(Convenience Translation of Consolidated Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019 WITH INDEPENDENT AUDITORS' REPORT THEREON

11 February 2020
This report contains independent audit report comprising 5 pages and consolidated financial statements and footnotes comprising 97 pages.

Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş.

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(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

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

A. Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

Basis for Opinion

We conducted our audit in accordance with standards on auditing issued by the Capital Markets Board of Turkey and the Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics published by the Public Oversight Accounting and Auditing Standards Authority. We have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the Matter is Handled
Revenue – Accounting of Revenue Recognised Over Time	Our audit procedures included, in addition to others, the following;
An important part of Group's revenue is generated from construction contracts which are recognised over time. Revenue recognised over time is mainly due to contracts made with the Presidency of Defense Industry. The Group recognises revenue over-time if any of the following conditions is met:	Controlling the terms of the contract in accordance with the criteria of over time accounting Cross-check of the amounts subject to revenue calculation with contracts, Controlling monthly changes of variables that directly affect revenue such as profitability on project basis,
a) The customer simultaneously receives and consumes the benefits as the entity performs	Analytical review of the accuracy of expected loss provision,
b) The customer controls the asset as the entity creates or enhances it,	Performing control tests and test of details for contract cost,
c) Group's performance does not create an asset for which the entity has an use; and alternative there is a right to payment for performance to date	Performing test of details for financing components Questioning the annual changes of over-time revenue and related costs.
Due to the fact that over-time revenue is one of the Group's core business volume and size indicators, implementation of related accounting standards is complex and includes management estimates and judgements, this issue has been considered to be a key audit matter.	
Accounting policies and amounts of the revenue detailed in Note 2.5 and Note 20 respectively	

Key Audit Matters	How the Matter is Handled
Capitalization of Development Cost The Group capitalizes development costs which are related with development activities and approved by the management. Capitalized development costs amount to a net book value of TRL 1.192.759 as 31 December 2019 in the accompanying consolidated financial statements. Capitalized development costs on the consolidated financial statements as of 31 December 2019 is significant for our audit due to variety of nature of costs, management judgments involved in the capitalization process and projects contract costs. Explanations about intangible assets including the capitalized development costs have been disclosed in Note 12.	Our audit procedures included, amongst others, the following ; Examinations of nature of capitalized develeopment costs related to each project, Examinations of the suitability of management assessments for projects at development phase Performing test of details for development costs, Assessment of Group's management approval process, Additionally, inquiries have been perfomed with project engineers and executives involved in research and development activities in related division of the Group.,

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TAS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

In ındependent audit, the responsibilities of us as independent auditors are as follows:

- Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority, we exercise professional judgment and maintain professional skepticism throughout the audit.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.).

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş.

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B) Reports on Independent Auditor's Responsibilities Arising from Other Regulatory Requirements

1) Pursuant to Article 398 of the Turkish Commercial Code ("TCC") no. 6102, the auditor's report on early detection of risk system and the authorized committee is submitted to the Company's Board of Directors on 11 February 2020.

2) Pursuant to subparagraph 4, Article 402 of "TCC", no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2019 is not in compliance with the code and provisions of the Parent Company's articles of association in relation to financial reporting.

3) Pursuant to subparagraph 4, Article 402 of "TCC", the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

Mehmet Nadi Abbasoğlu is the auditor responsible for conducting and finalizing this independent audit.

Yeditepe Bağımsız Denetim ve YMM A.Ş.
(Associate Member of Praxity AISBL)

Mehmet Nadi Abbasoğlu
Partner
İstanbul, 11 February 2020

CONTENT	PAGE

NOTE

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019

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

		Audited	
	Note References	**31 December 2019**	**31 December 2018**
ASSETS			
Current Assets		**13.976.498**	**11.616.680**
Cash and Cash Equivalents	3	3.513.842	3.115.691
Financial Investments	29	6.039	--
Trade Receivables	6	3.884.933	3.072.113
From Related Parties	*5*	*1.118.103*	*772.851*
From Third Parties		*2.766.830*	*2.299.262*
Other Receivables	7	380.554	204.117
From Related Parties	*5*	*1.150*	*24*
From Third Parties		*379.404*	*204.093*
Inventories	9	4.473.927	3.576.618
Prepaid Expenses	10	1.320.266	1.319.330
From Related Parties	*5*	*284.767*	*311.668*
From Third Parties		*1.035.499*	*1.007.662*
Other Current Assets	18	396.937	328.811
Non-Current Assets		**11.656.545**	**7.856.951**
Financial Investments	29	988.464	778.665
Trade Receivables	6	5.584.899	2.826.939
From Related Parties	*5*	*4.266.624*	*1.976.539*
From Third Parties		*1.318.275*	*850.400*
Other Receivables	7	1.064	764
From Third Parties		*1.064*	*764*
Equity Accounted Investments	8	121.769	93.586
Property, Plant and Equipment	11	1.573.931	1.336.297
Intangible Assets	12	1.276.578	1.082.067
Prepaid Expenses	10	584.653	504.399
From Related Parties	*5*	*299.369*	*155.933*
From Third Parties		*285.284*	*348.466*
Deferred Tax Assets	27	785.951	734.092
Other Non-Current Assets	18	739.236	500.142
TOTAL ASSETS		**25.633.043**	**19.473.631**

