26.182	45.645
<u>Joint ventures and its related parties</u>										
İhsan Doğramacı Bilkent Üniversitesi	--	7.811	--	--	--	4.866	--	--	--	--
ASELSAN Bilkent	--	887	--	--	3.939	--	--	--	--	--
ASELSAN Optik	--	26.523	--	--	7.170	8.500	--	--	--	--
IGG	23.984	--	--	--	--	--	--	--	--	--
IGG ASELSAN	2.069	--	--	8.552	--	982	--	--	--	--
ASELSAN Kazakistan	58.763	--	--	11.512	--	14.712	2.322	--	--	--
ASELSAN Ürdün	30.469	--	--	--	--	73	--	--	--	--
Savunma Sanayi Müsteşarlığı ("SSM")	421.677	90	--	755.224	--	282.296	620.288	--	774.751	925.169
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	12.141	--	--	21.574	--	--	1.023	--	13.298	533
TÜBİTAK BİLGEM	--	2.956	--	--	3.559	12.093	--	--	--	--
TÜBİTAK-UME	--	341	--	--	--	3	--	--	--	--
TÜBİTAK SAGE Savunma Sanayii	6	14.556	--	7.534	9.266	4.149	--	--	--	--
SADEC LLC	225	--	--	--	--	--	--	--	--	--
YİTAL	--	--	--	--	--	--	--	--	--	--
<u>Publicly Held Shares</u>	--	--	--	--	--	--	--	12.945	--	--
	804.755	132.644	--	932.349	301.704	538.643	887.573	84.656	1.064.823	1.290.827

¹ Other payables mainly comprised of dividends payable for the year ended 31 December 2017

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4. 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
Ana ortak										
TSKGV	28	--	--	--	--	--	--	--	--	--
Diğer ortak										
Axa Sigorta	--	--	--	--	--	--	--	65	--	--
Ana ortağın ortakları/iştirakleri/bağlı ortaklıkları										
HAVELSAN EHSİM	--	1.165	--	--	--	--	--	--	--	--
HAVELSAN	11.095	21.482	--	1.919	7.365	21.585	--	--	--	--
HTR	--	2.319	--	--	--	6.875	--	--	--	--
İŞBİR	2	12.878	--	--	1.683	6.403	--	--	--	--
NETAŞ	714	2.090	--	--	15.056	41.273	--	--	--	--
STM	55.650	7.577	--	193	--	18.263	133.317	--	144.705	60.871
TUSAŞ	65.044	92	--	101.521	--	68.319	65.629	--	64.381	285.669
Financial Investments										
ASPİLSAN	--	1.235	--	--	--	8.901	--	--	--	--
ROKETSAN	32.335	787	--	72.303	124.686	34.171	18.969	--	11.473	52.520
Joint ventures and its related parties										
ASELSAN Bilkent Mikro Nano	--	215	--	--	4.405	1.890	--	--	--	--
İhsan Doğramacı Bilkent Üniversitesi	--	4.455	--	--	41	6.135	--	--	--	--
ASELSAN Optik	1.882	22.261	--	--	--	12.436	--	--	--	--
IGG	21.535	--	--	8.552	--	--	--	--	--	--
IGG ASELSAN	747	--	--	--	--	916	--	--	--	--
ASELSAN Kazakistan	52.547	--	--	14.015	--	14.884	956	--	--	--
ASELSAN Ürdün	24.545	--	--	9.610	--	--	--	--	--	--
TÜBİTAK BİLGEM	--	6.072	--	--	254	3.770	--	--	--	--
TÜBİTAK-UME	--	228	--	--	--	3	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	10.063	--	--	17.056	--	--	1.023	--	14.506	13.631
TÜBİTAK SAGE Savunma Sanayii	--	9.699	--	6.566	11.997	11.000	--	--	--	--
TÜBİTAK UZAY TEKNOLOJİLERİ	--	--	--	--	--	--	--	--	--	--
SSM	184.440	--	--	853.944	--	255.446	466.943	--	813.311	1.048.655
YİTAL	--	--	14	--	--	--	--	--	--	--
Ankaref Bilişim Teknolojileri Limited Şirketi ("ANKAREF")	--	--	20	--	--	--	--	--	--	--
SADEC LLC	214	--	--	--	--	--	--	--	--	--
	460.841	92.555	34	1.085.679	165.487	512.270	686.837	65	1.048.376	1.461.346

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4. RELATED PARTY DISCLOSURES (continued)

