

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
AS OF AND FOR THE SIX-MONTH PERIOD ENDED  
30 JUNE 2018

14 August 2018

This report contains condensed consolidated interim financial information and related disclosures and footnotes comprising 56 pages.

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

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

#### Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries (together "the Group") as at 30 June 2018, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with Turkish Accounting Standards 34 Interim Financial Reporting ("TAS 34") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

#### Scope of Review

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

#### Conclusion

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

#### Other Matter

The consolidated financial statements of Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi and its Subsidiaries as at and for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those financial statements on 20 February 2018.

The condensed consolidated interim financial information as of 30 June 2016 has been reviewed by another auditor who concluded that nothing has come to their attention that causes them to believe that the condensed consolidated interim financial information is not prepared in all material respects, in accordance with TAS "Interim Financial Reporting" dated 21 August 2017

Yeditepe Bağımsız Denetim Anonim Şirketi  
(Associate member of PRAXITY AISBL)

Mehmet Nadi Abbasoğlu  
Partner

14 August 2018, İstanbul , Turkey

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**ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF INTERIM FINANCIAL POSITION AS OF 30 JUNE 2018**

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

	Note References	Current Period Reviewed 30 June 2018	Restated(*) Prior Period Audited 31 December 2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	3	3.446.981	1.262.904
Trade Receivables	5	2.153.454	1.581.229
<i>From Related Parties</i>	4	634.674	460.841
<i>From Third Parties</i>		1.518.780	1.120.388
Other Receivables		112.840	112.761
<i>From Related Parties</i>	4	1.688	34
<i>From Third Parties</i>		111.152	112.727
Inventories	7	2.922.018	2.221.631
Prepaid Expenses	8	950.121	657.683
<i>From Related Parties</i>	4	147.242	92.555
<i>From Third Parties</i>		802.879	565.128
Other Current Assets		319.504	222.179
<b>Non-Current Assets</b>			
Financial Investments		569.179	568.914
Trade Receivables	5	1.833.110	1.574.956
<i>From Related Parties</i>	4	1.170.325	1.085.679
<i>From Third Parties</i>		662.785	489.277
Other Receivables		957	661
<i>From Third Parties</i>		957	661
Equity Accounted Investees	6	89.317	83.324
Property, Plant and Equipment	9	1.139.405	1.090.843
Intangible Assets	9	942.015	891.216
Prepaid Expenses	8	590.821	442.731
<i>From Related Parties</i>	4	300.772	165.487
<i>From Third Parties</i>		290.049	277.244
Deferred Tax Assets	11	690.936	650.775
Other Non-Current Assets		348.849	276.789
<b>TOTAL ASSETS</b>		<b>16.109.507</b>	<b>11.638.596</b>

(\*) 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 STATEMENT OF INTERIM FINANCIAL POSITION AS OF 30 JUNE 2018**

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

	Note References	Current Period Reviewed 30 June 2018	Restated(*) Prior Period Audited 31 December 2017
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>3.395.041</b>	<b>3.691.713</b>
Short-term Financial Liabilities	21	441.315	404.312
Short-term Portion of Long-term Financial Liabilities	21	57.793	67.624
Trade Payables	5	1.607.155	1.790.231
<i>To Related Parties</i>	4	413.017	512.270
<i>To Third Parties</i>		1.194.138	1.277.961
Employee Benefit Obligations	13	51.996	46.133
Other Payables		58.543	1.494
<i>To Related Parties</i>	4	56.456	65
<i>To Third Parties</i>		2.087	1.429
Government Grants and Incentives		42.543	41.643
Deferred Income	8	651.771	900.106
<i>To Related Parties</i>	4	392.063	686.837
<i>To Third Parties</i>		259.708	213.269
Corporate Tax Liability		3.058	717
Short-term Provisions		475.559	425.907
<i>For Employee Benefits</i>	13	46.537	42.301
<i>Other</i>	10	429.022	383.606
Other Current Liabilities		5.308	13.546
<b>Non-Current Liabilities</b>		<b>4.138.950</b>	<b>3.178.760</b>
Long-term Financial Liabilities	21	46.379	62.207
Trade Payables	5	1.463.641	1.262.015
<i>To Related Parties</i>	4	1.272.305	1.048.376
<i>To Third Parties</i>		191.336	213.639
Other Payables		100	105
<i>To Third Parties</i>		100	105
Deferred Income	8	2.265.400	1.642.766
<i>To Related Parties</i>	4	1.854.355	1.461.346
<i>To Third Parties</i>		411.045	181.420
Long-term Provisions		363.430	211.667
<i>Long-term Provisions for Employee Benefits</i>	13	184.134	168.742
<i>Other</i>	10	179.296	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.

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**ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENT OF INTERIM FINANCIAL POSITION AS OF 30 JUNE 2018**

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

	Note References	Current Period Reviewed 30 June 2018	Restated(*) Prior Period Audited 31 December 2017
<b>EQUITY</b>		<b>8.575.516</b>	<b>4.768.123</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>8.574.965</b>	<b>4.767.581</b>
Share Capital	14	1.140.000	1.000.000
Inflation Adjustments on Share Capital	14	98.621	98.621
Share Premium		2.801.742	--
Other Comprehensive Income that will not be Reclassified to Profit or Loss		203.999	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>(3.432)</i>	<i>1.656</i>
Other Cumulative Comprehensive Income will or may be Reclassified to Profit/Loss		554.223	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>18.779</i>	<i>5.246</i>
Restricted Reserves	14	172.687	124.062
Retained Earnings		2.661.896	1.419.220
Net Profit		941.797	1.375.901
<b>Non-Controlling Interests</b>		<b>551</b>	<b>542</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>16.109.507</b>	<b>11.638.596</b>

(\*)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 SIX-MONTH PERIOD ENDED 30 JUNE 2018**

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

	Notes References	Current Period Reviewed 1 January- 30 June 2018	Current Period Reviewed 1 April- 30 June 2018	Restated (*) Current Period Reviewed 1 January- 30 June 2017	Restated (*) Current Period Reviewed 1 April- 30 June 2017
<b>PROFIT OR LOSS</b>					
Revenue	15	3.279.776	1.914.577	2.211.739	1.137.670
Cost of Sales (-)	15	(2.459.656)	(1.426.342)	(1.633.498)	(872.421)
<b>GROSS PROFIT</b>		<b>820.120</b>	<b>488.235</b>	<b>578.241</b>	<b>265.249</b>
General Administrative Expenses (-)		(100.460)	(56.121)	(82.524)	(42.551)
Marketing Expenses (-)		(64.582)	(39.185)	(53.750)	(30.820)
Research and Development Expenses (-)		(34.270)	(15.429)	(26.939)	(14.315)
Other Operating Income	16	1.530.701	1.021.823	644.711	234.225
Other Operating Expenses (-)	16	(1.117.688)	(742.293)	(576.147)	(268.797)
<b>OPERATING PROFIT</b>		<b>1.033.821</b>	<b>657.030</b>	<b>483.592</b>	<b>142.991</b>
Income from investing activities	17	3.489	3.460	9.126	162
Shares of profit/(losses) of Equity Accounted Investees	6	(5.948)	(3.947)	5.722	(2.398)
<b>OPERATING PROFIT BEFORE FINANCIAL EXPENSE</b>		<b>1.031.362</b>	<b>656.543</b>	<b>498.440</b>	<b>140.755</b>
Financial Income	18	173.830	112.303	159.567	80.363
Financial Expense (-)	19	(299.216)	(177.918)	(239.705)	(108.827)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>905.976</b>	<b>590.928</b>	<b>418.302</b>	<b>112.291</b>
<b>Tax Income from Continuing Operations</b>	11	<b>35.830</b>	<b>(464)</b>	<b>126.326</b>	<b>88.639</b>
- Current Corporate Tax Expense(-)		(3.059)	(942)	(1.096)	125
- Deferred Tax Income		38.889	478	127.422	88.514
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>941.806</b>	<b>590.464</b>	<b>544.628</b>	<b>200.930</b>
<b>Profit for the Period Attributable to</b>					
Non-Controlling Interest		9	28	48	53
Owners of the Company	20	941.797	590.436	544.580	200.877
		<b>941.806</b>	<b>590.464</b>	<b>544.628</b>	<b>200.930</b>
<b>Earnings for per 100 Shares (in full kuruş)</b>	20	<b>92,46</b>	<b>56,94</b>	<b>54,46</b>	<b>20,09</b>

(\*) 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 SIX-MONTH PERIOD ENDED 30 JUNE 2018**

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

Note References	Current Period Reviewed 1 January- 30 June 2018	Current Period Reviewed 1 April- 30 June 2018	Restated (*) Current Period Reviewed 1 January- 30 June 2017	Restated (*) Current Period Reviewed 1 April- 30 June 2017
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>				
<b>Items that will not to be reclassified subsequently in Profit or Loss</b>				
Loss on Remeasurement of Defined Benefit Plans	(5.088)	(5.088)	(2.847)	(2.847)
Deferred Tax Income / (Expense)	(6.360)	(6.360)	(3.559)	(3.559)
	1.272	1.272	712	712
<b>Items that may be reclassified subsequently to profit or loss</b>				
Foreign Currency Exchange Differences	13.533	8.396	1.141	(2.342)
	13.533	8.396	1.141	(2.342)
<b>OTHER COMPREHENSIVE INCOME</b>	<b>8.445</b>	<b>3.308</b>	<b>(1.706)</b>	<b>(5.189)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>950.251</b>	<b>593.772</b>	<b>542.922</b>	<b>195.741</b>
<b>Total Comprehensive Income Attributable to</b>				
Non-Controlling Interest	9	28	48	53
Owners of the Company	950.242	593.744	542.874	195.688
	<b>950.251</b>	<b>593.772</b>	<b>542.922</b>	<b>195.741</b>