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019

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

		Audited	
	Note References	**31 December 2019**	**31 December 2018**
LIABILITIES			
Current Liabilities		**7.743.870**	**4.684.478**
Short-term Financial Liabilities	30	1.612.321	698.526
Short-term Portion of Long-term Financial Liabilities	30	611.198	67.277
Trade Payables	6	3.607.856	2.548.583
To Related Parties	*5*	*763.186*	*593.911*
To Third Parties		*2.844.670*	*1.954.672*
Employee Benefit Obligations	17	145.939	34.873
Other Payables	7	58.500	2.732
To Related Parties	*5*	--	*60*
To Third Parties		58.500	*2.672*
Government Grants and Incentives	13	43.194	53.818
Deferred Income	10	580.389	632.645
To Related Parties	*5*	*418.578*	*510.751*
To Third Parties		*161.811*	*121.894*
Corporate Tax Liability	27	12.847	2.836
Short-term Provisions		1.067.379	634.951
For Employee Benefits	*17*	*72.819*	*49.382*
Other	*15*	*994.560*	*585.569*
Other Current Liabilities	18	4.247	8.237
Non-Current Liabilities		**4.320.274**	**4.612.132**
Long-term Financial Liabilities	30	9.098	20.234
Trade Payables	6	1.860.305	1.768.283
To Related Parties	*5*	*1.425.811*	*1.617.969*
To Third Parties		*434.494*	*150.314*
Other Payables	7	4.929	106
To Third Parties		*4.929*	*106*
Deferred Income	10	1.837.987	2.296.513
To Related Parties	*5*	*1.262.598*	*1.669.160*
To Third Parties		*575.389*	*627.353*
Long-term Provisions		607.561	526.996
Long-term Provisions for Employee Benefits	*17*	*225.731*	*198.611*
Other	*15*	*381.830*	*328.385*
Other Non-Current Liabilities		394	--

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

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

	Note References	Audited 31 December 2019	Audited 31 December 2018
EQUITY		**13.568.899**	**10.177.021**
Equity Attributable to Equity Holders of the Parent		**13.498.388**	**10.132.601**
Share Capital	19	1.140.000	1.140.000
Inflation Adjustments on Share Capital Differences	19	98.621	98.621
Share Premiums		2.796.723	2.796.723
Other Comprehensive Income / (Expense) that will not be Reclassified to Profit or (Loss)		175.077	189.358
Gain on Revaluation of Property, Plant and Equipment		*207.431*	*207.431*
Gain/ Loss on Remeasurement of Defined Benefit Plans		*(32.354)*	*(18.073)*
Other Cumulative Comprehensive Income / (Expense) will be Reclassified to Profit/Loss		968.740	755.119
Gain on Revaluation of Available for Sale Financial Assets		*933.298*	*729.612*
Cumulative Translation Adjustments		*35.442*	*25.507*
Restricted Reserves	19	276.827	172.687
Retained Earnings		4.701.953	2.661.896
Net Profit for the Year		3.340.447	2.318.197
Non-Controlling Interests		**70.511**	**44.420**
TOTAL LIABILITIES AND EQUITY		**25.633.043**	**19.473.631**

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2019

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

	Note References	Audited 1 January- 31 December 2019	Audited 1 January- 31 December 2018
PROFIT OR LOSS			
Revenue	20	13.012.551	9.008.516
Cost of Sales (-)	20	(9.640.818)	(6.797.424)
GROSS PROFIT		**3.371.733**	**2.211.092**
General Administrative Expenses (-)	21	(343.456)	(221.719)
Marketing Expenses (-)	21	(204.118)	(150.760)
Research and Development Expenses (-)	21	(211.565)	(114.408)
Other Operating Income	22	3.818.370	5.654.167
Other Operating Expenses (-)	22	(3.253.702)	(5.153.276)
OPERATING PROFIT		**3.177.262**	**2.225.096**
Income From Investing Activities	23	6.379	4.789
Shares of Profit of Equity Accounted Investees	8	2.325	(8.951)
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		**3.185.966**	**2.220.934**
Financial Income	24	985.207	876.479
Financial Expense (-)	25	(862.642)	(855.647)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**3.308.531**	**2.241.766**
Tax Income from Continuing Operations		**44.142**	**77.581**
- Current Corporate Tax Expense(-)	27	(14.868)	(11.022)
- Deferred Tax Income	27	59.010	88.603
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**3.352.673**	**2.319.347**
Profit for the Period Attributable to			
Non-Controlling Interest		12.226	1.150
Owners of the Company	28	3.340.447	2.318.197
		3.352.673	**2.319.347**
Earnings for per 100 Shares (in full kuruş)	**28**	**293,02**	**214,69**

