

**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 2019

6 August 2019

This report contains independent audit report comprising 1 page,
condensed consolidated interim financial information
and related disclosures and footnotes comprising 49 pages.

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

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries (together "the Group") as at 30 June 2019, 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".

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


Mehmet Nadi Abbasoglu,
Partner
06 August 2019, 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 2019**

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

	Note References	Current Period Reviewed 30 June 2019	Prior Period Audited 31 December 2018
ASSETS			
Current Assets		11.546.468	11.616.680
Cash and Cash Equivalents	3	1.612.347	3.115.691
Financial Investments		10.015	--
Trade Receivables	5	3.177.003	3.072.113
<i>From Related Parties</i>	4	953.430	772.851
<i>From Third Parties</i>		2.223.573	2.299.262
Other Receivables		261.200	204.117
<i>From Related Parties</i>	4	1.150	--
<i>From Third Parties</i>		260.050	204.117
Inventories	7	4.547.655	3.576.618
Prepaid Expenses	8	1.553.617	1.319.330
<i>From Related Parties</i>	4	301.183	311.668
<i>From Third Parties</i>		1.252.434	1.007.662
Other Current Assets		384.631	328.811
Non-Current Assets		9.581.028	7.856.951
Financial Investments		774.058	778.665
Trade Receivables	5	4.187.912	2.826.939
<i>From Related Parties</i>	4	2.753.435	1.976.539
<i>From Third Parties</i>		1.434.477	850.400
Other Receivables		717	764
<i>From Third Parties</i>		717	764
Equity Accounted Investees	6	114.742	93.586
Property, Plant and Equipment	9	1.433.183	1.336.297
Intangible Assets	9	1.179.192	1.082.067
Prepaid Expenses	8	490.160	504.399
<i>From Related Parties</i>	4	239.139	155.933
<i>From Third Parties</i>		251.021	348.466
Deferred Tax Assets	11	760.277	734.092
Other Non-Current Assets		640.787	500.142
TOTAL ASSETS		21.127.496	19.473.631

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 2019

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

	Note References	Current Period Reviewed 30 June 2019	Prior Period Audited 31 December 2018
LIABILITIES			
Current Liabilities		5.435.650	4.684.478
Short-term Financial Liabilities	21	1.456.286	698.526
Short-term Portion of Long-term Financial Liabilities	21	--	67.277
Trade Payables	5	2.463.652	2.548.583
<i>To Related Parties</i>	4	460.727	593.911
<i>To Third Parties</i>		2.002.925	1.954.672
Employee Benefit Obligations	13	56.081	34.873
Other Payables		120.566	2.732
<i>To Related Parties</i>	4	116.059	--
<i>To Third Parties</i>		4.507	2.732
Government Grants and Incentives		47.606	53.818
Deferred Income	8	570.533	632.645
<i>To Related Parties</i>	4	336.458	510.751
<i>To Third Parties</i>		234.075	121.894
Corporate Tax Liability		2.428	2.836
Short-term Provisions		715.409	634.951
<i>For Employee Benefits</i>	13	72.382	49.382
<i>Other</i>	10	643.027	585.569
Other Current Liabilities		3.089	8.237
Non-Current Liabilities		4.339.172	4.612.132
Long-term Financial Liabilities	21	899	20.234
Trade Payables	5	2.016.319	1.768.283
<i>To Related Parties</i>	4	1.685.740	1.617.969
<i>To Third Parties</i>		330.579	150.314
Other Payables		4.643	106
<i>To Third Parties</i>		4.643	106
Deferred Income	8	1.813.565	2.296.513
<i>To Related Parties</i>	4	1.235.173	1.669.160
<i>To Third Parties</i>		578.392	627.353
Long-term Provisions		503.661	526.996
<i>Long-term Provisions for Employee Benefits</i>	13	196.809	198.611
<i>Other</i>	10	306.852	328.385
Other Non-Current Liabilities		85	--

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 2019**

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

	Note References	Current Period Reviewed 30 June 2019	Prior Period Audited 31 December 2018
EQUITY		11.352.674	10.177.021
Equity Attributable to Equity Holders of the Parent		11.303.693	10.132.601
Share Capital	14	1.140.000	1.140.000
Inflation Adjustments on Share Capital	14	98.621	98.621
Share Premium		2.796.723	2.796.723
Other Comprehensive Income that will not be			
Reclassified to Profit or Loss		193.187	189.358
<i>Gain on Revaluation of Property</i>		207.431	207.431
<i>Gain/ Loss on Remeasurement of Defined Benefit Plans</i>		(14.244)	(18.073)
Other Cumulative Comprehensive Income will or may be Reclassified to Profit/Loss		763.434	755.119
<i>Gain on Revaluation of Available for Sale Financial Assets</i>		729.612	729.612
<i>Cumulative Translation Adjustments</i>		33.822	25.507
Restricted Reserves	14	276.827	172.687
Retained Earnings		4.701.953	2.661.896
Net Profit		1.332.948	2.318.197
Non-Controlling Interests		48.981	44.420
TOTAL LIABILITIES & EQUITY		21.127.496	19.473.631

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 2019

(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 2019	Current Period Not Reviewed 1 April- 30 June 2019	Current Period Reviewed 1 January- 30 June 2018	Current Period Not Reviewed 1 April- 30 June 2018
PROFIT OR LOSS					
Revenue	15	4.624.415	2.626.316	3.279.776	1.914.577
Cost of Sales (-)	15	(3.498.680)	(1.966.440)	(2.459.656)	(1.426.342)
GROSS PROFIT		1.125.735	659.876	820.120	488.235
General Administrative Expenses (-)		(153.940)	(82.778)	(100.460)	(56.121)
Marketing Expenses (-)		(80.955)	(51.686)	(64.582)	(39.185)
Research and Development Expenses (-)		(49.551)	(27.793)	(34.270)	(15.429)
Other Operating Income	16	1.421.980	674.800	1.530.701	1.021.823
Other Operating Expenses (-)	16	(1.027.626)	(577.287)	(1.117.688)	(742.293)
OPERATING PROFIT		1.235.643	595.132	1.033.821	657.030
Income from investing activities	17	1.535	1.497	3.489	3.460
Shares of profit/(losses) of Equity Accounted Investees	6	4.851	5.989	(5.948)	(3.947)
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		1.242.029	602.618	1.031.362	656.543
Financial Income	18	508.527	237.238	173.830	112.303
Financial Expense (-)	19	(439.946)	(184.858)	(299.216)	(177.918)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		1.310.610	654.998	905.976	590.928
Tax Income from Continuing Operations	11	24.714	50.765	35.830	(464)
- Current Corporate Tax Expense(-)		(2.428)	(1.811)	(3.059)	(942)
- Deferred Tax Income		27.142	52.576	38.889	478
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		1.335.324	705.763	941.806	590.464
Profit for the Period Attributable to					
Non-Controlling Interest		2.376	2.111	9	28
Owners of the Company	20	1.332.948	703.652	941.797	590.436
		1.335.324	705.763	941.806	590.464
Earnings for per 100 Shares (in full kuruş)	20	116,93	61,91	92,46	56,94

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 2019

(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 2019	Current Period Reviewed 1 April- 30 June 2019	Current Period Reviewed 1 January- 30 June 2018	Current Period Reviewed 1 April- 30 June 2018
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS				
Items that will not to be reclassified subsequently in Profit or Loss	3.829	3.829	(5.088)	(5.088)
Loss on Remeasurement of Defined Benefit Plans	4.786	4.786	(6.360)	(6.360)
Deferred Tax Income / (Expense)	(957)	(957)	1.272	1.272
Items that may be reclassified subsequently to profit or loss	8.315	6.767	13.533	8.396
Foreign Currency Exchange Differences	8.315	6.767	13.533	8.396
OTHER COMPREHENSIVE INCOME	12.144	10.596	8.445	3.308
TOTAL COMPREHENSIVE INCOME	1.347.468	716.359	950.251	593.772
Total Comprehensive Income Attributable to Non-Controlling Interest Owners of the Company	2.376	2.112	9	28
	1.345.092	714.247	950.242	593.744
	1.347.468	716.359	950.251	593.772