(\*) 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 SIX-MONTH PERIOD ENDED 30 JUNE 2018

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

	Other Comprehensive Income / Expense that will not be Reclassified Subsequently to Profit or Loss					Other Comprehensive Income / Expense that may not be Reclassified Subsequently to Profit or Loss			Retained Earnings		Equity Attributable to Owners of the Company	Non-Controlling Interests	Total
	Share Capital	Inflation Adjustments on Share Capital	Share Premium/ (Discounts)	Gain on Revaluation of Property	Loss on Remeasurement of Defined Benefit Plans	Gain on Revaluation of Available for Sale Financial Assets	Cumulative Translation Adjustments	Restricted Reserves	Prior Years' Profit	Net Profit for the Period			
<b>Balance as of 1 January 2017 (as previously reported)</b>	<b>1.000.000</b>	<b>98.621</b>	<b>--</b>	<b>216.072</b>	<b>3.283</b>	<b>485.346</b>	<b>684</b>	<b>94.158</b>	<b>997.649</b>	<b>795.191</b>	<b>3.691.004</b>	<b>463</b>	<b>3.691.467</b>
Effect of TFRS 15	--	--	--	--	--	--	--	--	(228.939)	(36.921)	(265.860)	--	(265.860)
Effect of TFRS 9	--	--	--	--	--	--	--	--	(6.531)	4.175	(2.356)	--	(2.356)
<b>Balance as of 1 January 2017 Restated( *)</b>	<b>1.000.000</b>	<b>98.621</b>	<b>--</b>	<b>216.072</b>	<b>3.283</b>	<b>485.346</b>	<b>684</b>	<b>94.158</b>	<b>762.179</b>	<b>762.445</b>	<b>3.422.788</b>	<b>463</b>	<b>3.423.251</b>
Transfers (restated)	--	--	--	--	--	--	--	29.904	657.041	(686.945)	--	--	--
Total Comprehensive Income	--	--	--	--	(2.847)	--	1.141	--	--	544.580	542.874	48	542.922
Dividends	--	--	--	--	--	--	--	--	--	(75.500)	(75.500)	--	(75.500)
<b>Balance as of 30 June 2017</b>	<b>1.000.000</b>	<b>98.621</b>	<b>--</b>	<b>216.072</b>	<b>436</b>	<b>485.346</b>	<b>1.825</b>	<b>124.062</b>	<b>1.419.220</b>	<b>544.580</b>	<b>3.890.162</b>	<b>511</b>	<b>3.890.673</b>
<b>Balance as of 1 January 2018 (as previously reported)</b>	<b>1.000.000</b>	<b>98.621</b>	<b>--</b>	<b>207.431</b>	<b>1.656</b>	<b>535.444</b>	<b>5.246</b>	<b>124.062</b>	<b>1.687.436</b>	<b>1.387.770</b>	<b>5.047.666</b>	<b>542</b>	<b>5.048.208</b>
Effect of TFRS 15	--	--	--	--	--	--	--	--	(265.860)	(13.506)	(279.366)	--	(279.366)
Effect of TFRS 9	--	--	--	--	--	--	--	--	(2.356)	1.637	(719)	--	(719)
<b>Balance as of 1 January 2018 (as previously reported)</b>	<b>1.000.000</b>	<b>98.621</b>	<b>--</b>	<b>207.431</b>	<b>1.656</b>	<b>535.444</b>	<b>5.246</b>	<b>124.062</b>	<b>1.419.220</b>	<b>1.375.901</b>	<b>4.767.581</b>	<b>542</b>	<b>4.768.123</b>
Transfers	--	--	--	--	--	--	--	48.625	1.242.676	(1.291.301)	--	--	--
Capital Increase	140.000	--	2.801.742	--	--	--	--	--	--	--	2.941.742	--	2.941.742
Total Comprehensive Income	--	--	--	--	(5.088)	--	13.533	--	--	941.797	950.242	9	950.251
Dividends	--	--	--	--	--	--	--	--	--	(84.600)	(84.600)	--	(84.600)
<b>Balance as of 30 June 2018 (Closing Balance)</b>	<b>1.140.000</b>	<b>98.621</b>	<b>2.801.742</b>	<b>207.431</b>	<b>(3.432)</b>	<b>535.444</b>	<b>18.779</b>	<b>172.687</b>	<b>2.661.896</b>	<b>941.797</b>	<b>8.574.965</b>	<b>551</b>	<b>8.575.516</b>

(\*) 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 STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED  
30 JUNE 2018**

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

	Note References	Current Period Reviewed 30 June 2018	Restated (*) Prior Period Reviewed 30 June 2017
<b>A.Cash Flows from Operating Activities</b>		<b>(529.020)</b>	<b>(185.127)</b>
Profit for the period		941.806	544.628
<b>Adjustments to Reconcile Profit</b>		<b>316.361</b>	<b>(135.769)</b>
- Adjustments for Depreciation and Amortization Expense		81.759	61.747
- Adjustments for Impairment Loss		5.368	1.938
<i>Adjustments for Impairment Loss of Receivables</i>	5	787	349
<i>Adjustments for Impairment Loss of Inventories</i>	7	4.581	1.589
- Adjustments for Provisions		260.084	74.465
<i>Adjustments for Provisions Related with Employee Benefits</i>	13	23.435	14.488
<i>Adjustments for / (Reversal of)Lawsuit and/or Penalty Provisions</i>		132.579	491
<i>Adjustments for Warranty Provisions</i>		102.975	52.340
<i>Adjustments for (Reversal of) Other Provisions</i>		1.095	7.146
- Adjustments for Interest (Income) Expenses		79.754	78.781
<i>Adjustments for Interest Income</i>		(170.592)	(123.130)
<i>Adjustments for Interest Expense</i>		250.346	201.911
- Share of profit/loss of Equity Accounted Investments		6.648	(5.722)
- Adjustments for Tax Income		(35.830)	(126.326)
- Adjustments for Losses on Disposal of Non-Current Assets	9	58.589	35.209
- Adjustments for Stage of Completion of Construction or Service Contracts in Progress		(124.551)	(219.193)
Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		(4.077)	(24.015)
Other Non-Cash Adjustments		(11.383)	(12.653)
<b>Changes in Working Capital</b>		<b>(1.721.442)</b>	<b>(542.316)</b>
- Adjustments for Decrease (Increase) in Trade Receivables		(613.218)	666.689
- Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(375)	(16.163)
- Adjustments for Decrease (Increase) in Inventories		(695.177)	(157.564)
- Decrease (Increase) in Prepaid Expenses		(440.528)	(417.452)
- Adjustments for Increase (Decrease) in Trade Payables		19.646	(31.800)
- Increase (Decrease) in Employee Benefit Obligations	13	5.863	(12.761)
- Adjustments for Increase (Decrease) in Other Operating Payables		644	2.090
- Increase (Decrease) in Government Grants and Incentives		900	4.848
- Increase (Decrease) in Deferred Income		171.853	(488.797)
- Adjustments for Other Increase (Decrease) in Working Capital		(171.050)	(91.406)
<b>Cash Flows From Operations</b>		<b>(463.275)</b>	<b>(133.457)</b>
Payments Related with Provisions for Employee Benefits	13	(10.167)	(6.902)
Payments Related with Other Provisions		(54.861)	(44.341)
Income Taxes Refund (Paid)		(717)	(427)
<b>B.Cash Flows From Investing Activities</b>		<b>(250.921)</b>	<b>(233.312)</b>
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		55	1.086
Purchase of Property, Plant and Equipment		(97.801)	(63.966)
Purchase of Intangible Assets	9	(144.400)	(167.863)
Dividends Received		4.159	8.938
Other Cash Inflows (Outflows)		(12.934)	(11.507)
<b>C.Cash Flows From Financing Activities</b>		<b>2.938.099</b>	<b>(81.580)</b>
Proceeds from Borrowings		423.182	376.651
Repayments of Borrowings		(425.070)	(442.727)
Cash Inflows from Issuing Capital		2.941.742	--
Dividends Paid		(28.200)	(25.167)
Interest Paid	19	(8.334)	(7.199)
Interest Received		34.779	16.862
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)</b>		<b>2.158.158</b>	<b>(500.019)</b>
<b>D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>18.743</b>	<b>12.221</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>		<b>2.176.901</b>	<b>(487.798)</b>
<b>E.CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>1.261.753</b>	<b>1.167.894</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)</b>	<b>3</b>	<b>3.438.654</b>	<b>680.096</b>

(\*) 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 financial statements.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 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 Management Vice Presidency, and Technology and Strategy Management Vice Presidency making a total of eight Vice Presidencies .