	1 January- 31 March 2018	1 January- 31 March 2017
Transactions with related parties	Purchases	Purchases
<u>Main Shareholder</u>		
TSKGV	188	166
<u>Main shareholder's subsidiaries and associates</u>		
NETAŞ	24.235	26.426
İŞBİR	8.165	3.753
HTR	5.195	3.186
TUSAŞ	10	94
HAVELSAN EHSİM	587	--
STM	4.999	--
<u>Financial Investments</u>		
ROKETSAN	947	2.743
ASPİLSAN	1.872	1.532
<u>Joint ventures and its related parties</u>		
İhsan Doğramacı Bilkent Üniversitesi	4.545	1.776
TÜBİTAK BİLGEM	9.280	--
TÜBİTAK-UME	4	--
TÜBİTAK SAGE Savunma Sanayii	1.025	--
	61.052	39.676

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4. RELATED PARTY DISCLOSURES (continued)

	1 January- 31 March 2018	1 January- 31 March 2017
Transactions with related parties	Sales	Sales
<u>Main Shareholder</u>		
TSKGV	54	80
<u>Main shareholder's subsidiaries and associates</u>		
TUSAŞ	58.128	41.343
STM	83.975	1.459
HAVELSAN	--	362
NETAŞ	134	--
<u>Financial Investments</u>		
ROKETSAN	42.269	10.214
<u>Joint ventures and its related parties</u>		
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	16.312	--
TÜBİTAK SAGE Savunma Sanayii	994	--
SSM	713.861	--
	915.727	53.458

The transaction with related parties are generally due to the purchase and sale of goods and services.

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

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

	31 March 2018	31 December 2017 (Restated)
Short-term trade receivables		
Trade receivables	1.377.016	1.113.644
Trade receivables from related parties (Note 4)	804.755	460.841
Notes receivable	6.531	6.744
Doubtful trade receivables	22.759	21.457
Allowance for doubtful trade receivables (-)	(22.759)	(21.457)
	2.188.302	1.581.229

	31 March 2018	31 December 2017 (Restated)
Long-term trade receivables		
Unbilled receivables from construction contracts in progress	469.848	418.963
Trade receivables	75.497	70.314
Unbilled receivables from construction contracts in progress-Related party (Note 4)	918.924	1.069.010
Notes receivables	6	--
Trade receivables from related parties (Note 4)	13.425	16.669
	1.477.700	1.574.956

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

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

	31 March 2018	31 March 2017 (Restated)
Opening balance	21.457	19.980
Provision for the period	1.302	349
Closing balance	22.759	20.329

The sectoral distribution of trade receivables is as follows:

	31 March 2018	31 December 2017 (Restated)
Public sector	1.635.232	1.465.436
Receivables from companies operating abroad	882.981	928.008
Private sector	1.147.789	762.741
Total receivables	3.666.002	3.156.185

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

b) Trade payables

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

	31 March 2018	31 December 2017 (Restated)
Short-term trade payables		
Trade payables	1.036.053	1.123.688
Unearned revenue related to construction contracts in progress	115.748	152.376
Unearned revenue related to construction contracts in progress-Related party (Note 4)	373.062	486.529
Due to related parties (Note 4)	165.581	25.741
Other trade payables	1.023	1.897
	1.691.467	1.790.231
Long-term trade payables		
Unearned revenue related to construction contracts in progress	172.380	213.639
Unearned revenue related to construction contracts in progress- Related party (Note 4)	1.064.823	1.048.376
	1.237.203	1.262.015

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2018**

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6. EQUITY ACCOUNTED INVESTMENTS

The Group's financial information for its shareholdings accounted for with the equity method is as below:

31 March 2018	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN Kazakhstan	49	74.395	103.365	177.760	81.653	5.604	87.257
ASELSAN Jordan	49	36.387	15.447	51.834	28.779	--	28.779
ASELSAN Optik	50	38.083	40.820	78.903	45.019	20.129	65.148
ASELSAN Bilkent	50	30.209	75.890	106.099	1.056	87.753	88.809
IGG ASELSAN	49	12.911	1.724	14.635	4.453	345	4.798
SADEC LLC	50	14.793	696	15.489	845	115	960
YİTAL	51	4.245	57	4.302	61	--	61
		211.023	237.999	449.022	161.866	113.946	275.812

31 March 2018	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN Kazakhstan	49	7.598	(5.421)	2.177	44.346	1.067
ASELSAN Jordan	49	71	(3.965)	(3.894)	11.297	(1.908)
ASELSAN Optik	50	7.984	(7.546)	438	6.877	219
ASELSAN Bilkent	50	898	(533)	365	8.645	183
IGG ASELSAN	49	7.133	(7.133)	--	4.820	--
SADEC LLC	50	41	(3.097)	(3.056)	7.265	(1.528)
YİTAL	51	--	(67)	(67)	2.163	(34)
		23.725	(27.762)	(4.037)	85.413	(2.001)

Aselsan Optik has paid dividend amounting to TL 1.400 (Aselsan's share: TL 700).