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 2019

(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			
Balance as of 1 January 2018 (as previously reported)	1.000.000	98.621	--	207.431	1.656	535.444	5.246	124.062	1.687.436	1.387.770	5.047.666	542	5.048.208
Effect of TFRS 15	--	--	--	--	--	--	--	--	(265.860)	(13.506)	(279.366)	--	(279.366)
Effect of TFRS 9	--	--	--	--	--	--	--	--	(2.356)	1.637	(719)	--	(719)
Balance as of 1 January 2018 Restated	1.000.000	98.621	--	207.431	1.656	535.444	5.246	124.062	1.419.220	1.375.901	4.767.581	542	4.768.123
Transfers	--	--	--	--	--	--	--	48.625	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)
Balance as of 30 June 2018	1.140.000	98.621	2.801.742	207.431	(3.432)	535.444	18.779	172.687	2.661.896	941.797	8.574.965	551	8.575.516
Balance as of 1 January 2019	1.140.000	98.621	2.796.723	207.431	(18.073)	729.612	25.507	172.687	2.661.896	2.318.197	10.132.601	44.420	10.177.021
Transfers	--	--	--	--	--	--	--	104.140	2.040.057	(2.144.197)	--	--	--
Total Comprehensive Income	--	--	--	--	3.829	--	8.315	--	--	1.332.948	1.345.092	2.376	1.347.468
Dividends	--	--	--	--	--	--	--	--	--	(174.000)	(174.000)	--	(174.000)
Consolidation Effect of New Acquisition	--	--	--	--	--	--	--	--	--	--	--	2.185	2.185
Balance as of 30 June 2019 (Closing Balance)	1.140.000	98.621	2.796.723	207.431	(14.244)	729.612	33.822	276.827	4.701.953	1.332.948	11.303.693	48.981	11.352.674

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 2019**

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

	Note References	Current Period Reviewed 30 June 2019	Prior Period Reviewed 30 June 2018
A. Cash Flows from Operating Activities		(1.831.178)	(529.020)
Profit for the period		1.335.324	941.806
Adjustments to Reconcile Profit		210.313	440.912
- Adjustments for Depreciation and Amortization Expense		105.909	81.759
- Adjustments for Impairment Loss		2.199	5.368
<i>Adjustments for Impairment Loss of Receivables</i>	5	324	787
<i>Adjustments for Impairment Loss of Inventories</i>	7	1.875	4.581
- Adjustments for Provisions		173.463	260.084
<i>Adjustments for Provisions Related with Employee Benefits</i>	13	45.005	23.434
<i>Adjustments for / (Reversal of) Lawsuit and/or Penalty Provisions</i>		27.182	132.579
<i>Adjustments for Warranty Provisions</i>		98.940	102.975
<i>Adjustments for (Reversal of) Other Provisions</i>		2.336	1.096
- Adjustments for Interest (Income) Expenses		(115.361)	79.754
<i>Adjustments for Interest Income</i>		(481.701)	(170.592)
<i>Adjustments for Interest Expense</i>		366.340	250.346
- Share of profit/loss of Equity Accounted Investments		(4.851)	5.948
- Adjustments for Tax Income		(24.714)	(35.830)
- Adjustments for Losses on Disposal of Non-Current Assets	9	11.982	58.589
- Adjustments for Stage of Completion of Construction or Service Contracts in Progress		61.523	(3.377)
Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		163	(11.383)
Other Non-Cash Adjustments		(3.263.085)	(1.845.993)
Changes in Working Capital		(1.751.936)	(613.218)
- Adjustments for Decrease (Increase) in Trade Receivables		(57.036)	(375)
- Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(960.220)	(695.177)
- Adjustments for Decrease (Increase) in Inventories		(220.048)	(440.528)
- Decrease (Increase) in Prepaid Expenses		255.011	19.646
- Adjustments for Increase (Decrease) in Trade Payables		21.208	5.863
- Increase (Decrease) in Employee Benefit Obligations	13	397.676	(124.551)
- Adjustments for Increase (Decrease) in Other Operating Payables		6.369	644
- Increase (Decrease) in Government Grants and Incentives		(6.212)	900
- Increase (Decrease) in Deferred Income		(806.172)	171.853
- Adjustments for Other Increase (Decrease) in Working Capital		(141.725)	(171.050)
Cash Flows From Operations		(1.717.448)	(463.275)
Payments Related with Provisions for Employee Benefits	13	(19.021)	(10.166)
Payments Related with Other Provisions		(92.533)	(54.861)
Income Taxes Refund (Paid)		(2.176)	(718)
B. Cash Flows From Investing Activities		(341.980)	(250.921)
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		184	55
Purchase of Property, Plant and Equipment		(170.004)	(97.801)
Purchase of Intangible Assets	9	(153.745)	(144.400)
Dividends Received		1.155	3.460
Other Cash Inflows (Outflows)		(19.570)	(12.235)
C. Cash Flows From Financing Activities		688.246	2.938.099
Proceeds from Borrowings		1.537.974	423.182
Repayments of Borrowings		(929.502)	(425.070)
Cash Inflows from Issuing Capital		--	2.941.742
Dividends Paid		(58.000)	(28.200)
Interest Paid	19	(24.715)	(8.334)
Interest Received		162.489	34.779
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		(1.484.912)	2.158.158
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		7.160	18.743
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(1.477.752)	2.176.901
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		3.087.387	1.261.753
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	3	1.609.635	3.438.654

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 2019

(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 date, the Company has been organized under five Vice Presidential Sectors with regard to investment and production requirements of projects. These divisions comprise Communication and Information Technologies Vice Presidency ("HBT"), Radar and Electronic Warfare Systems Vice Presidency ("REHİS"), Defence Systems Technologies Vice Presidency ("SST") and Microelectronics, Guidance & Electro-Optics 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 at strategic level planning, oversight and evaluation functions the Financial Management Vice Presidency, Corporate Management Vice Presidency, Technology and Strategy Management Vice Presidency and Business Development and Marketing Vice Presidency making a total of four Vice Presidencies; in addition to these, there are also Legal Affairs and Private Secreteriat.

The Company maintains engineering operations in Ankara, METU Teknokent and Teknopark Ankara; production and engineering operations in Macunköy, Akyurt and Gölbaşı settlements. General Management is located in Ankara Macunköy settlement. Furthermore, the Company maintains engineering operations 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 by 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 2019, 25,70 percent of the Company's shares are publicly traded (31 December 2018: 25,70 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 2019 is 6.122 (31 December 2018: 5.694).

The Company's consolidated subsidiaries are ASELSAN Baku ("ASELSAN Baku"), Mikroelektronik Ar-Ge Tasarım ve Ticaret Ltd. Co. ("Mikro AR-GE"), ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Ltd. Co. ("ASELSANNET"), ASELSAN Malaysia Sdn. Bhd. ("ASELSAN Malaysia"), Aselsan Konya Silah Sistemleri Anonim Şirketi ("ASELSAN Konya") and BITES Savunma Havacılık ve Uzay Teknolojileri Yazılım A.Ş. ("BITES"). They are collectively referred as the "Group" in the accompanying notes.

The Company has two branch offices; Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi EP Co. ("ASELSAN South Africa") and ASELSAN Makedonya Corridor-10 Highway Toll Collection System Project ("ASELSAN Macedonia") located in South Africa and Macedonia, respectively. The branches are included in the consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

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

2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2.1 The Basis of Presentation

Statement of Compliance to TAS

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

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

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

Approval of the Consolidated Financial Statements

The consolidated financial statements have been approved for issue by the Board of Directors with the resolution number 1056 on 6 August 2019. There is no authority other than General Assembly and legal entities has the right to amend the consolidated financial statements.