The Company maintains engineering operations in Ankara, METU Teknokent; production and engineering operations in Macunköy, Akyurt and Gölbaşı. General Management is located in Ankara Macunköy. Furthermore, 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 74,20 percent of the capital and maintains control of the Company. TSKGV was established on 17 June 1987 with the law number 3388, in order to manufacture or import guns, equipment and appliances needed for Turkish Armed Forces.

The Company is registered to Capital Markets Board of Turkey ("CMB") and its shares have been quoted in Borsa İstanbul Anonim Şirketi ("BİST") since 1990. As of 30 June 2018, 25,70 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 30 June 2018 is 5.559 (31 December 2017: 5.440).

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 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 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 30 June 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.

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 14 August 2018 with the resolution number 1.015 . 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(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

##### 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
			30 June 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 <sup>1</sup>	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).

<sup>1</sup> "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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(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)

##### 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 30 June 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 (%)	
			30 June 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	--

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(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.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

(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)**

- 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 6 month period ended 30 June 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	
<b>ASSETS</b>					
<b>Current Assets</b>	<b>5.062.438</b>	<b>233.991</b>	<b>--</b>	<b>(19.060)</b>	<b>5.277.369</b>
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
<b>Non-Current Assets</b>	<b>3.535.423</b>	<b>60.870</b>	<b>202.925</b>	<b>589</b>	<b>3.799.807</b>
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
<b>TOTAL ASSETS</b>	<b>8.597.861</b>	<b>294.861</b>	<b>202.925</b>	<b>(18.471)</b>	<b>9.077.176</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>	<b>2.235.678</b>	<b>337.375</b>	<b>426.271</b>	<b>--</b>	<b>2.999.324</b>
Trade Payables	1.052.907	337.375	--	--	1.390.282
Deferred Income	370.581	--	426.271	--	796.852
<b>Non-Current Liabilities</b>	<b>2.670.716</b>	<b>--</b>	<b>--</b>	<b>(16.115)</b>	<b>2.654.601</b>
Long Term Provisions	203.133	--	--	(16.115)	187.018
<b>EQUITY</b>	<b>3.691.467</b>	<b>(42.514)</b>	<b>(223.346)</b>	<b>(2.356)</b>	<b>3.423.251</b>
<b>Equity Attributable to Equity Holders of the Parent</b>					
<b>Retained Earnings</b>	<b>997.649</b>	<b>(92.132)</b>	<b>(136.807)</b>	<b>(6.531)</b>	<b>762.179</b>
<b>Net Profit</b>	<b>795.191</b>	<b>49.618</b>	<b>(86.539)</b>	<b>4.175</b>	<b>762.445</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>8.597.861</b>	<b>294.861</b>	<b>202.925</b>	<b>(18.471)</b>	<b>9.077.176</b>
<b>PROFIT OR LOSS</b>					
Revenue	3.768.116	122.289	(39.837)	--	3.850.568
Cost of Sales (-)	(2.845.098)	(60.266)	--	5.219	(2.900.145)
<b>GROSS PROFIT</b>	<b>923.018</b>	<b>62.023</b>	<b>(39.837)</b>	<b>5.219</b>	<b>950.423</b>
<b>OPERATING PROFIT</b>	<b>818.740</b>	<b>62.023</b>	<b>(39.837)</b>	<b>5.219</b>	<b>846.145</b>
<b>OPERATING PROFIT BEFORE FINANCE EXPENSE</b>					
<b>Financial Income</b>	<b>66.361</b>	<b>--</b>	<b>140.567</b>	<b>--</b>	<b>206.928</b>
<b>Financial Expense (-)</b>	<b>(151.291)</b>	<b>--</b>	<b>(208.904)</b>	<b>--</b>	<b>(360.195)</b>
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>734.023</b>	<b>62.023</b>	<b>(108.174)</b>	<b>5.219</b>	<b>693.091</b>
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
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>795.201</b>	<b>49.618</b>	<b>(86.539)</b>	<b>4.175</b>	<b>762.455</b>
Earnings per 100 Shares (in full kuruş)	79,52	4,96	(8,65)	0,42	76,24
<b>Total Comprehensive Income</b>	<b>892.731</b>	<b>49.618</b>	<b>(86.539)</b>	<b>4.175</b>	<b>859.985</b>



**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

(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)**

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	
<b>ASSETS</b>					
<b>Current Assets</b>	<b>5.798.135</b>	<b>280.788</b>	<b>--</b>	<b>(20.536)</b>	<b>6.058.387</b>
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
<b>Non-Current Assets</b>	<b>5.120.082</b>	<b>164.082</b>	<b>295.842</b>	<b>203</b>	<b>5.580.209</b>
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
<b>TOTAL ASSETS</b>	<b>10.918.217</b>	<b>444.870</b>	<b>295.842</b>	<b>(20.333)</b>	<b>11.638.596</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>	<b>2.671.635</b>	<b>420.431</b>	<b>599.647</b>	<b>--</b>	<b>3.691.713</b>
Trade Payables	1.369.800	420.431	--	--	1.790.231
Deferred Income	300.459	--	599.647	--	900.106
<b>Non-Current Liabilities</b>	<b>3.198.374</b>	<b>--</b>	<b>--</b>	<b>(19.614)</b>	<b>3.178.760</b>
Long Term Provisions	231.281	--	--	(19.614)	211.667
<b>EQUITY</b>	<b>5.048.208</b>	<b>24.439</b>	<b>(303.805)</b>	<b>(719)</b>	<b>4.768.123</b>
<b>Equity Attributable to Equity Holders of the Parent</b>	<b>5.047.666</b>	<b>24.439</b>	<b>(303.805)</b>	<b>(719)</b>	<b>4.767.581</b>
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
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>10.918.217</b>	<b>444.870</b>	<b>295.842</b>	<b>(20.333)</b>	<b>11.638.596</b>
<b>PROFIT OR LOSS</b>					
Revenue	5.360.279	31.775	20.199	--	5.412.253
Cost of Sales (-)	(4.005.346)	57.045	--	2.023	(3.946.278)
<b>GROSS PROFIT</b>	<b>1.354.933</b>	<b>88.820</b>	<b>20.199</b>	<b>2.023</b>	<b>1.465.975</b>
<b>OPERATING PROFIT</b>	<b>1.173.065</b>	<b>88.820</b>	<b>20.199</b>	<b>2.023</b>	<b>1.284.107</b>
<b>OPERATING PROFIT BEFORE FINANCE EXPENSE</b>	<b>1.191.669</b>	<b>88.820</b>	<b>20.199</b>	<b>2.023</b>	<b>1.302.711</b>
Financial Income	99.494	--	146.048	--	245.542
Financial Expense (-)	(120.140)	--	(263.151)	--	(383.291)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>1.171.023</b>	<b>88.820</b>	<b>(96.904)</b>	<b>2.023</b>	<b>1.164.962</b>
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
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>1.387.849</b>	<b>66.954</b>	<b>(80.459)</b>	<b>1.637</b>	<b>1.375.980</b>
Earnings per 100 Shares (in full kurus)	138,78	6,95	(8,04)	0,16	137,60
<b>Total Comprehensive Income</b>	<b>1.432.241</b>	<b>66.953</b>	<b>(80.459)</b>	<b>1.637</b>	<b>1.420.372</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

(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)

30.06.2017	As Previously Reported	TFRS 15		TFRS 9	
		Effect of Change in Measurement	Effect of Significant Financing Component	Effect Impairment	Restated 30 June 2017
<b>PROFIT OR LOSS</b>					
Revenue	2.157.493	73.138	(18.892)	--	2.211.739
Cost of Sales (-)	(1.641.555)	8.850	--	(793)	(1.633.498)
<b>GROSS PROFIT</b>	<b>515.938</b>	<b>81.988</b>	<b>(18.892)</b>	<b>(793)</b>	<b>578.241</b>
<b>OPERATING PROFIT</b>	<b>421.289</b>	<b>81.988</b>	<b>(18.892)</b>	<b>(793)</b>	<b>483.592</b>
<b>OPERATING PROFIT BEFORE FINANCE EXPENSE</b>	<b>436.137</b>	<b>81.988</b>	<b>(18.892)</b>	<b>(793)</b>	<b>498.440</b>
Financial Income	62.283	--	97.284	--	159.567
Financial Expense (-)	(55.124)	--	(184.581)	--	(239.705)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>443.296</b>	<b>81.988</b>	<b>(106.189)</b>	<b>(793)</b>	<b>418.302</b>
Tax Income from Continuing Operations	121.327	(16.398)	21.238	159	126.326
- Deferred Tax Income	122.423	(16.398)	21.238	159	127.422
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>	<b>564.623</b>	<b>65.590</b>	<b>(84.951)</b>	<b>(634)</b>	<b>544.628</b>
Owners of the Company	564.575	65.590	(84.951)	(634)	544.580
Earnings per 100 Shares (in full kuruş)	56,46	6,6	(8,50)	--	54,46
<b>Toplam Kapsamlı Gelir</b>	<b>562.917</b>	<b>65.590</b>	<b>(84.951)</b>	<b>(634)</b>	<b>542.922</b>

#### 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.

(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)**

**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: Revenue Recognition***

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.

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.