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

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6. EQUITY ACCOUNTED INVESTMENTS (continued)

The Group's financial information for its shareholdings accounted for with the equity method 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

International Golden Group made a cash capital payment of TL 9.122 IGG ASELSAN business partnership in 2017.

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6. EQUITY ACCOUNTED INVESTMENTS (continued)

The Group's financial information for its shareholdings accounted for with the equity method is as below:

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

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

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7. INVENTORIES

	31 March 2018	31 December 2017 (Restated)
Raw materials	1.150.298	974.457
Work in progress	1.037.584	849.796
Goods in transit ¹	119.682	209.176
Finished goods	134.521	115.375
Other inventories	38.131	36.170
Trade goods	53.985	62.318
Allowance for impairment on inventories (-)	(27.688)	(25.661)
	2.506.513	2.221.631

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

The Group has identified raw material, work-in progress and finished goods inventories whose net realizable value is below their costs within the current year. Therefore, there is a provision for inventories amounting to TL 27.668 in the statement of financial position (31 March 2017: TL 20.943).

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

	2018	2017
Opening balance	25.661	20.019
Provision for the period	2.154	928
Provision released	(127)	(4)
Closing balance	27.688	20.943

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2018**

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8. PREPAID EXPENSES AND DEFERRED INCOME

	31 March 2018	31 December 2017 (Restated)
Short-term prepaid expenses		
Order advances given for inventory purchases	722.258	520.419
Short-term order advances given to related parties for inventory purchases (Note 4)	132.644	92.555
Prepaid expenses	60.632	44.709
	915.534	657.683

	31 March 2018	31 December 2017
Long-term prepaid expenses		
Order advances given for inventory purchases	191.224	245.756
Long-term order advances given to related parties for inventory purchases (Note 4)	301.704	165.487
Order advances given for fixed assets purchases	32.892	28.191
Prepaid expenses	3.892	3.297
	529.712	442.731

	31 March 2018	31 December 2017 (Restated)
Short-term deferred income		
Order advances received	168.780	158.484
Order advances received from related parties (Note 4)	887.573	686.837
Deferred income	64.215	54.785
	1.120.568	900.106

Short-term order advances received comprises advances received from 46 customers (31 December 2017: 33 customers) of which first 10 customers constitutes 98,9 percent of the total (31 December 2017: 97,9 percent).

	31 March 2018	31 December 2017
Long-term deferred income		
Order advances received	458.318	181.417
Order advances received from related parties (Note 4)	1.290.827	1.461.346
Deferred income	3	3
	1.749.148	1.642.766

Long-term order advances received comprises advances received from 13 customers (31 December 2017: 12 customers) of which the largest 10 customers constitutes 99,77 percent of the total (31 December 2017: 99,9 percent).

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2018**

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9. TANGIBLE AND INTANGIBLE ASSETS

Cost	Property, Plant and Equipment	Intangible Assets
Opening balance as of 1 January 2018 (Reported)	1.867.168	1.190.172
Restatement Effect	--	22.219
Opening balance as of 1 January 2018 (Restated)	1.867.168	1.212.391
Additions	49.087	86.591
Disposals	(54)	(4.984)
Closing balance as of 31 March 2018	1.916.201	1.293.998
Accumulated Depreciation and Amortisation		
Opening balance as of 1 January 2018	776.325	321.175
Change for the period ¹	27.722	17.179
Disposals	(44)	--
Closing balance as of 31 March 2018	804.003	338.354
Net book value as of 31 March 2018	1.112.198	955.644
Net book value as of 31 December 2017 (Restated)	1.090.843	891.216
Cost		
Opening balance as of 1 January 2017 (Reported)	1.651.675	961.982
Restatement Effect	--	11.972
Opening balance as of 1 January 2017 (Restated)	1.651.675	973.954
Additions	34.773	69.226
Disposals	(347)	(6.041)
Closing balance as of 31 March 2017	1.686.101	1.037.139
Accumulated Depreciation and Amortisation		
Opening balance as of 1 January 2017	684.154	264.851
Change for the period	21.734	12.249
Disposals	(51)	--
Closing balance as of 31 March 2017	705.837	277.100
Net book value as of 31 March 2017 (Restated)	980.264	760.039
Net book value as of 31 December 2016 (Restated)	967.521	709.103