Functional Currency

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

Amounts are expressed in thousands of TL or Foreign Currency unless otherwise stated.

Preparation of Financial Statements in Hyperinflationary Periods

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

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

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(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 2019	31 December 2018	
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	Malaysia	MYR	100	100	Remote controlled weapon systems
ASELSAN KONYA	Turkey	TL	51	51	Weapon and weapon systems
BITES	Turkey	TL	51	--	Defense, Aerospace, Space Technologies, Software

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

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

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

Establishment of ASELSAN Malaysia has been completed as of July 2017, in order to operate in producing remote control weapon systems. The company has a capital of 100 MYR (Malaysia Ringits) and owned 100% by Aselsan and planned to expand its operations according to the Project potential and find new local partnerships.

Aselsan Konya Silah Sistemleri A.Ş. has been established with Konya Savunma Sanayi A.Ş. and registration of the entity has been completed in 12 November 2018. Capital structure is as follows; 51% ASELSAN, 49% Konya Savunma Sanayi A.Ş.

51% shares of BİTES are transferred to ASELSAN at 28 February 2019, after share transfer agreement signed on 13 February 2019.

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

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

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(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)

- comparison of voting rights of the Group and the others,
- potential voting rights held by the Group, and others,
- rights arising from 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).

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

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

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

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

Interests in Joint Ventures:

The details of the Group's interests in joint ventures as of the dates 30 June 2019 and 31 December 2018 are as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(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 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Interests in Joint Ventures (continued)

Joint Ventures	Principal Activity	Country of establishment and operation	Group's proportion of ownership and voting power held (%)	
			30 June 2019	31 December 2018
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 Defence Electronics Corporation ("SADEC LLC")	Production and sale of radar, electronics, warfare and electro-optic products	Saudi Arabia	50	50
TÜYAR Mikroelektronik Sanayi ve Ticaret Anonim Şirketi ("TÜYAR")	Production of micro and nano-sized devices containing semiconductor	Turkey	51	51
BARQ QSTP LLC. ("BARQ QSTP LLC.")	Command and control systems, thermal and night vision camera, crypto, remote-controlled weapon systems	Qatar	48	48
Teknohab Teknoloji Geliştirme Bölgesi Yönetici Anonim Şirketi ("TEKNOHAB")	To create investment opportunities in technology intensive areas, provide job opportunities to researchers and skilled people, help technology transfers and facilitate foreign capital to enter our country that will enable high technology	Turkey	30	30
ULAK Haberleşme Anonim Şirketi ("ULAK")	Communication systems	Turkey	51	51

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 ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(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)

Interests in Joint Ventures (continued)

ASELSAN Bilkent has been established in November 2014 and it is owned by the Company and İhsan Dođramacı 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.

Share transfer agreement has been signed as of 1 October 2018 in order to transfer 51% shares of ULAK Haberleşme A.Ş. which have been fully owned by SSTEK Savunma Teknolojileri A.Ş. New capital structure is as follows; 51% ASELSAN Elektronik Sanayi ve Ticaret A.Ş., %49 SSTEK Savunma Teknolojileri A.Ş.

SADEC LLC corporation has been 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.

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 Presidency of Defence Industries hold 29 percent and 20 percent stake respectively. The entity's establishment was registered on 4 October, 2017. The title of the company is changed as "TÜYAR" at general assembly on 8 May 2019.

The company titled "BARQ QSTP LLC" was established in order to operate with command and control systems, thermal and night vision camera, crypto, remote-controlled weapon systems on 17 September 2018. 51% of the new company belongs to BARZAN HOLDINGS, 48% belongs to ASELSAN and 1% belongs to SSTEK. The entity's establishment was registered on October 3rd, 2018.

Teknohab Teknoloji Geliştirme Bölgesi Yönetici Anonim Şirketi ("TEKNOHAB") has been established in order to create investment opportunities in technology intensive areas, to provide job opportunities to researchers and skilled people, to help technology transfers and to facilitate foreign capital to enter our country that will enable high technology in which the entity is owned 30% by ASELSAN, %30 by TUSAŞ, 30% HAB Uzay ve Havacılık İhtisas Organize Sanayi Bölgesi and 10% Gazi University. The entity's establishment was registered on November 8th, 2018.

The Group's joint ventures; IGG ASELSAN and ASELSAN Kazakhstan have been established in 2011, ASELSAN Jordan has been established in 2012 and ASELSAN Optik and ASELSAN Bilkent which were established in 2014, and SADEC LLC has been established in 2016, were included in the condensed consolidated interim financial statements by using the equity method. Since BARQ QSTP LLC and TEKNOHAB have not started to operate yet, there is no consolidation effect on the Group's financial statements.

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 presented comparatively with the corresponding figures. For the purpose of having consistency with the current term's presentation of consolidated financial statements, comparative information 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.

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

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

2.3 Accounting Policies, Changes in Accounting Estimates and Errors

Significant changes in accounting policies and errors are applied retrospectively and prior period financial statements are restated, changes in accounting estimates are reflected to the financial in current period profit/loss.

When change in estimate in accounting policies are related with only one period, changes are applied on the current period but if the estimated changes are for the following periods, changes are applied both on the current and following periods prospectively.

2.4 Summary of Significant Accounting Policies

Standards Issued But Not Yet Effective and Not Early Adopted as of 30 June 2019

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

IFRS 17 –Insurance Contracts

On 16 February 2019, Public Oversight Accounting and Auditing Standards Authority ("POASA") issued IFRS 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. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier.

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

Definition of a Business (Amendments to IFRS 3)

On 21 May 2019, the POASA issued amendments to the guidance in IFRS 3, "Business Combinations", that revises the definition of a business. To be considered a business, an acquisition would have to include an input and substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). This amendments have an effective date of 1 January 2020.

Definition of Material (Amendments to IAS 1 and IAS 8)

On 21 June 2019, The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. This amendments have an effective date of 1 January 2020 but companies can apply it earlier.

(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 Revised Conceptual Framework**

The revised Conceptual Framework issued on 11 May 2019 by POASA. 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.

Standards Adopted as of 01 January 2019**TFRS 16 Leases**

On April 2018, Public Oversight Accounting and Auditing Standards Authority ("POASA") has issued the new leasing standard which will replace TAS 17 Leases, TFRSI 4 Determining Whether an Arrangement Contains a Lease, TASI 15 Operating Leases – Incentives, and TASI 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.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRS 16.

Amendments to TAS 28- Long-term Interests in Associates and Joint Ventures

In 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 standard is effective for annual periods beginning on or after 1 January 2019.

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

(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 Adopted as of 01 January 2019 (continued)****TFRS 23 –Uncertainty Over Income Tax Treatments**

On May 2018, POASA issued TFRSI 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. TFRSI 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 standard is effective for annual periods beginning on or after 1 January 2019.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRS 23.

Amendments to TAS 19 - Plan Amendment, Curtailment or Settlement

On 15 January 2019, POASA 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 standard is effective for annual periods beginning on or after 1 January 2019.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TAS 19.

Amendments to TFRS 9 - Prepayment features with negative compensation

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

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

Annual Improvements to TFRSs 2015-2017 Cycle**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. The standard is effective for annual periods beginning on or after 1 January 2019.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRS 3.

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. The standard is effective for annual periods beginning on or after 1 January 2019.

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(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 Adopted as of 01 January 2019 (continued)

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TAS 12.

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. The standard is effective for annual periods beginning on or after 1 January 2019.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TAS 23.

3. CASH AND CASH EQUIVALENTS

	30 June 2019	31 December 2018
Cash	234	153
Banks		
- Time deposit	1.558.261	2.987.934
- Demand deposit	48.977	96.981
Other	2.163	2.320
Cash and cash equivalents on the cash flow statement	1.609.635	3.087.388
Interest income accruals	2.712	28.303
	1.612.347	3.115.691

As of 30 June 2019, the Group had time deposits denominated in foreign currencies with maturities in July 2019 (31 December 2018: January 2019) with the interest rates between 1,50 percent and 3,75 percent (31 December 2018: 2 percent to 5 percent) amounting to TL 651.751 (31 December 2018: TL 253.662).