(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)**

**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.

<b>Type of product/service</b>	<b>Nature, timing of satisfaction of performance obligations, significant payment terms</b>	<b>Nature of change in accounting policy</b>
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.

(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)**

**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>

(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)**

**IFRS 9 Financial Instruments**

IFRS 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**

IFRS 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.

IFRS 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 IFRS 9.

Under IFRS 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**

IFRS 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 IFRS 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**

IFRS 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 IFRS 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.

(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)**

**IFRS 9 Financial Instruments (continued)**

**iv. Hedge accounting**

When initially applying IFRS 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 IFRS 9. During selection of the accounting policies, IFRS 9 gives option of continuing with TAS 39 hedge accounting principles and deferring hedge accounting rules in accordance with IFRS 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 30 June 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 IFRS 9 - Prepayment features with negative compensation**

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

(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 30 June 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.

**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.

**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.



(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***

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.

**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.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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

**3. CASH AND CASH EQUIVALENTS**

	<b>30 June 2018</b>	<b>31 December 2017</b>	<b>30 June 2017</b>
Cash	159	153	142
Banks			
- Time deposit <sup>1</sup>	3.123.199	1.100.402	599.820
- Demand deposit	315.274	161.170	80.105
Other	21	28	29
<b>Cash and cash equivalents on the cash flow statement</b>	<b>3.438.653</b>	<b>1.261.753</b>	<b>680.096</b>
Interest income accruals	8.328	1.151	1.641
	<b>3.446.981</b>	<b>1.262.904</b>	<b>681.737</b>

As of 30 June 2018, the Group had time deposits denominated in foreign currencies with maturities in July 2018 (31 December 2017: January-February 2018) with the interest rates between 1,92 percent and 3,88 percent (31 December 2017: 1,85 percent to 5,01 percent) amounting to TL 30.566 (31 December 2017: TL 942.197).

As of 30 June 2018, the Group had time deposits denominated in TL terms with maturities in July 2018 (31 December 2017: January-February 2017) and TL 3.092.633 (31 December 2017: TL 158.205) at the interest rate of 14,68 percent and 19,10 percent (31 December 2017: 14,25 and 15,75 percent).

<sup>1</sup> On June 6, 2018, the secondary public offering was completed and the revenues from public offering was reflected in the financial statements. A significant portion of time deposit is comprised of revenues from public offering.

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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

#### **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 30 June 2018 is TL 6.163 (30 June 2017: TL 4.972).

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

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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

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

	30 June 2018									
	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 <sup>1</sup>	Trading	Deferred Income
<b><u>Main shareholder</u></b>										
TSKGV	11	--	--	--	--	--	--	41.846	--	--
<b><u>Other shareholder</u></b>										
Axa Sigorta Anonim Şirketi ("Axa Sigorta")	--	--	--	--	--	--	--	113	--	--
<b><u>Main shareholder's subsidiaries and associates</u></b>										
Hava Elektronik Harp Sistemleri Mühendislik Ticaret Anonim Şirketi ("HAVELSAN EHSİM")	143	996	--	--	--	--	--	--	--	--
Hava Elektronik Sanayi ve Ticaret Anonim Şirketi ("HAVELSAN")	12.126	17.077	--	957	13.626	11.037	4.158	--	--	--
HAVELSAN Teknoloji Radar Sanayi ve Ticaret Anonim Şirketi ("HTR")	1.858	4.277	--	--	376	6.740	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	6.301	--	--	6.950	14.374	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	879	18.515	--	--	2.052	84.609	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	67.902	10.674	--	341	478	23.452	106.786	--	193.358	53.545
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	48.511	92	--	59.338	--	50.666	16.023	--	54.576	328.886
<b><u>Financial Instruments</u></b>										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPILSAN")	--	342	--	--	--	5.363	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	52.997	26.253	1.668	48.514	256.310	23.854	17.311	--	26.826	45.623
<b><u>Joint ventures and its related parties</u></b>										
İhsan Doğramacı Bilkent Üniversitesi	--	7.553	--	--	--	3.001	--	--	--	--
ASELSAN Bilkent	--	1.379	--	--	4.405	--	--	--	--	--
ASELSAN Optik	--	33.838	--	--	3.836	7.402	--	--	--	--
IGG	24.901	--	--	8.552	--	--	--	--	--	--
IGG ASELSAN	3.323	1.241	--	--	--	2.471	--	--	--	--
ASELSAN Kazakistan	86.207	--	--	11.512	--	--	725	--	--	--
ASELSAN Ürdün	30.077	--	--	--	--	84	--	--	--	--
Savunma Sanayi Müsteşarlığı ("SSM")	294.063	90	--	1.012.979	--	175.180	247.060	--	992.977	1.420.187
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	11.362	506	--	22.308	--	--	--	--	4.568	6.114
TÜBİTAK BİLGEM	--	2.992	--	--	3.473	2.857	--	--	--	--
TÜBİTAK-UME	--	586	--	--	--	8	--	--	--	--
TÜBİTAK SAGE Savunma Sanayii	55	14.530	--	5.824	9.266	1.919	--	--	--	--
SADEC LLC	259	--	--	--	--	--	--	--	--	--
Ankaref Bilişim Teknolojileri Limited Şirketi ("ANKAREF")	--	--	20	--	--	--	--	--	--	--
<b><u>Publicly Held Shares</u></b>								14.497		
	<b>634.674</b>	<b>147.242</b>	<b>1.688</b>	<b>1.170.325</b>	<b>300.772</b>	<b>413.017</b>	<b>392.063</b>	<b>56.456</b>	<b>1.272.305</b>	<b>1.854.355</b>

<sup>1</sup> Other payables mainly comprised of dividends payable for the year ended 31 December 2017

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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

**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
<b><u>Main shareholder</u></b>										
TSKGV	28	--	--	--	--	--	--	--	--	--
<b><u>Other shareholder</u></b>										
Axa Sigorta	--	--	--	--	--	--	--	65	--	--
<b><u>Main shareholder's subsidiaries and associates</u></b>										
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
<b><u>Financial Investments</u></b>										
ASPİLSAN	--	1.235	--	--	--	8.901	--	--	--	--
ROKETSAN	32.335	787	--	72.303	124.686	34.171	18.969	--	11.473	52.520
<b><u>Joint ventures and its related parties</u></b>										
ASELSAN Bilkent Mikro Nano	--	215	--	--	4.405	1.890	--	--	--	--
İhsan Dođramacı 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	--	--	20	--	--	--	--	--	--	--
SADEC LLC	214	--	--	--	--	--	--	--	--	--
	<b>460.841</b>	<b>92.555</b>	<b>34</b>	<b>1.085.679</b>	<b>165.487</b>	<b>512.270</b>	<b>686.837</b>	<b>65</b>	<b>1.048.376</b>	<b>1.461.346</b>

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

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

	1 January- 30 June 2018	1 April- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2017
<b>Transactions with related parties</b>	<b>Purchases</b>	<b>Purchases</b>	<b>Purchases</b>	<b>Purchases</b>
<b><u>Main Shareholder</u></b>				
TSKGV	377	189	332	166
<b><u>Main shareholder's subsidiaries and associates</u></b>				
NETAŞ	84.668	60.433	37.558	11.133
İŞBİR	24.055	15.890	13.784	10.031
HTR	13.014	7.819	5.578	2.392
TUSAŞ	33	23	146	53
HAVELSAN EHSİM	580	--	41	41
STM	8.717	3.718	--	--
<b><u>Financial Investments</u></b>				
ROKETSAN	11.656	10.709	7.769	5.026
ASPİLSAN	6.923	5.051	3.325	1.793
<b><u>Joint ventures and its related parties</u></b>				
İhsan Doğramacı Bilkent Üniversitesi	8.257	3.712	2.596	818
TÜBİTAK BİLGEM	11.757	2.477	--	--
TÜBİTAK-UME	18	14	--	--
TÜBİTAK-SAGE Savunma Sanayii	3.880	2.855	--	--
	<b>173.935</b>	<b>112.890</b>	<b>71.129</b>	<b>31.453</b>
	1 January- 30 June 2018	1 April- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2017
<b>Transactions with related parties</b>	<b>Purchases</b>	<b>Purchases</b>	<b>Purchases</b>	<b>Purchases</b>
<b><u>Main Shareholder</u></b>				
TSKGV	147	93	162	82
<b><u>Main shareholder's subsidiaries and associates</u></b>				
TUSAŞ	66.642	8.514	70.787	29.444
STM	200.441	116.466	6.373	4.914
HAVELSAN	888	888	873	511
HAVELSAN EHSİM	121	121	--	--
HTR	1.679	1.679	611	611
NETAŞ	140	6	307	307
<b><u>Financial Investments</u></b>				
ROKETSAN	50.360	8.091	11.318	1.104
<b><u>Joint ventures and its related parties</u></b>				
IGG				
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	29.970	13.658	--	--
TÜBİTAK SAGE	41	--	--	--
SSM	1.500.439	786.578	--	--
	<b>1.850.868</b>	<b>936.094</b>	<b>90.431</b>	<b>36.973</b>

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

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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

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

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

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Short-term trade receivables</b>		
Trade receivables	1.509.370	1.113.644
Trade receivables from related parties (Note 4)	634.674	460.841
Notes receivable	9.410	6.744
Doubtful trade receivables	22.244	21.457
Allowance for doubtful trade receivables (-)	(22.244)	(21.457)
	<b>2.153.454</b>	<b>1.581.229</b>