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

¹ The amount of amortization related to inventories are TL 4.819 in the year 2018 (March 2017: TL 4.029)

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

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10. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**a) Provisions**

	31 March 2018	31 December 2017
Other short-term provisions		
Provision for warranties ¹	273.508	253.253
Provision for onerous contracts	106.318	106.318
Provision for delay penalties ²	27.572	15.787
Provision for legal cases	8.222	5.917
Provision for cost expenses	2.945	1.527
Other	1.514	804
	420.079	383.606
	31 March 2018	31 December 2017 (Restated)
Other long-term provisions		
Provision of onerous contracts	42.925	42.925
	42.925	42.925

b) Legal cases

As of the dates 31 March 2018 and 31 December 2017, according to the declarations written by the legal counselors, amounts of the lawsuits and legal executions in favor of and against the Group are as follows:

Description	31 March 2018	31 December 2017
Not recognised in the financial statements		
a) Ongoing lawsuits filed by the Group	1.025	1.017
b) Proceedings carried out by the Group	8.709	8.691
Recognised in the financial statements		
c) Ongoing lawsuits filed against the Group	8.222	5.917
d) Lawsuits finalized against the Group within the period	40	99
e) Lawsuits finalized in favor of the Group within the period	80	2.304

- a) Ongoing lawsuits filed by the Group are comprised of lawsuits for patents, trademarks and lawsuits filed by the Group due to the disagreements related to previous lawsuits. These lawsuits will not be recognised in the financial statements until they are finalized.
- b) Execution of proceedings carried out by the Group are comprised of lawsuits that would result in favor of the Group that will be recognised as revenue under "Other Operating Income" line when they are collected.
- c) The Company made provisions for all lawsuits filed against the Group and recognised as "Provisions" in the statement of financial position and "Other Operating Expense" in the statement of profit or loss and other comprehensive income.
- d) Lawsuits finalized against the Group are recognised in the statement of profit or loss to the extent that the amount differs from the amount previously provided. Amounts in excess of the amount previously provided are recognised under 'Other Operating Expense' when the penalty is paid.

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

² Provision for delay penalties are calculated in accordance with interest rates mentioned in the agreement for default and the within the customer's knowledge.

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10. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

b) Legal cases (continued)

- e) Lawsuits finalized in favor of the Group are recognised in statement of profit or loss and other comprehensive income under "Other Operating Income" line when the final judgement is determined.

11. TAX

"Deferred Tax Assets" of the Group as of 31 March 2018 is TL 689.186. The amount is comprised of the items below.

	31 March 2018	31 December 2017 (Restated)
Carried Forward R&D Incentives Effect	864.288	772.334
Temporary Differences	(175.102)	(121.559)
Deferred Tax Assets - Net	689.186	650.775

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

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

In accordance with the law numbered 5746 pertaining to 1 January-31 March 2018 period. the Group has calculated "Deferred Tax Asset" amounting to TL 689.186 from Research and Development expenses comprising "Outstanding Research and Development Deductions".

	31 March 2018	31 March 2017 (Restated)
Profit before tax from continuing operations	315.048	306.011
Tax income recognized in profit or loss	36.294	37.687
Effective tax rate	12%	12%

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

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12. COMMITMENTS AND CONTINGENCIES

a) Guarantees received

	31 March 2018	31 December 2017
Letters of guarantees received from the suppliers	1.427.132	1.307.008
Collaterals received from the customers	14.602	13.546
Letters of guarantees received from the customers	3.630	3.313
Mortgages received from the customers	265	265
	1.445.629	1.324.132

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

The collaterals/pledges/mortgages ("CPM") given by the Group as of 31 March 2018 and 31 December 2017 are stated on the following page:

In accordance with the terms of the Patrol and Anti-Submarine Warfare Ship Projects ("MİLGEM"), the Company is a guarantor if HAVELSAN cannot be able to fulfill the obligations in this project of an amount of USD 267.826.