As of 30 June 2019, the Group had time deposits denominated in TL terms with maturities in July 2019 (31 December 2018: January-February 2019) amounted to TL 906.510 (31 December 2018: TL 2.734.272) at the interest rate of 23,5 percent (31 December 2018: 18,50 and 23,50 percent).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

(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 2019 is TL 8.759 (30 June 2018: TL 6.163).

In the period ended on 31 March 2019, the entire loan obtained from Defense Industry Support Fund was closed by offsetting from receivables (31 December 2018: TL 87.511).

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 2019

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

4. RELATED PARTY DISCLOSURES (continued)

	30 June 2019									
	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 ¹	Trading	Deferred Income
<u>Main shareholder</u>										
TSKGV	16	--	--	--	--	--	--	86.072	--	--
<u>Other shareholder</u>								29.871		
Axa Sigorta Anonim Şirketi ("Axa Sigorta")	--	--	--	--	--	--	--	--	--	--
<u>Main shareholder's shareholders/subsidiaries/associates</u>										
Hava Elektronik Harp Sistemleri Mühendislik Ticaret Anonim Şirketi ("HAVELSAN EHSİM")	--	943	--	--	--	3.772	--	--	--	--
Hava Elektronik Sanayi ve Ticaret Anonim Şirketi ("HAVELSAN")	21.865	39.351	--	1.313	7.365	63.679	--	--	--	--
HAVELSAN Teknoloji Radar Sanayi ve Ticaret Anonim Şirketi ("HTR")	1.011	36.023	--	--	--	11.754	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	25.509	--	--	--	8.655	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	--	26.308	--	--	4.806	75.763	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	72.554	4.463	--	491	--	12.413	30.962	--	186.765	5.673
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	62.817	92	--	82.273	--	46.833	24.873	--	15.845	352.702
<u>Financial Instruments</u>										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPILSAN")	--	712	--	--	--	6.572	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	110.149	57.480	--	65.587	220.039	32.036	17.316	--	11.355	24.478
<u>Joint ventures and its related parties</u>										
ASELSAN Bilkent	--	7.178	--	--	3.939	3.847	--	--	--	--
İhsan Doğramacı Bilkent Üniversitesi	--	7.742	--	--	--	5.705	--	--	--	--
ASELSAN Optik	--	74.381	1.150	--	--	21.174	--	--	--	--
IGG	44.617	--	--	8.552	--	--	--	--	--	--
IGG ASELSAN	5.251	1.561	--	--	--	314	--	--	--	--
ASELSAN Kazakistan	61.082	--	--	13.905	--	420	165	--	--	--
ASELSAN Ürdün	48.804	--	--	205	--	5.528	1.661	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	7.577	4.570	--	67.681	--	460	7.115	--	15	6.402
TÜBİTAK BİLGEM	--	5.112	--	--	139	20.773	--	--	--	--
TÜBİTAK-UME	--	892	--	--	--	25	--	--	--	--
TÜBİTAK SAGE Savunma Sanayii	--	8.866	--	6.484	2.851	10.517	--	--	--	--
TÜBİTAK UZAY TEKNOLOJİLERİ	48	--	--	--	--	--	--	--	--	--
Savunma Sanayi Başkanlığı ("SSB")	477.303	--	--	2.506.944	--	129.060	253.281	--	1.471.760	844.848
ULAK	39.695	--	--	--	--	1.427	1.085	--	--	1.070
SADEC LLC	641	--	--	--	--	--	--	--	--	--
<u>Publicly held shares</u>	--	--	--	--	--	--	--	116	--	--
	953.430	301.183	1.150	2.753.435	239.139	460.727	336.458	116.059	1.685.740	1.235.173

¹ Other payables mainly comprised of dividends payable for the year ended 31 December 2018

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4. RELATED PARTY DISCLOSURES (continued)

	31 December 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	Trading	Deferred Income
Main shareholder										
TSKGV	21	--	--	--	--	--	--	--	--	--
Other shareholder										
Axa Sigorta Anonim Şirketi ("Axa Sigorta")	--	--	--	--	--	--	--	--	--	--
Main shareholder's shareholders/subsidiaries/associates										
Hava Elektronik Harp Sis. Müh. Tic. Anonim Şirketi ("HAVELSAN EHSİM")	--	943	--	--	--	5.769	--	--	--	--
Hava Elektronik San. ve Tic. Anonim Şirketi ("HAVELSAN")	21.196	29.676	--	957	7.365	55.460	--	--	4.040	--
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi ("HTR")	--	19.592	--	--	--	4.415	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	26.112	--	--	--	14.524	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	22	35.564	--	--	4.806	37.086	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	53.509	10.808	--	374	--	25.257	70.957	--	208.410	20.270
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	78.034	92	--	61.748	--	51.732	114.454	--	16.127	242.424
Financial Investments										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	1.117	601	--	--	--	6.027	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	75.824	116.171	--	54.483	127.687	50.722	118.359	--	23.632	20.690
Joint ventures and its related parties										
ASELSAN Bilkent Nano	--	4.809	--	--	3.939	2.595	--	--	--	--
İhsan Doğramacı Bilkent University	--	7.533	--	--	--	3.499	--	--	--	--
ASELSAN Optik	2.726	34.985	--	--	--	14.056	--	--	--	--
IGG	37.245	--	--	8.552	--	--	--	--	--	--
IGG ASELSAN	1.934	1.534	--	--	--	--	--	--	--	--
ASELSAN Kazakistan	68.080	--	--	13.905	--	89	1.785	--	--	--
ASELSAN Jordan	12.060	--	--	--	--	2.404	--	--	--	--
TÜBİTAK BİLGEM	--	5.965	--	--	139	10.259	--	--	--	--
TÜBİTAK-UME	--	623	--	--	--	13	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	15.664	506	--	79.122	--	11.015	9.029	--	--	--
TÜBİTAK SAGE Savunma Sanayii	28	16.064	--	5.245	11.997	56.256	--	--	--	660
TÜBİTAK UZAY TEKNOLOJİLERİ	--	--	--	--	--	722	--	--	--	--
Savunma Sanayi Başkanlığı ("SSB")	360.249	90	--	1.752.153	--	241.789	196.167	--	1.365.760	1.382.961
TÜYAR	--	--	--	--	--	--	--	--	--	--
Ankaref Bilişim Teknolojileri Limited Şirketi ("ANKAREF")	--	--	--	--	--	--	--	--	--	--
ULAK	44.556	--	--	--	--	--	--	--	--	2.155
SADEC LLC	586	--	--	--	--	222	--	--	--	--
	772.851	311.668	--	1.976.539	155.933	593.911	510.751	--	1.617.969	1.669.160