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Long-term trade receivables</b>		
Unbilled receivables from construction contracts in progress	583.761	418.963
Trade receivables	78.976	70.314
Unbilled receivables from construction contracts in progress-Related party (Note 4)	1.161.632	1.069.010
Notes receivables	48	--
Trade receivables from related parties (Note 4)	8.693	16.669
	<b>1.833.110</b>	<b>1.574.956</b>

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

	<b>30 June 2018</b>	<b>30 June 2017</b>
Opening balance	21.457	921
Provision for the period	787	--
<b>Closing balance</b>	<b>22.244</b>	<b>921</b>

**b) Trade payables**

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

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Short-term trade payables</b>		
Trade payables	1.168.617	1.123.688
Unearned revenue related to construction contracts in progress	25.485	152.376
Unearned revenue related to construction contracts in progress-Related party (Note 4)	239.396	486.529
Due to related parties (Note 4)	173.621	25.741
Other trade payables	36	1.897
	<b>1.607.155</b>	<b>1.790.231</b>
<b>Long-term trade payables</b>		
Unearned revenue related to construction contracts in progress	191.336	213.639
Unearned revenue related to construction contracts in progress- Related party (Note 4)	1.272.305	1.048.376
	<b>1.463.641</b>	<b>1.262.015</b>



**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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

**6. EQUITY ACCOUNTED INVESTMENTS**

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

<b>30 June 2018</b>	<b>Ownership Rate (%)</b>	<b>Current Assets</b>	<b>Non-current Assets</b>	<b>Total Assets</b>	<b>Short-term Liabilities</b>	<b>Long-term Liabilities</b>	<b>Total Liabilities</b>
ASELSAN Kazakhstan	49	100.541	112.293	212.834	113.646	6.119	119.765
ASELSAN Jordan	49	39.127	17.718	56.845	29.188	--	29.188
ASELSAN Optik	50	53.228	43.237	96.465	59.578	21.955	81.533
ASELSAN Bilkent	50	29.953	89.880	119.833	3.252	98.242	101.494
IGG ASELSAN	49	13.317	1.774	15.091	3.800	2.627	6.427
SADEC LLC	50	13.765	839	14.604	181	134	315
YİTAL	51	3.880	455	4.335	147	--	147
		<b>253.811</b>	<b>266.196</b>	<b>520.007</b>	<b>209.792</b>	<b>129.077</b>	<b>338.869</b>

<b>30 June 2018</b>	<b>Ownership Rate (%)</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Net Profit/(Loss)</b>	<b>Group Share of Net Assets</b>	<b>Group Share of Profit/(Loss)</b>
ASELSAN Kazakhstan	49	10.403	(13.457)	(3.054)	45.604	(1.496)
ASELSAN Jordan	49	198	(3.524)	(3.326)	13.552	(1.630)
ASELSAN Optik	50	21.427	(19.812)	1.615	7.466	808
ASELSAN Bilkent	50	3.828	(2.415)	1.413	9.169	707
IGG ASELSAN	49	918	(3.891)	(2.973)	4.245	(1.457)
SADEC LLC	50	102	(5.739)	(5.637)	7.144	(2.818)
YİTAL	51	403	(521)	(118)	2.137	(62)
		<b>37.279</b>	<b>(49.359)</b>	<b>(12.080)</b>	<b>89.317</b>	<b>(5.948)</b>

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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

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

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

<b>31 December 2017</b>	<b>Ownership Rate (%)</b>	<b>Current Assets</b>	<b>Non-current Assets</b>	<b>Total Assets</b>	<b>Short-term Liabilities</b>	<b>Long-term Liabilities</b>	<b>Total Liabilities</b>
ASELSAN Kazakhstan	49	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
		<b>204.024</b>	<b>219.460</b>	<b>423.484</b>	<b>146.099</b>	<b>108.492</b>	<b>254.591</b>

<b>31 December 2017</b>	<b>Ownership Rate (%)</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Net Profit/(Loss)</b>	<b>Group Share of Net Assets</b>	<b>Group Share of Profit/(Loss)</b>
ASELSAN Kazakhstan	49	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)
		<b>154.525</b>	<b>(144.564)</b>	<b>9.961</b>	<b>83.324</b>	<b>4.832</b>

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

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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

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

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

<b>30 June 2017</b>	<b>Ownership Rate (%)</b>	<b>Current Assets</b>	<b>Non-current Assets</b>	<b>Total Assets</b>	<b>Short-term Liabilities</b>	<b>Long-term Liabilities</b>	<b>Total Liabilities</b>
ASELSAN Kazakhstan	49	50.006	91.009	141.015	61.623	4.914	66.537
ASELSAN Jordan	49	51.779	14.580	66.358	40.585	--	40.585
ASELSAN Optik	50	16.189	31.071	47.260	13.186	20.454	33.640
IGG ASELSAN	49	9.020	3.425	12.445	1.280	24.522	25.801
ASELSAN Bilkent	50	13.765	62.376	76.141	5.797	52.607	58.403
SADEC LLC	50	19.525	396	19.921	668	--	668
		<b>160.283</b>	<b>202.858</b>	<b>363.141</b>	<b>123.138</b>	<b>102.497</b>	<b>225.635</b>

<b>30 June 2017</b>	<b>Ownership Rate (%)</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Net Profit/(Loss)</b>	<b>Group Share of Net Assets</b>	<b>Group Share of Profit/(Loss)</b>
ASELSAN Kazakhstan	49	28.155	(18.055)	10.100	36.494	4.949
ASELSAN Jordan	49	24.963	(22.202)	2.761	12.629	1.353
ASELSAN Optik	50	12.393	(11.891)	502	6.810	251
IGG ASELSAN	49	140	(3.496)	(3.355)	--	--
ASELSAN Bilkent	50	502	(310)	192	8.869	96
SADEC LLC	50	--	(1.854)	(1.854)	9.627	(927)
		<b>66.152</b>	<b>(57.807)</b>	<b>8.345</b>	<b>74.429</b>	<b>5.722</b>

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

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

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

#### 7. INVENTORIES

	<b>30 June 2018</b>	<b>31 December 2017 (Restated)</b>
Raw materials	1.362.740	974.457
Work in progress	1.128.427	849.796
Goods in transit <sup>1</sup>	217.447	209.176
Finished goods	154.878	115.375
Other inventories	41.460	36.170
Trade goods	47.308	62.318
Allowance for impairment on inventories (-)	(30.242)	(25.661)
	<b>2.922.018</b>	<b>2.221.631</b>

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

The Group has identified raw material, work-in progress and finished goods inventories whose net realizable value is below their costs within the current year. Therefore there is a provision for inventories amounting to TL 30.242 in the statement of financial position (30 June 2017: TL 21.608).

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

	<b>2018</b>	<b>2017</b>
Opening balance	25.661	20.019
Provision for the period	4.585	1.593
Provision released	(4)	(4)
<b>Closing balance</b>	<b>30.242</b>	<b>21.608</b>

<sup>1</sup> 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 30 JUNE 2018**

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

**8. PREPAID EXPENSES AND DEFERRED INCOME**

	<b>30 June 2018</b>	<b>31 December 2017 (Restated)</b>
<b>Short-term prepaid expenses</b>		
Order advances given for inventory purchases	753.949	520.419
Short-term order advances given to related parties for inventory purchases (Note 4)	147.242	92.555
Prepaid expenses	48.930	44.709
	<b>950.121</b>	<b>657.683</b>

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Long-term prepaid expenses</b>		
Order advances given for inventory purchases	246.887	245.756
Long-term order advances given to related parties for inventory purchases (Note 4)	300.772	165.487
Order advances given for fixed assets purchases	38.147	28.191
Prepaid expenses	5.015	3.297
	<b>590.821</b>	<b>442.731</b>

	<b>30 June 2018</b>	<b>31 December 2017 (Restated)</b>
<b>Short-term deferred income</b>		
Order advances received	240.155	158.484
Order advances received from related parties (Note 4)	392.063	686.837
Deferred income	19.553	54.785
	<b>651.771</b>	<b>900.106</b>

Short-term order advances received comprise advances received from 46 customers (31 December 2017: 33 customers) of which first 10 customers constitutes 98,16 percent of the total (31 December 2017: 97,9 percent).