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12. COMMITMENTS AND CONTINGENCIES (continued)

b) Guarantees given (continued)

31 March 2018

	TL Equivalent	TL	USD	EURO	UAE Dirham	Indian Rupee	British Pound
A. Total amount of CPM given on behalf of the legal entity							
-Collateral	14.589.885	2.151.718	1.919.209	996.359	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	17.080	495	4.200	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
Total	14.606.965	2.152.213	1.923.409	996.359	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 March 2018 is 0,34 percent. TL 17.080 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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12. COMMITMENTS AND CONTINGENCIES (continued)

b) Guarantees given (continued)

31 December 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	1.838.751	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	13.321.259	1.916.512	1.842.951	984.226	50	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 2017 is 0,32 percent. TL 16.337 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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

	31 March 2018	31 December 2017
Social security premiums payable	36.789	36.593
Taxes and funds payable	6.182	8.403
Due to personnel	1.055	1.137
	44.026	46.133

b) Short-term provisions for employee benefits

	31 March 2018	31 December 2017
Provision for vacation pay liability	43.954	42.301

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

	2018	2017
Opening balance	42.301	43.362
Provision for the period	4.711	4.097
Provision paid during the period	(2.117)	(1.379)
Provision realised during the period	(941)	(62)
Closing balance	43.954	46.018

c) Other long-term provisions for employee benefits

	31 March 2018	31 December 2017
Provision for severance pay	155.380	155.107
Provision for retirement pay	13.679	13.635
	169.059	168.742

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

	2018	2017
Opening balance	168.742	150.997
Interest cost	4.253	4.623
Service cost	(1.428)	(3.678)
Termination cost	--	180
Payments	(2.508)	(2.683)
Closing balance	169.059	149.439

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.

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13. EMPLOYEE BENEFITS (continued)

Provision for severance pay (continued)

Certain provisions regarding services before retirement, has been annulled on 23 May 2002 during the revision of the related law. As of 31 March 2018 severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL¹ 5.002 (31 December 2017: TL¹ 4.732).

As of 1 January 2018, severance payments are limited to a ceiling of TL¹ 5.002 .

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.

Provision for retirement grant:

Retirement bonus provision is recognized for the employees with service of minimum 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 March 2018 (%)	31 December 2017 (%)
Interest rate	11,65	11,65
Inflation rate	8,50	8,50
Discount ratio	3,22	3,22
Estimation of probability of retirement ratio	97	97

¹ Amounts are expressed in full Turkish Lira.

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14. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

<u>Shareholders</u>	<u>Share (%)</u>	<u>31 March 2018</u>	<u>Share (%)</u>	<u>31 December 2017</u>
TSKGV	84,58	845.826	84,58	845.826
Publicly held	15,30	153.019	15,30	153.019
Axa Sigorta Anonim Şirketi	0,12	1.155	0,12	1.155
Nominal capital	100	1.000.000	100	1.000.000
Share capital adjustment		98.621		98.621
Inflation adjusted capital		1,098,621		1.098.621

The Group's nominal capital is TL 1.000.000 comprising 100.000.000.000 shares each of which is 1 kuruş. A total of 60.545.454.546 of the shares constitutes "Group A" and 39.454.545.454 of the shares constitutes "Group B" shares. All of the shares are nominative. "Group A" shares are privileged nominative shares and 6 Members of the Board of Directors are assigned from the holders of nominative "Group A" type shareholders or from the ones nominated by "Group A" type shareholders. Moreover, the Board of Directors shall be authorized in matters regarding issuing preferred shares or issuing shares above the nominal values. Regarding capital increases by restricting preemptive rights, the shares to be issued shall be "Group B". In accordance with the CMB's legislation, other Members of the Board of Directors, not including elected Independent Members of the Board of Directors, are assigned from nominative "Group A" shareholders or elected from among candidate nominated by "Group A" shareholders.

Privileged Nominative Shares¹			
	Class A	Class B	%
TSKGV	60.545.454.546	24.037.107.900	84,58
Publicly Held		15.301.868.465	15,30
Axa Sigorta Anonim Şirketi		115.569.089	0,12
Total Number of Shares Outstanding	100.000.000.000		100

Restricted reserves

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

As of 31 March 2018, The Group's restricted reserves set aside from profit comprises legal reserves. The total of the Group's legal reserves are TL 172.687 (31 December 2017: TL 124.062).

¹ It has been unanimously resolved in our Board of Directors meeting that was held on February 20, 2018 that the change in nominal value from 1 Kuruş to 1,- TL and the change in number of shares from 100 Billion to 1 Billion in order to facilitate share related calculations

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

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired.

Revaluation reserve

The revaluation reserve relates to the revaluation of property immediately before its reclassification as investment property.

Retained Earnings

Accumulated profits apart from net profit for the year and extraordinary reserves which is accumulated profit by nature are shown under retained earnings. As of 31 March 2018, the extraordinary reserves balance presented under retained earnings is TL 677.863 (31 December 2017: TL 677.863). Profits available for distribution are calculated following statutory requirements and is TL 710.142 (31 December 2017: TL 706.805). The effects of transition to TFRS 15 and TFRS 9 on retained earnings are presented in note 2.2.