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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 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
Transactions with related parties	Purchases	Purchases	Purchases	Purchases
<u>Main Shareholder</u>				
TSKGV	457	229	377	189
<u>Main shareholder's shareholders/subsidiaries/associates</u>				
NETAŞ	75.524	54.127	84.668	60.433
İŞBİR	15.269	8.405	24.055	15.890
HTR	29.476	13.652	13.014	7.819
TUSAŞ	1.012	982	33	23
HAVELSAN EHSİM	--	--	580	--
HAVELSAN	22.952	22.952	--	--
STM	8.433	4.731	8.717	3.718
<u>Financial Investments</u>				
ROKETSAN	7.769	7.138	11.656	10.709
ASPİLSAN	17.710	6.539	6.923	5.051
<u>Joint ventures and its related parties</u>				
İhsan Doğramacı Bilkent Üniversitesi	7.584	4.910	8.257	3.712
TÜBİTAK BİLGEM	23.190	20.925	11.757	2.477
TÜBİTAK-UME	153	50	18	14
TÜBİTAK-SAGE Savunma Sanayii	24.181	10.616	3.880	2.855
	233.710	155.256	173.935	112.890
	1 January- 30 June 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
Transactions with related parties	Sales	Sales	Sales	Sales
<u>Main Shareholder</u>				
TSKGV	152	70	147	93
<u>Main shareholder's shareholders/subsidiaries /associates</u>				
TUSAŞ	140.789	81.950	66.642	8.514
STM	294.687	106.665	200.441	116.466
HAVELSAN	6.147	5.369	888	888
HAVELSAN EHSİM	--	--	121	121
HTR	1.429	1.022	1.679	1.679
NETAŞ	1.210	1.210	140	6
<u>Financial Investments</u>				
ROKETSAN	95.314	62.450	50.360	8.091
<u>Joint ventures and its related parties</u>				
İhsan Doğramacı Bilkent Üniversitesi	521	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	16.888	16.888	29.970	13.658
TÜBİTAK SAGE	1.061	353	41	--
TÜBİTAK UZAY TEKNOLOJİLERİ	100	48	--	--
SSB	2.157.639	817.531	1.500.439	786.578
	2.715.937	1.093.556	1.850.868	936.094

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

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

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

	30 June 2019	31 December 2018
Short-term trade receivables		
Trade receivables	2.217.685	2.291.660
Trade receivables from related parties (Note 4)	953.430	772.851
Notes receivable	5.888	7.602
Doubtful trade receivables	2.542	2.218
Allowance for doubtful trade receivables (-)	(2.542)	(2.218)
	3.177.003	3.072.113
	30 June 2019	31 December 2018
Long-term trade receivables		
Contract assets	1.182.406	756.215
Trade receivables	252.071	94.185
Contract assets - Related party (Note 4)	2.747.757	1.976.302
Trade receivables from related parties (Note 4)	5.678	237
	4.187.912	2.826.939

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

	30 June 2019	30 June 2018
Opening balance	2.218	21.457
Provision for the period	324	787
Closing balance	2.542	22.244

The sectoral distribution of trade receivables is as follows:

	30 June 2019	31 December 2018
Public sector receivables	4.154.401	2.813.246
Private sector receivables	1.984.295	1.935.259
Receivables from companies operating abroad	1.226.219	1.150.547
Total receivables	7.364.915	5.899.052

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019**

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5. TRADE RECEIVABLES AND PAYABLES (continued)**b) Trade payables**

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

	30 June 2019	31 December 2018
Short-term trade payables		
Trade payables	1.758.697	1.624.670
Contract liabilities	241.032	325.838
Contract liabilities - Related party (Note 4)	186.533	320.051
Due to related parties (Note 4)	274.194	273.860
Other trade payables	3.196	4.164
	2.463.652	2.548.583
	30 June 2019	31 December 2018
Long-term trade payables		
Contract liabilities	330.579	150.294
Contract liabilities - Related party (Note 4)	1.685.740	1.617.969
Other trade payables	--	20
	2.016.319	1.768.283

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6. EQUITY ACCOUNTED INVESTMENTS

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

30 June 2019	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN Kazakhstan	49	104.994	120.573	225.567	124.032	11.430	135.462
ASELSAN Jordan	49	42.822	20.878	63.700	33.177	--	33.177
ASELSAN Optik	50	92.252	57.419	149.671	103.905	23.705	127.610
IGG ASELSAN	49	9.851	14.256	24.107	6.520	1.638	8.158
ASELSAN Bilkent	50	22.692	129.291	151.983	15.427	114.081	129.508
SADEC LLC	50	5.979	1.155	7.134	618	451	1.069
ULAK	51	65.804	15.110	80.914	56.704	--	56.704
TEKNOHAB	30	2.244	285	2.529	39	--	39
TÜYAR	51	15.265	1.629	16.894	44	5	49
		361.903	360.596	722.499	340.466	151.310	491.776

30 June 2019	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN Kazakhstan	49	22.806	(26.054)	(3.248)	44.151	(1.592)
ASELSAN Jordan	49	29.247	(30.886)	(1.639)	14.956	(803)
ASELSAN Optik	50	63.885	(60.145)	3.740	11.030	1.870
IGG ASELSAN	49	3.383	(3.450)	(67)	7.815	(33)
ASELSAN Bilkent	50	6.817	(3.102)	3.715	11.238	1.858
SADEC LLC	50	482	(6.844)	(6.362)	3.033	(3.181)
BARQ QSTP LLC.	48	--	--	--	834	--
ULAK	51	38.662	(25.202)	13.460	12.347	6.864
TEKNOHAB	30	257	(268)	(11)	747	(3)
TÜYAR	51	510	(764)	(254)	8.591	(129)
		166.049	(156.715)	9.334	114.742	4.851

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

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6. EQUITY ACCOUNTED INVESTMENTS (continued)

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

31 December 2018	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN Kazakhstan	49	91.850	113.145	204.995	107.365	10.484	117.849
ASELSAN Jordan	49	22.138	19.578	41.716	12.296	--	12.296
ASELSAN Optik	50	58.498	52.676	111.174	63.511	27.042	90.553
IGG ASELSAN	49	19.488	1.483	20.971	4.016	2.169	6.185
ASELSAN Bilkent	50	21.039	109.978	131.017	18.427	93.829	112.256
SADEC LLC	50	9.899	3.270	13.169	1.354	--	1.354
TÜYAR	51	2.987	1.072	4.059	58	--	58
		225.899	301.202	527.101	207.027	133.524	340.551

31 December 2018	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN Kazakhstan	49	61.722	(73.504)	(11.782)	42.702	(5.773)
ASELSAN Jordan	49	5.958	(11.454)	(5.496)	14.417	(2.693)
ASELSAN Optik	50	58.221	(50.917)	7.304	10.310	3.652
IGG ASELSAN	49	12.376	(11.401)	975	7.245	478
ASELSAN Bilkent	50	17.347	(15.512)	1.835	9.380	917
SADEC LLC	50	2.431	(13.184)	(10.753)	5.907	(5.376)
BARQ QSTP LLC.	48	--	--	--	834	--
TEKNOHAB	30	--	--	--	750	--
TÜYAR	51	706	(1.012)	(306)	2.041	(156)
		158.761	(176.984)	(18.223)	93.586	(8.951)

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7. INVENTORIES

	30 June 2019	31 December 2018
Raw materials	2.508.837	1.948.791
Work in progress	1.502.517	1.172.216
Goods in transit ¹	224.422	196.567
Finished goods	243.617	174.341
Other inventories	23.698	19.561
Trade goods	54.559	73.262
Allowance for impairment on inventories (-)	(9.995)	(8.120)
	4.547.655	3.576.618

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 9.995 in the statement of financial position (30 June 2018: TL 30.242).

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

	30 June 2019	30 June 2018
Opening balance	8.120	25.661
Provision for the period	2.514	4.585
Provision released	(639)	(4)
Closing balance	9.995	30.242

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

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8. PREPAID EXPENSES AND DEFERRED INCOME

	30 June 2019	31 December 2018
Short-term prepaid expenses		
Order advances given for inventory purchases	1.093.813	889.631
Short-term order advances given to related parties for inventory purchases (Note 4)	301.183	311.668
Prepaid expenses	158.621	118.031
	1.553.617	1.319.330

	30 June 2019	31 December 2018
Long-term prepaid expenses		
Long-term order advances given to related parties for inventory purchases (Note 4)	239.139	155.933
Order advances given for inventory purchases	134.204	279.727
Order advances given for fixed assets purchases	108.543	60.621
Prepaid expenses	8.274	8.118
	490.160	504.399

	30 June 2019	31 December 2018
Short-term deferred income		
Order advances received	216.876	92.303
Order advances received from related parties (Note 4)	336.458	510.751
Deferred income	17.199	29.591
	570.533	632.645

Short-term order advances received comprise advances received from 112 customers (31 December 2018: 61 customers) of which first 10 customers constitutes 96,35 percent of the total (31 December 2018: 98,8 percent).