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2019

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

		Audited	
	Note References	1 January- 31 December 2019	1 January- 31 December 2018
PROFIT FOR THE YEAR		**3.352.673**	**2.319.347**
OTHER COMPREHENSIVE INCOME			
Items that will not to be Reclassified Subsequently in Profit or Loss		**(14.281)**	**(19.729)**
Gain on Remeasurement of Defined Benefit Plans	17	(17.851)	(24.662)
Deferred Tax Expense	27	3.570	4.933
Items that may be Reclassified Subsequently to Profit or Loss		**213.621**	**214.429**
Gain on Revaluation of Available for Sale Financial Assets	26	214.406	204.387
Cumulative Translation Adjustments	26	9.935	20.261
Deferred Tax Expense	26-27	(10.720)	(10.219)
OTHER COMPREHENSIVE INCOME		**199.340**	**194.700**
TOTAL COMPREHENSIVE INCOME		**3.552.013**	**2.514.047**
Total Comprehensive Income Attributable to			
Non-Controlling Interest		12.226	1.150
Owners of the Company		3.539.787	2.512.897
		3.552.013	**2.514.047**

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

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

				Other Comprehensive Income / Expense that will not to be Reclassified Subsequently to Profit or Loss		Other Comprehensive Income / Expense that may not to be Reclassified Subsequently to Profit or Loss			Retained Earnings				
	Share Capital	**Inflation Adjustments on Share Capital**	**Share Issuance Premiums/ (Discounts)**	**Revaluation Reserves**	**Remeasurement of Defined Benefit Plans**	**Fair Value Reserves**	**Translation Reserves**	**Restricted Reserves**	**Retained Earnings**	**Net Profit/(Loss) for the Year**	**Equity Attributable to Owners of the Company**	**Non-Controlling Interests**	**Total**
Balance as of 1 January 2018	**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	--	2.796.723	--	--	--	--	--	--	--	2.936.723	--	2.936.723
Total Comprehensive Income	--	--	--	--	(19.729)	194.168	20.261	--	--	2.318.197	2.512.897	1.150	2.514.047
Consolidation Effect of New Establishment	--	--	--	--	--	--	--	--	--	--	--	42.728	42.728
Dividends	--	--	--	--	--	--	--	--	--	(84.600)	(84.600)	--	(84.600)
Balance as of 31 December 2018 (Closing Balance)	**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**
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)	--	--	--
Capital Increase	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Comprehensive Income	--	--	--	--	(14.281)	203.686	9.935	--	--	3.340.447	3.539.787	12.226	**3.552.013**
Consolidation Effect of New Establishment	--	--	--	--	--	--	--	--	--	--	--	13.865	**13.865**
Dividends	--	--	--	--	--	--	--	--	--	(174.000)	(174.000)	--	**(174.000)**
Balance as of 31 December 2019 (Closing Balance)	**1.140.000**	**98.621**	**2.796.723**	**207.431**	**(32.354)**	**933.298**	**35.442**	**276.827**	**4.701.953**	**3.340.447**	**13.498.388**	**70.511**	**13.568.899**