Profit distribution

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

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

On 2 April 2018, in accordance with the consolidated financial statements, the General Assembly of the Company has decided to allocate legal reserve amounting to TL 47.947 of the TL 1.387.770 which is based on the profit distribution, and to distribute TL 84.600 in cash to shareholders for dividend payment and the remaining TL 1.255.223 to be within the Group. Thus, the cash gross dividend amount for TL 1 nominal value per share is Kuruş 8,64 net (31 December 2017: Kuruş 7,55 net).

Within 2018, dividend amounting to TL 84.600 in gross, 8,46 Kuruş per share of TL 1 (net profit amounting to TL 71.910, 7,19 Kuruş per share of TL 1) will be paid to shareholders. (31 December 2017: TL 75.500 in gross, 7,55 Kuruş per share of TL 1 (TL 64.174 in net , 6,42 Kuruş) per share of TL 1 was paid).

On 23 March 2018, General Assembly of ASELSANNET has decided to distribute TL 5.000 as dividend payments to shareholders and reserve TL 650 as retained earnings from net profit of the year 2017. Remaining TL 1.273 is decided to be allocated as extraordinary reserves (31 December 2017: 4.000).

All of the gross TL 84.600 of dividend payable to shareholders has not been paid to the shareholders as of 31 March 2018.

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15. REVENUE AND COST OF SALES

	1 January- 31 March 2018	1 January- 31 March 2017 (Restated)
Geographical region of revenue		
Domestic sales	1.251.039	991.972
Export sales	114.160	82.097
	1.365.199	1.074.069
Timing of revenue recognition		
Over time	1.052.074	744.860
At a point in time	313.125	329.209
	1.365.199	1.074.069
Type of customers		
Public	929.767	682.755
Private	435.432	391.314
	1.365.199	1.074.069
Performance obligations		
Sale of products	189.796	143.299
Long term contracts	1.175.403	930.770
-Design	574.566	385.370
-Production	570.040	512.560
-Other ¹	30.797	32.840
	1.365.199	1.074.069
b) Cost of sales(-)		
Cost of raw materials and supplies	618.486	313.069
Personnel expenses	21.592	16.358
Production overheads	66.121	59.376
Depreciation expenses	24.244	17.451
Change in work in progress	(187.788)	(45.576)
Change in finished goods	(19.146)	13.810
Development expenses ²	338.203	293.208
Cost of services sold	109.785	54.160
Cost of merchandise goods sold	44.301	17.301
Cost of other sales	17.516	21.920
	1.033.314	761.077

¹ Comprised of repair and maintenance, training and research of new technology obligations.

² Development expenses consist of raw material, design and personnel expenses. TL 113.636 (31 March 2017: TL 103.209) of development expenses is comprised of personnel cost.

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15. REVENUE AND COST OF SALES (continued)

As of and for the three month periods ended 31 March 2018 and 2017, the customer which exceeds 10 percent of receivables and sales is SSM. Details are shown in the table below:

	2018	2017 (Restated)
Trade Receivables	1.172.393	590.374
Sales	621.057	387.876
% of Total Trade Receivables	32	25
% of Total Sales	45	36

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

	1 January- 31 March 2018	1 January- 31 March 2017
Foreign currency exchange differences from operations	489.097	399.906
Amortized cost effect of trade payables	14.985	4.496
Other income	4.796	6.084
	508.878	410.486

b) Other operating expense (-)

	1 January- 31 March 2018	1 January- 31 Mart 2017
Foreign currency exchange differences from operations	355.154	297.312
Amortized cost effect of trade receivables	16.831	8.774
Other expense and losses	3.410	1.264
	375.395	307.350

17. INCOME FROM INVESTING ACTIVITIES

	1 January- 31 March 2018	1 January- 31 Mart 2017
Divident Income	--	8.938
Gain on sale of fixed assets	29	26
	29	8.964

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18. FINANCIAL INCOME

	1 January- 31 March 2018	1 January- 31 March 2017 (Restated)
Interest income	8.601	13.049
TFRS 15 Financial component interest income	50.753	35.978
Foreign currency exchange gain from bank loans	2.173	30.177
	61.527	79.204

19. FINANCIAL EXPENSES

	1 January- 31 March 2018	1 January- 31 March 2017 (Restated)
Interest cost of borrowings	10.730	1.225
TFRS 15 Interest cost of borrowings from financial component	96.405	87.415
Foreign currency exchange losses from bank loans	13.209	38.785
Discount expenses of bank loans	954	3.453
	121.298	130.878