	30 June 2019	31 December 2018
Long-term deferred income		
Order advances received	578.392	627.353
Order advances received from related parties (Note 4)	1.235.173	1.669.160
	1.813.565	2.296.513

Long-term order advances received comprise advances received from 30 customers (31 December 2018: 39 customers) of which the largest 10 customers constitutes 99 percent of the total (31 December 2018: 98,3 percent).

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9. TANGIBLE AND INTANGIBLE ASSETS

Cost	Property, Plant and Equipment	Intangible Assets
Opening balance as of 1 January 2019	2.231.201	1.476.779
Additions	170.994	153.745
Disposals	(224)	(11.982)
Closing balance as of 30 June 2019	2.401.971	1.618.542
Accumulated Depreciation and Amortisation		
Opening balance as of 1 January 2019	894.904	394.712
Change for the period ¹	73.963	44.638
Disposals	(79)	--
Closing balance as of 30 June 2019	968.788	439.350
Net book value as of 30 June 2019	1.433.183	1.179.192
Net book value as of 31 December 2018	1.336.297	1.082.067
Cost		
Opening balance as of 1 January 2018 (Previously 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)
Closing balance as of 30 June 2018	1.972.199	1.298.202
Accumulated Depreciation and Amortisation		
Opening balance as of 1 January 2018	776.325	321.175
Change for the period	56.538	35.012
Disposals	(69)	--
Closing balance as of 30 June 2018	832.794	356.187
Net book value as of 30 June 2018	1.139.405	942.015
Net book value as of 31 December 2017 (Restated)	1.090.843	891.216

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

¹ The amount of amortization related to inventories are TL 12.692 in the first six months of 2019 (June 2018: TL 9.791).

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

	30 June 2019	31 December 2018
Other short-term provisions		
Provision for warranties ¹	466.647	442.777
Provision for onerous contracts	99.637	87.772
Provision for delay penalties ²	58.980	41.403
Provision for legal cases	12.715	10.905
Provision for cost expenses	2.842	2.072
Other	2.206	640
	643.027	585.569
	30 June 2019	31 December 2018
Other long-term provisions		
Provision of onerous contracts	306.852	328.385
	306.852	328.385

b) Legal cases

As of the dates 30 June 2019 and 31 December 2018, 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	30 June 2019	31 December 2018
a) Ongoing lawsuits filed by the Group	27.122	12.162
b) Proceedings carried out by the Group	132.923	29.115
c) Ongoing lawsuits filed against the Group	12.715	10.905
d) Lawsuits finalized against the Group within the period	1.380	150
e) Lawsuits finalized in favor of the Group within the period	977	413

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.

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.

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

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

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11. TAX

"Deferred Tax Assets-Net" of the Group as of 30 June 2019 is TL 760.227. The amount is comprised of the items below.

	30 June 2019	31 December 2018
Carried Forward R&D Incentives Effect	1.009.951	912.673
Temporary Differences	(249.674)	(178.581)
Deferred Tax Assets - Net	760.277	734.092

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

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

In accordance with the law numbered 5746 pertaining to 1 January-30 June 2019 period, the Group has calculated "Deferred Tax Asset" amounting to TL 1.009.951 from Research and Development expenses comprising "Outstanding Research and Development Deductions".

	30 June 2019	30 June 2018
Profit before tax from continuing operations	1.310.610	905.976
Tax income recognized in profit or loss	24.714	35.830
Effective tax rate	%2	%4

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.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

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

12. COMMITMENTS AND CONTINGENCIES

a) Guarantees received

	30 June 2019	31 December 2018
Letters of guarantees received from the suppliers	1.876.394	1.749.080
Collaterals received from the customers	19.652	18.084
Letters of guarantees received from the customers	4.836	4.901
Collaterals received from the suppliers	26.364	4.932
Mortgages received from the customers	265	265
	1.927.511	1.777.262

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

The collaterals/pledges/mortgages ("CPM") given by the Group as of 30 June 2019 and 31 December 2018 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 286.474.

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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)

30 June 2019	TL Equivalent	TL	USD	EURO	UAE Dirham	Indian Rupee	British Pound	Qatar Rial
A. Total amount of CPM given on behalf of the legal entity								
-Collateral	10.563.667	962.382	1.158.081	448.113	50	10.000	--	25
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
B. Total amount of CPM given on behalf of the subsidiaries included in full consolidation								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
C. Total amount of CPM given to maintain operations and collect payables from third parties								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
D. Total amount of other CPM given								
i. Total Amount of CPM on behalf of the main partner								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
ii. Total amount of CPM given on behalf of other group companies that do not cover B and C ¹								
-Collateral	24.666	495	4.200	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
Total	10.588.333	962.877	1.162.281	448.113	50	10.000	--	25

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

¹ The ratio of the other CPM given by the Group to equity as of 30 June 2019 is 0,22 percent. TL 24.666 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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

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

31 December 2018	TL Equivalent	TL	USD	EURO	UAE Dirham	Indian Rupee	British Pound	Qatar Rial
A. Total amount of CPM given on behalf of the legal entity								
-Collateral	17.683.695	2.337.667	1.842.279	935.983	50	10.000	1.654	25
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
B. Total amount of CPM given on behalf of the subsidiaries included in full consolidation								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
C. Total amount of CPM given to maintain operations and collect payables from third parties								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
D. Total amount of other CPM given								
i. Total Amount of CPM on behalf of the main partner								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
ii. Total amount of CPM given on behalf of other group companies that do not cover B and C ¹								
-Collateral	22.590	495	4.200	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
Total	17.706.285	2.338.162	1.846.479	935.983	50	10.000	1.654	25

¹ The ratio of the other CPM given by the Group to equity as of 31 December 2018 is 0,22 percent. TL 22.590 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 2019**

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

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

	30 June 2019	31 December 2018
Social security premiums payable	32.689	24.869
Taxes and funds payable	21.187	7.472
Due to personnel	2.205	2.532
	56.081	34.873

b) Short-term provisions for employee benefits

	30 June 2019	31 December 2018
Provision for vacation pay liability	72.382	49.382

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

	30 June 2019	31 December 2018
Opening balance	49.382	42.301
Provision for the period	35.286	11.148
Provision paid during the period	(10.818)	(5.427)
Provision realised during the period	(1.468)	(1.485)
Closing balance	72.382	46.537

c) Other long-term provisions for employee benefits

	30 June 2019	31 December 2018
Provision for severance pay	182.635	184.440
Provision for retirement pay	14.174	14.171
	196.809	198.611

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

	30 June 2019	31 December 2018
Opening balance	198.611	168.742
Actuarial Loss/Gain	(4.786)	6.360
Interest cost	2.915	9.818
Service cost	8.272	3.953
Payments	(8.203)	(4.739)
Closing balance	196.809	184.134

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 2019 severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL¹ 6.018 (31 December 2018: TL¹ 5.434).

As of 1 July 2019, severance payments are limited to a ceiling of TL¹ 6.380 .

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:

	30 June 2019 (%)	31 December 2018 (%)
Interest rate	15,60	15,60
Inflation rate	11,80	11,80
Discount ratio	3,40	3,40
Estimation of probability of retirement ratio	97	97

¹ Amounts are expressed in full Turkish Lira.

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14. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

<u>Shareholders</u>	<u>Share (%)</u>	<u>30 June 2019</u>	<u>Share (%)</u>	<u>31 December 2018</u>
TSKGV	74,20	845.826	74,20	845.826
Publicly held	25,70	293.019	25,70	293.019
Axa Sigorta Anonim Şirketi	0,10	1.155	0,10	1.155
Nominal capital	100	1.140.000	100	1.140.000
Share capital adjustment		98.621		98.621
Inflation adjusted capital		1.238.621		1.238.621

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 2019, The Group's restricted reserves set aside from profit comprises legal reserves. The total of the Group's legal reserves are TL 276.827 (31 December 2018: TL 172.687).