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Long-term deferred income</b>		
Order advances received	411.042	181.417
Order advances received from related parties (Note 4)	1.854.355	1.461.346
Deferred income	3	3
	<b>2.265.400</b>	<b>1.642.766</b>

Long-term order advances received comprise advances received from 20 customers (31 December 2017: 12 customers) of which the largest 10 customers constitutes 99,43 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 30 JUNE 2018**

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

**9. TANGIBLE AND INTANGIBLE ASSETS**

<b>Cost</b>	<b>Property, Plant and Equipment</b>	<b>Intangible Assets</b>
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	105.125	144.400
Disposals	(94)	(58.589)
<b>Closing balance as of 30 June 2018</b>	<b>1.972.199</b>	<b>1.298.202</b>
<b>Accumulated Depreciation and Amortisation</b>		
Opening balance as of 1 January 2018	776.325	321.175
Change for the period <sup>1</sup>	56.538	35.012
Disposals	(69)	--
<b>Closing balance as of 30 June 2018</b>	<b>832.794</b>	<b>356.187</b>
<b>Net book value as of 30 June 2018</b>	<b>1.139.405</b>	<b>942.015</b>
<b>Net book value as of 31 December 2017 (Restated)</b>	<b>1.090.843</b>	<b>891.216</b>
<b>Cost</b>		
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	65.541	167.863
Disposals	(1.154)	(35.209)
<b>Closing balance as of 30 June 2017</b>	<b>1.716.062</b>	<b>1.106.608</b>
<b>Accumulated Depreciation and Amortisation</b>		
Opening balance as of 1 January 2017	684.154	264.851
Change for the period	44.411	25.251
Disposals	(255)	--
<b>Closing balance as of 30 June 2017</b>	<b>728.310</b>	<b>290.102</b>
<b>Net book value as of 30 June 2017 (Restated)</b>	<b>987.752</b>	<b>816.506</b>
<b>Net book value as of 31 December 2016 (Restated)</b>	<b>967.521</b>	<b>709.103</b>

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.

<sup>1</sup> The amount of amortization related to inventories are TL 9.791 in the year 2018 (June 2017: TL 7.915)

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Other short-term provisions</b>		
Provision for warranties <sup>1</sup>	303.819	253.253
Provision for onerous contracts	83.873	106.318
Provision for delay penalties <sup>2</sup>	27.508	15.787
Provision for legal cases	10.394	5.917
Provision for cost expenses	1.910	1.527
Other	1.518	804
	<b>429.022</b>	<b>383.606</b>
	<b>30 June 2018</b>	<b>31 December 2017 (Restated)</b>
<b>Other long-term provisions</b>		
Provision of onerous contracts	179.296	42.925
	<b>179.296</b>	<b>42.925</b>

**b) Legal cases**

As of the dates 30 June 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	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Not recognised in the financial statements</b>		
a) Ongoing lawsuits filed by the Group	1.040	1.017
b) Proceedings carried out by the Group	10.336	8.691
<b>Recognised in the financial statements</b>		
c) Ongoing lawsuits filed against the Group	10.394	5.917
d) Lawsuits finalized against the Group within the period	110	99
e) Lawsuits finalized in favor of the Group within the period	215	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.

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

<sup>2</sup> Provision for delay penalties 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 30 June 2018 is TL 690.936. The amount is comprised of the items below.

	<b>30 June 2018</b>	<b>31 December 2017 (Restated)</b>
Carried Forward R&D Incentives Effect	922.218	772.334
Temporary Differences	(231.282)	(121.559)
<b>Deferred Tax Assets - Net</b>	<b>690.936</b>	<b>650.775</b>

In accordance with the law numbered 5746 pertaining to 1 January-30 June 2018 period. the Group has calculated "Deferred Tax Asset" amounting to TL 690.936 from Research and Development expenses comprising "Outstanding Research and Development Deductions".

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.

	<b>30 June 2018</b>	<b>30 June 2017 (Restated)</b>
Profit before tax from continuing operations	904.702	418.303
Tax income recognized in profit or loss	35.831	126.326
Effective tax rate	%4	%30

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

	<b>30 June 2018</b>	<b>31 December 2017</b>
Letters of guarantees received from the suppliers	1.573.984	1.307.008
Collaterals received from the customers	15.928	13.546
Letters of guarantees received from the customers	4.750	3.313
Mortgages received from the customers	265	265
	<b>1.594.927</b>	<b>1.324.132</b>

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

The collaterals/pledges/mortgages ("CPM") given by the Group as of 30 June 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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(Amounts are expressed in thousands TL and in thousands of "Foreign Currency" unless otherwise stated.)

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

<b>30 June 2018</b>	<b>TL Equivalent</b>	<b>TL</b>	<b>USD</b>	<b>EURO</b>	<b>UAE Dirham</b>	<b>Indian Rupee</b>	<b>British Pound</b>
A. Total amount of CPM given on behalf of the legal entity							
-Collateral	16.115.195	2.203.390	1.947.193	945.645	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 <sup>1</sup>							
-Collateral	19.650	494	4.200	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover							
-Collateral	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--
<b>Total</b>	<b>16.134.845</b>	<b>2.203.884</b>	<b>1.951.393</b>	<b>945.645</b>	<b>50</b>	<b>10.000</b>	<b>1.654</b>

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

<sup>1</sup> The ratio of the other CPM given by the Group to equity as of 30 June 2018 is 0,23 percent. TL 19.650 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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

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

**12. COMMITMENTS AND CONTINGENCIES (continued)**

**b) Guarantees given (continued)**

<b>31 December 2017</b>	<b>TL Equivalent</b>	<b>TL</b>	<b>USD</b>	<b>EURO</b>	<b>UAE Dirham</b>	<b>Indian Rupee</b>	<b>British Pound</b>
A. Total amount of CPM given on behalf of the legal entity							
-Collateral	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 <sup>1</sup>							
-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	--	--	--	--	--	--	--
<b>Total</b>	<b>13.321.259</b>	<b>1.916.512</b>	<b>1.842.951</b>	<b>984.226</b>	<b>50</b>	<b>10.000</b>	<b>1.654</b>

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

<sup>1</sup> The ratio of the other CPM given by the Group to equity as of 31 December 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.

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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

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

	<b>30 June 2018</b>	<b>31 December 2017</b>
Social security premiums payable	44.030	36.593
Taxes and funds payable	7.211	8.403
Due to personnel	755	1.137
	<b>51.996</b>	<b>46.133</b>

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

	<b>30 June 2018</b>	<b>31 December 2017</b>
Provision for vacation pay liability	<b>46.537</b>	<b>42.301</b>

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

	<b>2018</b>	<b>2017</b>
Opening balance	42.301	43.362
Provision for the period	11.148	2.325
Provision paid during the period	(5.427)	(951)
Provision realised during the period	(1.485)	(619)
<b>Closing balance</b>	<b>46.537</b>	<b>44.118</b>

**c) Other long-term provisions for employee benefits**

	<b>30 June 2018</b>	<b>31 December 2017</b>
Provision for severance pay	170.495	155.107
Provision for retirement pay	13.639	13.635
	<b>184.134</b>	<b>168.742</b>

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

	<b>2018</b>	<b>2017</b>
Opening balance	168.742	150.997
Actuarial Loss/Gain	6.360	3.559
Interest cost	9.818	6.788
Service cost	3.953	5.628
Termination cost	--	366
Payments	(4.739)	(5.951)
<b>Closing balance</b>	<b>184.134</b>	<b>161.387</b>

**Provision for severance pay:**

In accordance with the Labor Law Legislations, the Group is obliged to make legal severance indemnity payments to entitled employees whose employment has been terminated. Furthermore, with regard to Social Security Law numbered 506 dated 6 March 1981, number 2422 dated 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 30 June 2018 severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL<sup>1</sup> 5.002 (31 December 2017: TL<sup>1</sup> 4.732).

As of 1 July 2018, severance payments are limited to a ceiling of TL<sup>1</sup> 5.434 .

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:

	<b>30 June 2018 (%)</b>	<b>31 December 2017 (%)</b>
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

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

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

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

##### Capital

<u>Shareholders</u>	<u>Share (%)</u>	<u>30 June 2018</u>	<u>Share (%)</u>	<u>31 December 2017</u>
TSKGV	74,20	845.826	84,58	845.826
Publicly held	25,70	293.019	15,30	153.019
Axa Sigorta Anonim Şirketi	0,10	1.155	0,12	1.155
Nominal capital	100	1.140.000	100	1.000.000
Share capital adjustment		98.621		98.621
<b>Inflation adjusted capital</b>		<b>1.238.621</b>		<b>1.098.621</b>

Since Aselsan Elektronik Sanayi ve Ticaret A.Ş. (the Company) raised its capital from TL 1.000.000 to TL 1.140.000, settlement transactions of the shares issued with a nominal value of TL 140.000 have been done off the Exchange on 06 June 2018.

The Group's nominal capital is TL 1.140.000 comprising 1.140.000.000 shares each of which is TL 1. A total of 605.454.545 of the shares constitutes "Group A" and 534.545.455 of the shares constitutes "Group B" shares. All of the shares are nominative. "Group A" shares are privileged nominative shares and 6 Members of the Board of Directors are assigned from the holders of nominative "Group A" type shareholders or from the ones nominated by "Group A" type shareholders. Moreover, the Board of Directors shall be authorized in matters regarding issuing preferred shares or issuing shares above the nominal values. Regarding capital increases by restricting preemptive rights, the shares to be issued shall be "Group B". In accordance with the CMB's legislation, other Members of the Board of Directors, not including elected Independent Members of the Board of Directors, are assigned from nominative "Group A" shareholders or elected from among candidate nominated by "Group A" shareholders.

##### Restricted reserves

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

As of 30 June 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).

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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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 revelation of 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 30 June 2018, the extraordinary reserves balance presented under retained earnings is TL 1.435.063 (31 December 2017: TL 677.863). Profits available for distribution are calculated following statutory requirements and is TL 1.472.531 (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 7,42 net (31 December 2017: Kuruş 7,55 net).