20. EARNINGS PER SHARE

Earnings per share is calculated by dividing the portion of profit allocated to the Group's weighted average number of shares outstanding over the reporting term. The Group does not have diluted shares. For the periods ended 31 March 2018 and 31 March 2017, earnings per share calculations are as follows:

	1 January- 31 March 2018	1 January- 31 March 2017 (Restated)
Common stock (thousand)	100.000.000	100.000.000
Net profit – TL	351.361	343.703
Earnings per 100 shares (in full Kuruş)	35,14	34,37
Diluted Earnings per 100 shares (in full Kuruş)	35,14	34,37

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21. FINANCIAL LIABILITIES

Financial Liabilities

		31 March 2018	31 December 2017
Short-term financial liabilities	Unsecured loan	405.613	401.822
Other short-term financial liabilities	Unsecured loan	1.303	2.490
Current portion of long-term financial liabilities	Secured loan ¹	50.933	67.624
Total short-term financial liabilities		457.849	471.936
Other long-term financial liabilities	Secured loan ¹	47.751	62.207
Total long-term financial liabilities		47.751	62.207
Total financial liabilities		505.600	534.143

As of 31 March 2018, TL 142.312 of the short term financial borrowings are Eximbank Foreign Currency Credits, which have maturity dates due between July-November 2018 and interest rates between 2,28 – 2,93 percent. The remaining portion of the short-term borrowings consist of Eximbank TL Credits amounting to TL 263.301 which has interest rate between 12,5-14,00 percent. The short-term portions of long-term financial liabilities consist of USD 24.990 with principal payment of USD 12.898 and interest rates between 2,1 – 3,5 percent, with the maturity date of March-October 2018 of the Undersecretariat for Defense Industries.

As of 31 March 2018, other financial liabilities amounting to TL 1.303 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 12.092 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 24.990 was given for the loan.

As of 31 December 2017, the borrowings in short-term borrowings consist of Eximbank 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 for 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.

¹ Guarantee letter was given as a guarantee

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22. FOREIGN EXCHANGE POSITION

FOREIGN EXCHANGE POSITION						
31 March 2018	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other¹ (TL equivalent)
1. Trade Receivables	1.736.540	221.709	875.506	169.720	826.078	34.956
2a. Monetary financial assets (including cash. bank)	368.663	63.032	248.906	24.180	117.690	2.067
2b. Non- monetary financial assets	361.936	56.558	223.342	33.258	161.877	33.365
3. Other	4.456	25	98	877	4.270	88
4. Current assets (1+2+3)	2.471.595	341.324	1.347.852	228.035	1.109.915	70.476
5. Trade receivables	1.327.718	295.669	1.167.567	32.904	160.151	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	271.798	4.593	18.139	96.013	467.325	9.584
7. Other	15.798	1.806	7.131	1.663	8.095	572
8. Long-term assets (5+6+7)	1.615.314	302.068	1.192.837	130.580	635.571	10.156
9. Total assets (4+8)	4.086.909	643.392	2.540.689	358.615	1.745.486	80.632
10. Trade payables	842.659	159.562	630.094	40.595	197.590	14.975
11. Financial liabilities	199.326	50.476	199.326	--	--	--
12a. Other monetary financial liabilities	403	94	373	6	30	--
12b. Other non-monetary financial liabilities	318.668	61.143	241.446	62.899	306.146	--
13. Current liabilities (10+11+12)	1.361.056	271.275	1.071.239	103.500	503.766	14.975
14. Trade payables	1.223.905	228.507	902.351	66.064	321.554	--
15. Financial liabilities	47.751	12.092	47.751	--	--	--
16a. Other monetary financial liabilities	40	7	26	3	14	--
16b. Other non-monetary financial liabilities	835.642	187.006	738.469	259.720	1.264.137	--
17. Non-current liabilities (14+15+16)	2.107.338	427.612	1.688.597	325.787	1.585.705	--

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

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22. FOREIGN EXCHANGE POSITION (continued)

FOREIGN EXCHANGE POSITION						
31 March 2018	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other (TL equivalent)
18. Total liabilities (13+17)	3.468.394	698.887	2.759.836	429.287	2.089.471	14.975
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)	618.515	(55.495)	(219.147)	(70.672)	(343.985)	65.657
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10- 11-12a-14-15-16a)	1.118.837	129.672	512.058	120.136	584.731	22.048
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	114.160	21.774	81.330	3.910	18.132	14.698
26. Imports	620.003	101.729	401.715	36.475	177.536	40.752

The accompanying foreign exchange position which was prepared in accordance with TFRS, is different from the foreign exchange position per the statutory accounts.