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

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 2019, the extraordinary reserves balance presented under retained earnings is TL 2.987.028 (31 December 2018: TL 1.435.063). Profits available for distribution are calculated following statutory requirements is TL 3.034.020 (31 December 2018: TL 1.481.866).

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 26 April 2019, in accordance with the consolidated financial statements, the General Assembly of the Company has decided to allocate legal reserve amounting to TL 103.156 of the TL 2.318.198 which is based on the profit distribution, and to distribute TL 174.000 in cash to shareholders for dividend payment and the remaining TL 2.041.042 to be within the Group. Thus, the cash gross dividend amount for TL 1 nominal value per share is Kuruş 15,26 net (31 December 2018: Kuruş 7,42 net).

Within 2019, dividend amounting to TL 174.000 in gross, 15,26 Kuruş per share of TL 1 (net profit amounting to TL 147.900, 12,97 Kuruş per share of TL 1) will be paid to shareholders. (31 December 2018: TL 84.600 in gross, 7,42 Kuruş per share of TL 1 (TL 71.910 in net , 6,31 Kuruş per share of TL 1) was paid).

On 1 March 2019, General Assembly of ASELSANNET has decided to distribute TL 10.000 as dividend payments to shareholders and reserve TL 984 as retained earnings from net profit of the year 2018. Remaining TL 12.497 is decided to be allocated as extraordinary reserves (31 December 2018: 5.000).

All of the gross TL 116.000 of dividend payable to shareholders has not been paid to the shareholders as of 30 June 2019 (31 December 2018: None).

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15. REVENUE AND COST OF SALES

	1 January- 30 June 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
a) Revenue				
Domestic sales	4.227.955	2.481.781	2.958.873	1.707.834
Export sales	396.460	144.535	320.903	206.743
	4.624.415	2.626.316	3.279.776	1.914.577
Revenue Recognized Regarding Performance Obligation				
Over time	3.137.891	1.677.768	1.979.995	927.921
Point in time	1.486.524	948.548	1.299.781	986.656
	4.624.415	2.626.316	3.279.776	1.914.577
b) Cost of Sales (-)				
Cost of raw materials and supplies (-)	2.986.582	1.653.576	1.920.100	1.113.576
Cost of merchandise goods sold (-)	37.185	14.113	79.710	35.409
Cost of services sold (-)	338.644	203.049	387.734	222.761
Cost of other sales (-)	136.269	95.702	72.112	54.596
	3.498.680	1.966.440	2.459.656	1.426.342

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019**

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16. OTHER OPERATING INCOME AND EXPENSES

	1 January- 30 June 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
a) Other operating income				
Foreign currency exchange differences from operations	1.342.977	667.292	1.499.162	1.010.065
Amortized cost effect of trade payables	62.173	3.033	16.442	1.457
Other income	16.830	4.475	15.097	10.301
	1.421.980	674.800	1.530.701	1.021.823
b) Other operating expense (-)				
Foreign currency exchange differences from operations	935.686	555.866	1.083.374	728.220
Amortized cost effect of trade receivables	80.513	17.450	26.418	9.587
Other expense and losses	11.427	3.971	7.896	4.486
	1.027.626	577.287	1.117.688	742.293

17. INCOME FROM INVESTING ACTIVITIES

	1 January- 30 June 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
Gain on sale of securities	340	340	--	--
Dividend Income	1.155	1.155	3.460	3.460
Gain on sale of fixed assets	40	2	29	--
	1.535	1.497	3.489	3.460

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18. FINANCIAL INCOME

	1 January- 30 June 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
Interest income	197.356	79.534	49.682	41.081
TFRS 15 Financial component interest income	222.172	119.788	104.468	53.715
Foreign currency exchange gain from bank loans	88.999	37.916	19.680	17.507
	508.527	237.238	173.830	112.303

19. FINANCIAL EXPENSES

	1 January- 30 June 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
Interest cost of borrowings	24.715	14.575	8.334	7.380
TFRS 15 Interest cost of borrowings from financial component	261.112	119.426	202.446	106.041
Foreign currency exchange losses from bank loans	151.204	49.410	65.469	52.260
Discount expenses of bank loans	--	--	13.149	2.419
Interest cost related with employee benefits	2.915	1.447	9.818	9.818
	439.946	184.858	299.216	177.918

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 2019 and 30 June 2018, earnings per share calculations are as follows:

	1 January- 30 June 2019	1 April- 30 June 2019	1 January- 30 June 2018	1 April- 30 June 2018
Common stock (thousand)	1.140.000	1.140.000	1.018.564	1.036.923
Net profit – TL	1.332.948	703.652	941.797	590.436
Earnings per 100 shares (Kuruş)	116,93	61,72	92,46	56,94
Diluted Earnings per 100 shares (Kuruş)	116,93	61,72	92,46	56,94

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

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

21. FINANCIAL LIABILITIES

Financial Liabilities

		30 June 2019	31 December 2018
Short-term financial liabilities	Unsecured loan	1.390.623	675.715
Other short-term financial liabilities	Unsecured loan	65.663	22.811
Current portion of long-term financial liabilities	Secured loan	--	67.277
Total short-term financial liabilities		1.456.286	765.803
Long-term financial liabilities		--	20.234
Other long-term financial liabilities		899	--
Total long-term financial liabilities		899	20.234
Total financial liabilities		1.457.185	786.037

As of 30 June 2019, TL 820.283 of the short term financial borrowings are USD Rediscount Credits, which have maturity dates due between July 2019-April 2020 and interest rates between 3,20 – 4,99 percent. Short term borrowings in terms of EUR, which have maturity dates due between October 2019-March 2020 amounting to TL 512.265 which has interest rate between 0,65-1,60 percent. Moreover, in order to pay custom taxes, TL Loans borrowed amounting to TL 1.786 which is interest-free and have maturity dates due to July 2019. As of 30 June 2019, other financial liabilities amounting to TL 53.762 which has interest rate of 19,75 and maturity date is December 2019 for subcontractor financing purposes. The rest of the short term other financial liabilities consist of loans borrowed for social security payments with 45 days maturity and interest rate of 1 percent.

As of 31 December 2018, the borrowings in short-term borrowings consist of Eximbank Foreign Currency Loans amounting to TL 675.715 and maturity dates due between January-July 2019, interest rates which range between 3,16-3,54 percent. The short-term portions of long-term financial liabilities consist of principal payments of USD 12.790 with interest rates of 2,1 percent and 3,5 percent, respectively, with the maturity date of August 2019 of the Presidency of Defence Industries. Also, in order to make SSI payments there is TL 22.811 worth of loan with no interest.

As of 31 December 2018, other long term financial liabilities consist of loans amounting to USD 3.846 which have maturity dates of October 2020 with interest rates of 2,1 percent and 3,5 percent from Presidency of Defence Industries. A letter of guarantee amounting to USD 16.636 was given for the loan.