Within 2018, dividend amounting to TL 84.600 in gross, 7,42 Kuruş per share of TL 1 (net profit amounting to TL 71.910, 6,31 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 677 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 56.400 of dividend payable to shareholders has not been paid to the shareholders as of 30 June 2018. (31 December 2017: None)

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**15. REVENUE AND COST OF SALES**

	<b>1 January- 30 June 2018</b>	<b>1 April- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April- 30 June 2017</b>
<b>a) Revenue</b>				
Domestic sales	2.959.274	1.710.326	1.875.506	883.352
Export sales	320.903	206.743	336.983	254.886
Other revenues	4.252	695	412	303
Sales returns (-)	(3.244)	(2.082)	(647)	(604)
Sales discounts (-)	(1.409)	(1.105)	(515)	(267)
	<b>3.279.776</b>	<b>1.914.577</b>	<b>2.211.739</b>	<b>1.137.670</b>

<b>Revenue Recognized Regarding Performance Obligation</b>	<b>1 January- 30 June 2018</b>	<b>1 April- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April- 30 June 2017</b>
Over time	1.979.995	927.921	1.262.387	517.527
Point in time	1.299.781	986.656	949.352	620.143
	<b>3.279.776</b>	<b>1.914.577</b>	<b>2.211.739</b>	<b>1.137.670</b>

	<b>1 January- 30 June 2018</b>	<b>1 April- 30 June 2018</b>	<b>(Restated) 1 January- 30 June 2017</b>	<b>1 April- 30 June 2017</b>
<b>b) Cost of Sales (-)</b>				
Cost of raw materials and supplies (-)	1.920.100	1.113.576	1.268.572	655.503
Cost of merchandise goods sold (-)	79.710	35.409	31.846	14.545
Cost of services sold (-)	387.734	222.761	260.533	151.746
Cost of other sales (-)	72.112	54.596	72.547	50.627
	<b>2.459.656</b>	<b>1.426.342</b>	<b>1.633.498</b>	<b>872.421</b>



**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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**16. OTHER OPERATING INCOME AND EXPENSES**

	<b>1 January- 30 June 2018</b>	<b>1 April- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April- 30 June 2017</b>
<b>a) Other operating income</b>				
Foreign currency exchange differences from operations	1.499.162	1.010.065	631.427	231.521
Amortized cost effect of trade payables	16.442	1.457	4.616	(1.468)
Other income	15.097	10.301	8.668	4.172
	<b>1.530.701</b>	<b>1.021.823</b>	<b>644.711</b>	<b>234.225</b>
<b>b) Other operating expense (-)</b>				
Foreign currency exchange differences from operations	1.083.375	728.221	563.769	266.455
Amortized cost effect of trade receivables	26.418	9.587	8.749	(25)
Other expense and losses	7.896	4.486	3.629	2.367
	<b>1.117.688</b>	<b>742.293</b>	<b>576.147</b>	<b>268.797</b>

**17. INCOME FROM INVESTING ACTIVITIES**

	<b>1 January- 30 June 2018</b>	<b>1 April- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April- 30 June 2017</b>
Dividend Income	3.460	3.460	8.938	--
Gain on sale of fixed assets	29	--	188	162
	<b>3.489</b>	<b>3.460</b>	<b>9.126</b>	<b>162</b>

**ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018**

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**18. FINANCIAL INCOME**

	<b>1 January- 30 June 2018</b>	<b>1 April- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April- 30 June 2017</b>
Interest income	49.682	41.081	21.230	8.181
TFRS 15 Financial component interest income	104.468	53.715	97.284	61.306
Foreign currency exchange gain from bank loans	19.680	17.507	41.053	10.876
	<b>173.830</b>	<b>112.303</b>	<b>159.567</b>	<b>80.363</b>

**19. FINANCIAL EXPENSES**

	<b>1 January- 30 June 2018</b>	<b>1 April- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April- 30 June 2017</b>
Interest cost of borrowings	8.334	7.380	7.199	159
TFRS 15 Interest cost of borrowings from financial component	202.446	106.041	184.581	97.166
Foreign currency exchange losses from bank loans	65.469	52.260	39.755	969
Discount expenses of bank loans	13.149	2.419	1.382	3.745
Interest cost related with employee benefits	9.818	9.818	6.788	6.788
	<b>299.216</b>	<b>177.918</b>	<b>239.705</b>	<b>108.827</b>

**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 30 June 2018 and 30 June 2017, earnings per share calculations are as follows:

	<b>1 January- 30 June 2018</b>	<b>1 April- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April- 30 June 2017</b>
Common stock (thousand)	1.018.564	1.036.923	1.000.000	1.000.000
Net profit – TL	941.797	590.436	544.580	200.877
<b>Earnings per 100 shares (Kuruş)</b>	<b>92,46</b>	<b>56,94</b>	<b>54,46</b>	<b>20,09</b>
<b>Diluted Earnings per 100 shares (Kuruş)</b>	<b>92,46</b>	<b>56,94</b>	<b>54,46</b>	<b>20,09</b>

The Company's capital amount has been increased from TL 1.000.000 to TL 1.140.000 on 06 June 2018, therefore earnings per share has been estimated in accordance weighted average per share.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

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

#### 21. FINANCIAL LIABILITIES

##### Financial Liabilities

		<b>30 June 2018</b>	<b>31 December 2017</b>
Short-term financial liabilities	Unsecured loan	439.810	401.822
Other short-term financial liabilities	Unsecured loan	1.505	2.490
Current portion of long-term financial liabilities	Secured loan <sup>1</sup>	57.793	67.624
<b>Total short-term financial liabilities</b>		<b>499.108</b>	<b>471.936</b>
Other long-term financial liabilities	Secured loan <sup>1</sup>	46.379	62.207
<b>Total long-term financial liabilities</b>		<b>46.379</b>	<b>62.207</b>
<b>Total financial liabilities</b>		<b>545.487</b>	<b>534.143</b>

As of 30 June 2018, TL 411.255 of the short term financial borrowings are USD Rediscount Credits, which have maturity dates due between July 2018-February 2019 and interest rates between 2,28 – 3,15 percent. The remaining portion of the short-term borrowings consist of TL Rediscount Credits amounting to TL 28.555 which has interest rate of 14 percent. The short-term portions of long-term financial liabilities consist of USD 12.646 with principal payment of USD 22.815 and interest rates between 2,1 – 3,5 percent, with the maturity date of July 2019 of the Undersecretariat for Defense Industries.

As of 30 June 2018, other financial liabilities amounting to TL 1.505 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 10.169 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 22.815 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.

<sup>1</sup> Guarantee letter was given as a guarantee

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

**22. FOREIGN EXCHANGE POSITION**

FOREIGN EXCHANGE POSITION						
30 June 2018	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other <sup>1</sup> (TL equivalent)
1. Trade Receivables	1.807.773	202.885	925.300	158.780	842.996	39.477
2a. Monetary financial assets (including cash. bank)	50.095	3.183	14.517	6.235	33.101	2.477
2b. Non- monetary financial assets	387.003	53.295	243.061	34.440	182.850	46.663
3. Other	5.750	15	67	1.051	5.583	100
<b>4. Current assets (1+2+3)</b>	<b>2.250.621</b>	<b>259.378</b>	<b>1.182.945</b>	<b>200.506</b>	<b>1.064.530</b>	<b>88.717</b>
5. Trade receivables	1.372.989	242.755	1.107.134	50.074	265.855	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	290.470	17.733	80.873	90.251	479.160	7.261
7. Other	21.055	2.148	9.795	1.705	9.053	2.207
<b>8. Long-term assets (5+6+7)</b>	<b>1.684.514</b>	<b>262.636</b>	<b>1.197.802</b>	<b>142.030</b>	<b>754.068</b>	<b>9.468</b>
<b>9. Total assets (4+8)</b>	<b>3.935.135</b>	<b>522.014</b>	<b>2.380.747</b>	<b>342.536</b>	<b>1.818.598</b>	<b>98.185</b>
10. Trade payables	686.217	108.623	495.394	31.273	166.036	24.787
11. Financial liabilities	481.046	105.476	481.046	--	--	--
12a. Other monetary financial liabilities	554	114	521	6	33	--
12b. Other non-monetary financial liabilities	169.897	87.743	400.168	39.457	209.485	--
<b>13. Current liabilities (10+11+12)</b>	<b>1.337.714</b>	<b>301.956</b>	<b>1.377.129</b>	<b>70.736</b>	<b>375.554</b>	<b>24.787</b>
14. Trade payables	1.444.667	185.428	845.682	112.820	598.985	--
15. Financial liabilities	46.379	10.169	46.379	--	--	--
16a. Other monetary financial liabilities	46	7	30	3	16	--
16b. Other non-monetary financial liabilities	1.107.267	254.546	1.160.907	263.031	1.396.485	--
<b>17. Non-current liabilities (14+15+16)</b>	<b>2.598.359</b>	<b>450.150</b>	<b>2.052.998</b>	<b>375.854</b>	<b>1.995.486</b>	<b>--</b>