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22. FOREIGN EXCHANGE POSITION (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	Other¹ (TL equivalent)
1. Trade Receivables	1.388.153	201.417	759.726	131.427	593.461	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	1.101.629	223.923	844.616	56.918	257.013	--
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)	1.417.224	238.586	899.922	153.801	694.488	7.132
9. Total assets (4+8)	4.198.002	711.104	2.682.213	367.635	1.660.059	83.727
10. Trade payables	987.196	180.225	679.790	63.582	287.105	20.301
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	699.632	187.043	705.506	31.428	141.911	--
13. Current liabilities (10+11+12)	1.804.526	398.459	1.502.946	95.020	429.064	20.301
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 Consists of CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR currencies.

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22. FOREIGN EXCHANGE POSITION (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 (TL equivalent)
18. Total liabilities (13+17)	3.875.291	809.810	3.054.518	439.070	1.982.621	20.301
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)	322.711	(98.706)	(372.305)	(71.435)	(322.562)	63.426
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10- 11-12a-14-15-16a)	1.473.565	302.949	1.142.698	69.593	314.245	16.623
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

The accompanying foreign exchange position which was prepared in accordance with TFRS, is different from the foreign exchange position per the statutory accounts. The difference is mainly due to the adjustments and classifications which are related with TFRS 15.

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22. FOREIGN EXCHANGE POSITION (continued)
Foreign currency sensitivity

The Group is exposed to foreign currency risk with respect to USD and EURO. As of 31 March 2018, USD 1: TL 3,9489 (31 December 2017: TL 3,7719), EURO 1: TL 4,8673 (31 December 2017: TL 4,5155).

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

Foreign currency sensitivity table				
31 March 2018				
	Profit/Loss		Equity¹	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	51.205	(51.205)	51.205	(51.205)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	51.205	(51.205)	51.205	(51.205)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	58.473	(58.473)	58.473	(58.473)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	58.473	(58.473)	58.473	(58.473)
Change of other² currencies against TL by 10%:				
7- Other currencies denominated net assets/ (liabilities)	2.205	(2.205)	2.205	(2.205)
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	2.205	(2.205)	2.205	(2.205)

¹ Comprises of profit/loss effect.

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

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

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

Foreign currency sensitivity table				
31 December 2017				
	Profit/Loss		Equity¹	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	114.270	(114.270)	114.270	(114.270)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	114.270	(114.270)	114.270	(114.270)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	31.424	(31.424)	31.424	(31.424)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	31.424	(31.424)	31.424	(31.424)
Change of other² 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.² Consists of CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR currencies.

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

31 March 2018	Financial assets at fair value	Loans and receivables (including cash and cash equivalents)	Available for sale financial assets	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
Cash and cash equivalents	--	480.402	--	--	480.402	3
Blocked deposits	--	48.568	--	--	48.568	
Financial investments	147	--	568.767	--	568.914	
Trade receivables	--	3.666.002	--	--	3.666.002	5
<u>Financial liabilities</u>						
Borrowings	--	--	--	505.600	505.600	21
Trade payables	--	--	--	2.928.670	2.928.670	5
Other payables	--	--	--	86.762	86.762	

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
<u>Financial assets</u>						
Cash and cash equivalents	--	1.262.904	--	--	1.262.904	3
Blocked deposits	--	57.550	--	--	57.550	
Financial investments	147	--	568.767	--	568.914	
Trade receivables	--	3.156.185	--	--	3.156.185	5
<u>Financial liabilities</u>						
Borrowings	--	--	--	534.143	534.143	21
Trade payables	--	--	--	3.052.246	3.052.246	5
Other payables	--	--	--	1.599	1.599	

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

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

31 March 2018	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
ROKETSAN	--	--	568.767
	--	--	568.767

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

The movement of the fair value level as of 31 March 2018 is as follows:

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
1 January 2017	--	--	568.767
Additions	--	--	--
31 March 2018	--	--	568.767

24. EVENTS AFTER THE REPORTING PERIOD

Amount of contracts signed by Group after the reporting date is approximately USD 382 Million (TL 1.532 Million).

Application was made to the CMB on 17 April, 2018 for the secondary public offering of the Company.

The registered capital increase of the Company and the amendment of the Articles of Association were registered on 12 April, 2018 and were announced in the Turkey Trade Registry Gazette dated 17 April 2018.

Within the scope of TL 2.000.000 related notifications of ASELSAN A.Ş., TL 1.000.000 was increased by TL 210.000 to TL 1.210.000 of the existing issued capital.

The decision of the General Assembly regarding profit distribution is disclosed in footnote 14.