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22. FOREIGN EXCHANGE POSITION

FOREIGN EXCHANGE POSITION						
30 June 2019	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other¹ (TL equivalent)
1. Trade Receivables	1.904.643	199.798	1.149.856	114.004	746.802	7.985
2a. Monetary financial assets (including cash. bank)	659.950	52.636	302.927	54.041	354.005	3.018
2b. Non- monetary financial assets	610.893	72.017	414.466	54.200	355.046	53.744
3. Other	7.300	240	1.380	884	5.793	127
4. Current assets (1+2+3)	3.182.786	324.691	1.868.629	223.129	1.461.646	64.874
5. Trade receivables	3.141.752	405.903	2.336.010	123.001	805.742	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	170.715	3.641	20.953	65.898	431.679	9.002
7. Other	22.104	1.909	10.993	1.642	10.757	354
8. Long-term assets (5+6+7)	3.334.571	411.453	2.367.956	190.541	1.248.178	9.356
9. Total assets (4+8)	6.517.357	736.144	4.236.585	413.670	2.709.824	74.230
10. Trade payables	1.031.187	115.684	665.774	41.956	274.838	90.575
11. Financial liabilities	1.346.755	145.000	834.490	78.200	512.265	--
12a. Other monetary financial liabilities	596	96	556	6	40	--
12b. Other non-monetary financial liabilities	276.431	74.066	426.259	89.145	583.961	--
13. Current liabilities (10+11+12)	2.654.969	334.846	1.927.079	209.307	1.371.104	90.575
14. Trade payables	1.872.356	198.874	1.144.542	111.105	727.814	--
15. Financial liabilities	--	--	--	--	--	--
16a. Other monetary financial liabilities	1.168	200	1.148	3	20	--
16b. Other non-monetary financial liabilities	348.247	147.073	846.419	205.829	1.348.327	--
17. Non-current liabilities (14+15+16)	2.221.771	346.147	1.992.109	316.937	2.076.161	--

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

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22. FOREIGN EXCHANGE POSITION (continued)

FOREIGN EXCHANGE POSITION						
30 June 2019	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other (TL equivalent)
18. Total liabilities (13+17)	4.876.740	680.993	3.919.188	526.244	3.447.265	90.575
19. Net asset/liability position of off- balance sheet derivative financial instruments (19a-19b)	--	--	--	--	--	--
19a. Hedged total financial assets	--	--	--	--	--	--
19b. Hedged total financial liabilities	--	--	--	--	--	--
20. Net foreign currency asset/liability (9- 18+19)	1.640.617	55.151	317.397	(112.574)	(737.441)	(16.345)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10- 11-12a-14-15-16a)	1.454.283	198.483	1.142.283	59.776	391.572	(79.572)
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	396.460	66.096	331.210	10.042	65.222	--
26. Imports	1.692.782	193.573	1.114.033	70.062	458.954	119.795

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

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

22. FOREIGN EXCHANGE POSITION (continued)

FOREIGN EXCHANGE POSITION						
31 December 2018	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other¹ (TL equivalent)
1. Trade Receivables	2.323.205	271.510	1.428.380	147.264	887.703	7.122
2a. Monetary financial assets (including cash. bank)	167.822	28.774	151.379	2.276	13.720	2.723
2b. Non- monetary financial assets	468.137	57.449	302.234	36.284	218.720	51.360
3. Other	7.281	9	50	1.180	7.115	116
4. Current assets (1+2+3)	2.966.445	357.742	1.882.043	187.004	1.127.258	61.321
5. Trade receivables	2.056.596	308.410	1.622.516	72.011	434.080	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	259.803	15.969	84.014	86.722	522.762	7.571
7. Other	23.116	1.938	10.193	2.031	12.242	681
8. Long-term assets (5+6+7)	2.339.515	326.317	1.716.723	160.764	969.084	8.252
9. Total assets (4+8)	5.305.960	684.059	3.598.766	347.768	2.096.342	69.573
10. Trade payables	1.116.287	136.214	716.609	54.992	331.486	68.192
11. Financial liabilities	742.992	141.229	742.992	--	--	--
12a. Other monetary financial liabilities	645	116	608	6	37	--
12b. Other non-monetary financial liabilities	129.158	90.890	478.162	9.575	57.721	--
13. Current liabilities (10+11+12)	1.989.082	368.449	1.938.371	64.573	389.244	68.192
14. Trade payables	1.712.258	209.557	1.102.459	101.161	609.799	--
15. Financial liabilities	20.234	3.846	20.234	--	--	--
16a. Other monetary financial liabilities	52	6	34	3	18	--
16b. Other non-monetary financial liabilities	1.577.348	132.773	698.504	284.949	1.717.669	--
17. Non-current liabilities (14+15+16)	3.309.892	346.182	1.821.231	386.113	2.327.486	--

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

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22. FOREIGN EXCHANGE POSITION (continued)

FOREIGN EXCHANGE POSITION						
31 December 2018	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other (TL equivalent)
18. Total liabilities (13+17)	5.298.974	714.631	3.759.602	450.686	2.716.730	68.192
19. Net asset/liability position of off- balance sheet derivative financial instruments (19a-19b)	--	--	--	--	--	--
19a. Hedged total financial assets	--	--	--	--	--	--
19b. Hedged total financial liabilities	--	--	--	--	--	--
20. Net foreign currency asset/liability (9- 18+19)	6.986	(30.572)	(160.836)	(102.918)	(620.388)	1.381
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10- 11-12a-14-15-16a)	955.155	117.726	619.339	65.389	394.163	(58.347)
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	888.955	163.712	797.410	16.390	91.545	--
26. Imports	3.111.856	376.008	1.978.139	148.001	892.148	241.569

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

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

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

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22. FOREIGN EXCHANGE POSITION (continued)
Foreign currency sensitivity

The Group is exposed to foreign currency risk with respect to USD and EURO. As of 30 June 2019, USD 1: TL 5,7551 (31 December 2018: TL 5,2609), EURO 1: TL 6,5507 (31 December 2018: TL 6,0280).

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

Foreign currency sensitivity table				
30 June 2019				
	Profit/Loss		Equity¹	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	114.228	(114.228)	114.228	(114.228)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	114.228	(114.228)	114.228	(114.228)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	39.157	(39.157)	39.157	(39.157)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	39.157	(39.157)	39.157	(39.157)
Change of other² currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	(7.957)	7.957	(7.957)	7.957
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	(7.957)	7.957	(7.957)	7.957

¹ Comprises of profit/loss effect.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

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

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

Foreign currency sensitivity table				
31 December 2018				
	Profit/Loss		Equity¹	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	61.934	(61.934)	61.934	(61.934)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	61.934	(61.934)	61.934	(61.934)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	39.416	(39.416)	39.416	(39.416)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	39.416	(39.416)	39.416	(39.416)
Change of other² currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	(5.835)	5.835	(5.835)	5.835
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	(5.835)	5.835	(5.835)	5.835

¹ Comprises of profit/loss effect.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

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

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

30 June 2019	Financial assets at fair value P/L	Financial assets at amortized cost	Financial assets at fair value through OCI	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
Cash and cash equivalents	--	1.612.347	--	--	1.612.347	3
Blocked deposits	--	45.970	--	--	45.970	
Financial investments	904	--	773.154	--	774.058	
Equity accounted investments	114.742	--	--	--	114.742	
Trade receivables	--	7.364.915	--	--	7.364.915	5
<u>Financial liabilities</u>						
Borrowings	--	--	--	1.457.185	1.457.185	21
Trade payables	--	--	--	4.479.971	4.479.971	5
Other payables	--	--	--	125.209	125.209	
31 December 2018						
<u>Financial assets</u>						
Cash and cash equivalents	--	3.115.691	--	--	3.115.691	3
Blocked deposits	--	74.269	--	--	74.269	
Financial investments	5.511	--	773.154	--	778.665	
Trade receivables	93.586	--	--	--	93.586	5
<u>Financial liabilities</u>						
Borrowings	--	5.899.052	--	--	5.899.052	21
Trade payables	--	--	--	786.037	786.037	5
Other payables	--	--	--	4.316.866	4.316.866	
	--	--	--	2.838	2.838	

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019

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

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

30 June 2019	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
ROKETSAN	--	--	773.154
	--	--	773.154

31 December 2018	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
ROKETSAN	--	--	773.154
	--	--	773.154

The movement of the fair value level as of 30 June 2019 is as follows:

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
1 January 2019	--	--	773.154
Additions	--	--	--
30 June 2019	--	--	773.154

24. EVENTS AFTER THE REPORTING PERIOD

There is no contract signed by Group after the reporting date (31 December 2018: USD 509 Million).