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

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

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

<b>FOREIGN EXCHANGE POSITION</b>						
<b>30 June 2018</b>	<b>TL Equivalent (Functional currency)</b>	<b>USD</b>	<b>TL equivalent by using closing rates</b>	<b>EURO</b>	<b>TL equivalent by using closing rates</b>	<b>Other (TL equivalent)</b>
<b>18. Total liabilities (13+17)</b>	3.936.073	752.106	3.430.127	446.590	2.371.040	24.787
<b>19. Net asset/liability position of off- balance sheet derivative financial instruments (19a-19b)</b>	--	--	--	--	--	--
<b>19a. Hedged total financial assets</b>	--	--	--	--	--	--
<b>19b. Hedged total financial liabilities</b>	--	--	--	--	--	--
<b>20. Net foreign currency asset/liability (9- 18+19)</b>	<b>(938)</b>	<b>(230.092)</b>	<b>(1.049.380)</b>	<b>(104.054)</b>	<b>(552.442)</b>	<b>73.398</b>
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10- 11-12a-14-15-16a)</b>	<b>571.362</b>	<b>39.006</b>	<b>177.899</b>	<b>70.876</b>	<b>376.296</b>	<b>17.167</b>
<b>22. Fair value of derivative financial instruments used in foreign currency hedge</b>	--	--	--	--	--	--
<b>23. Hedged foreign currency assets</b>	--	--	--	--	--	--
<b>24. Hedged foreign currency liabilities</b>	--	--	--	--	--	--
<b>25. Exports</b>	320.903	54.718	224.048	7.984	37.485	59.370
<b>26. Imports</b>	1.284.059	178.675	814.882	71.794	381.167	88.010

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

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

<b>FOREIGN EXCHANGE POSITION</b>						
<b>31 December 2017</b>	<b>TL Equivalent (Functional currency)</b>	<b>USD</b>	<b>TL equivalent by using closing rates</b>	<b>EURO</b>	<b>TL equivalent by using closing rates</b>	<b>Other<sup>1</sup> (TL equivalent)</b>
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
<b>4. Current assets (1+2+3)</b>	<b>2.780.778</b>	<b>472.518</b>	<b>1.782.291</b>	<b>213.834</b>	<b>965.571</b>	<b>76.595</b>
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
<b>8. Long-term assets (5+6+7)</b>	<b>1.417.224</b>	<b>238.586</b>	<b>899.922</b>	<b>153.801</b>	<b>694.488</b>	<b>7.132</b>
<b>9. Total assets (4+8)</b>	<b>4.198.002</b>	<b>711.104</b>	<b>2.682.213</b>	<b>367.635</b>	<b>1.660.059</b>	<b>83.727</b>
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	--
<b>13. Current liabilities (10+11+12)</b>	<b>1.804.526</b>	<b>398.459</b>	<b>1.502.946</b>	<b>95.020</b>	<b>429.064</b>	<b>20.301</b>
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	--
<b>17. Non-current liabilities (14+15+16)</b>	<b>2.070.765</b>	<b>411.351</b>	<b>1.551.572</b>	<b>344.050</b>	<b>1.553.557</b>	<b>--</b>

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

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

<b>FOREIGN EXCHANGE POSITION</b>						
<b>31 December 2017</b>	<b>TL Equivalent (Functional currency)</b>	<b>USD</b>	<b>TL equivalent by using closing rates</b>	<b>EURO</b>	<b>TL equivalent by using closing rates</b>	<b>Other (TL equivalent)</b>
<b>18. Total liabilities (13+17)</b>	<b>3.875.291</b>	<b>809.810</b>	<b>3.054.518</b>	<b>439.070</b>	<b>1.982.621</b>	<b>20.301</b>
<b>19. Net asset/liability position of off- balance sheet derivative financial instruments (19a-19b)</b>	--	--	--	--	--	--
<b>19a. Hedged total financial assets</b>	--	--	--	--	--	--
<b>19b. Hedged total financial liabilities</b>	--	--	--	--	--	--
<b>20. Net foreign currency asset/liability (9- 18+19)</b>	322.711	(98.706)	(372.305)	(71.435)	(322.562)	63.426
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10- 11-12a-14-15-16a)</b>	1.473.565	302.949	1.142.698	69.593	314.245	16.623
<b>22. Fair value of derivative financial instruments used in foreign currency hedge</b>	--	--	--	--	--	--
<b>23. Hedged foreign currency assets</b>	--	--	--	--	--	--
<b>24. Hedged foreign currency liabilities</b>	--	--	--	--	--	--
<b>25. Exports</b>	784.165	174.571	632.194	15.098	61.509	90.462
<b>26. Imports</b>	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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(Amounts are expressed in thousands TL and in thousands of "Foreign Currency" unless otherwise stated.)

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

The Group is exposed to foreign currency risk with respect to USD and EURO. As of 30 June 2018, USD 1: TL 4,5607 (31 December 2017: TL 3,7719), EURO 1: TL 5,0167 (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;

<b>Foreign currency sensitivity table</b>				
<b>30 June 2018</b>				
	<b>Profit/Loss</b>		<b>Equity<sup>1</sup></b>	
	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>
<b>Change of USD against TL by 10%:</b>				
1- USD denominated net assets/(liabilities)	17.790	(17.790)	17.790	(17.790)
2- Hedged amount against USD risk (-)	--	--	--	--
<b>3- Net effect of USD (1+2)</b>	<b>17.790</b>	<b>(17.790)</b>	<b>17.790</b>	<b>(17.790)</b>
<b>Change of EURO against TL by 10%:</b>				
4- EURO denominated net assets/(liabilities)	37.630	(37.630)	37.630	(37.630)
5- Hedged amount against EURO risk (-)	--	--	--	--
<b>6- Net effect of EURO (4+5)</b>	<b>37.630</b>	<b>(37.630)</b>	<b>37.630</b>	<b>(37.630)</b>
<b>Change of other<sup>2</sup> currencies against TL by 10%:</b>				
7- Other currencies denominated net assets/(liabilities)	1.717	(1.717)	1.717	(1.717)
8- Hedged amount against other currencies risk (-)	--	--	--	--
<b>9- Net effect of other currencies (7+8)</b>	<b>1.717</b>	<b>(1.717)</b>	<b>1.717</b>	<b>(1.717)</b>

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

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



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

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

<b>Foreign currency sensitivity table</b>				
<b>31 December 2017</b>				
	<b>Profit/Loss</b>		<b>Equity<sup>1</sup></b>	
	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>
<b>Change of USD against TL by 10%:</b>				
1- USD denominated net assets/(liabilities)	114.270	(114.270)	114.270	(114.270)
2- Hedged amount against USD risk (-)	--	--	--	--
<b>3- Net effect of USD (1+2)</b>	<b>114.270</b>	<b>(114.270)</b>	<b>114.270</b>	<b>(114.270)</b>
<b>Change of EURO against TL by 10%:</b>				
4- EURO denominated net assets/(liabilities)	31.424	(31.424)	31.424	(31.424)
5- Hedged amount against EURO risk (-)	--	--	--	--
<b>6- Net effect of EURO (4+5)</b>	<b>31.424</b>	<b>(31.424)</b>	<b>31.424</b>	<b>(31.424)</b>
<b>Change of other<sup>2</sup> currencies against TL by 10%:</b>				
7- Other currencies denominated net assets/(liabilities)	1.662	(1.662)	1.662	(1.662)
8- Hedged amount against other currencies risk (-)	--	--	--	--
<b>9- Net effect of other currencies (7+8)</b>	<b>1.662</b>	<b>(1.662)</b>	<b>1.662</b>	<b>(1.662)</b>

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

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

<b>30 June 2018</b>	<b>Financial assets at fair value P/L</b>	<b>Financial assets at amortized cost</b>	<b>Financial assets at fair value through OCI</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying value</b>	<b>Note</b>
<b><u>Financial assets</u></b>						
Cash and cash equivalents	--	3.446.981	--	--	3.446.981	3
Blocked deposits	--	68.811	--	--	68.811	
Financial investments	411	--	568.767	--	569.179	
Equity accounted investments	89.317	--	--	--	89.317	
Trade receivables	--	3.986.564	--	--	3.986.564	5
<b><u>Financial liabilities</u></b>						
Borrowings	--	--	--	545.487	545.487	21
Trade payables	--	--	--	3.070.796	3.070.796	5
Other payables	--	--	--	58.643	58.643	

<b>31 December 2017</b>	<b>Financial assets at fair value P/L</b>	<b>Financial assets at amortized cost</b>	<b>Financial assets at fair value through OCI</b>	<b>Financial liabilities at amortized cost</b>	<b>Carrying value</b>	<b>Note</b>
<b><u>Financial assets</u></b>						
Cash and cash equivalents	--	1.262.904	--	--	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
<b><u>Financial liabilities</u></b>						
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)**

<b>30 June 2018</b>	<b>Fair value level as of reporting date</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>TL</b>	<b>TL</b>	<b>TL</b>
ROKETSAN	--	--	568.767
	--	--	<b>568.767</b>

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

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

	<b>Fair value level as of reporting date</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>TL</b>	<b>TL</b>	<b>TL</b>
<b>1 January 2018</b>	--	--	<b>568.767</b>
Additions	--	--	--
<b>30 June 2018</b>	--	--	<b>568.767</b>

**24. EVENTS AFTER THE REPORTING PERIOD**

Amount of contracts signed by Group after the reporting date is approximately USD 568 Million (TL 2.677 Million).