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

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

		Audited	
	Note References	**1 January-31 December 2019**	**Revised 1 January-31 December 2018**
A.Cash Flows from Operating Activities		**850.900**	**272.200**
Profit for the Period		3.352.673	2.319.347
Adjustments to Reconcile Profit for the Period		**1.798.425**	**1.907.656**
- Adjustments for Depreciation and Amortization Expense	11-12	241.216	171.391
- Adjustments for Impairment Loss (Reversal of Impairment Loss)		64.450	(36.780)
Adjustments for Impairment Loss (Reversal of Impairment Loss) of Receivables	*6*	*56.742*	*(19.239)*
Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories	*9*	*7.708*	*(17.541)*
-Adjustments for Provisions		729.803	747.129
Adjustments for (Reversal of) Provisions Related with Employee Benefits	*17*	*76.847*	*55.008*
Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions	*15*	*198.240*	*385.888*
Adjustments for (Reversal of) Warranty Provisions	*15*	*448.790*	*305.852*
Adjustments for (Reversal of) Other Provisions	*15*	*5.926*	*381*
-Adjustments for Interest (Income) Expenses		(278.178)	(112.645)
Adjustments for Interest Income	*22-24*	*(795.743)*	*(657.252)*
Adjustments for Interest Expense	*22-25*	*517.565*	*544.607*
- Adjustments for Retained Profit of Equity Accounted Investees	*8*	(2.325)	8.951
- Adjustments for Tax (Income)/Expenses	27	(44.142)	(77.581)
-Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		137.302	108.318
-Other Adjustments to Reconcile Profit (Loss)		950.299	1.098.873
Changes in Working Capital		**(4.060.678)**	**(3.715.776)**
- Decrease (Increase) in Trade Receivables		(3.374.680)	(1.268.990)
- Decrease (Increase) in Other Receivables Related with Operations		(176.737)	(91.459)
- Decrease (Increase) in Inventories		(877.880)	(1.316.341)
- Decrease (Increase) in Prepaid Expenses	10	(49.364)	(690.885)
- Increase (Decrease) in Trade Payables		1.302.132	770.883
- Increase (Decrease) in Employee Benefit Obligations		111.066	(11.260)
-Adjustments for Stage of Completion of Construction or Service Contracts in Progress		83.418	(731.312)
- Increase (Decrease) in Other Operating Payables		60.591	1.239
- Increase (Decrease) in Government Grants and Subsidies		(10.624)	12.175
- Increase (Decrease) in Deferred Income		(891.292)	(87.993)
- Other Increase (Decrease) in Working Capital		(237.308)	(301.833)
Cash Flows From Operations		**1.090.420**	**511.227**
Payments Related with Provisions for Employee Benefits	17	(44.141)	(25.426)
Payments Related with Other Provisions	15	(190.520)	(204.698)
Income Taxes Refund (Paid)		(4.859)	(8.903)
B.Cash Flows From Investing Activities		**(1.695.069)**	**(1.746.003)**
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		2.939	1.057
Purchase of Property, Plant and Equipment	11	(355.248)	(343.541)
Purchase of Intangible Assets	12	(1.301.610)	(1.394.893)
Proceeds from Derivative Instruments		(6.039)	--
Dividends Received	23	4.618	5.222
Other Cash Outflows		(39.729)	(13.848)
C.Cash Flows From Financing Activities		**1.256.612**	**3.268.754**
Proceeds from Borrowings		3.568.237	1.128.345
Repayments of Borrowings		(2.263.577)	(991.092)
Payments of Finance Lease Liabilities		--	2.936.723
Dividends Paid	19	(174.000)	(84.600)
Interest Paid	25	(88.153)	(25.142)
Interest Received		214.105	304.520
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		**412.443**	**1.794.951**
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**13.573**	**30.685**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**426.016**	**1.825.636**
E.CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**3.087.387**	**1.261.752**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	**3**	**3.513.403**	**3.087.388**

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

1. ORGANIZATION AND OPERATIONS OF THE GROUP

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

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

As of the reporting date, the Company has been organized under five divisions under the Vice Presidential Sector with regard to investment and production requirements of projects. These divisions comprise Communication and Information Technologies Vice Presidency (''HBT''), Radar and Electronic Warfare Systems Vice Presidency (''REHİS''), Defense 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 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, Middle East Technical University (METU) Teknokent and Ankara Teknokent; production and engineering operations in Macunköy, Akyurt and Gölbaşı. General Management is located in Ankara Macunköy. Furthermore SST and REHİS Sector Presidency management offices are located in Istanbul Teknopark.

Turkish Armed Forces Foundation ("TSKGV") is the main shareholder of the Company which holds 74,20 percent of the capital and maintains control of the Company. TSKGV was established on 17 June 1987 with the law number 3388, in order to manufacture or import guns, equipment and appliances needed for Turkish Armed Forces.

The Company is registered to Capital Markets Board of Turkey ("CMB") and its shares have been quoted in Borsa İstanbul Anonim Şirketi ("BIST") since 1990. As of 31 December 2019, 25,80 percent of the Company's shares are publicly traded (31 December 2018: 25,70 percent) (Note 19).

The Company's trade registered address is Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle/Ankara. The average number of personnel employed by the Group as of 31 December 2019 is 6.797 (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"), BİTES Savunma Havacılık ve Uzay Teknolojileri Yazılım A.Ş. ("BITES"), ASELSAN Global Dış Ticaret ve Pazarlama A.Ş. ("ASELSAN GLOBAL"), ULAK Haberleşme A.Ş. ("ULAK"). They are collectively referred as the "Group" in the accompanying notes.

1. ORGANIZATION AND OPERATIONS OF THE GROUP (continued)

The Company has three branch offices; Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi EP Co. (''ASELSAN South Africa''), ASELSAN Makedonya Corridor-10 Highway Toll Collection System Project (''ASELSAN Macedonia'') and ASELSAN Kıbrıs İleri Teknolojiler Araştırma Merkezi ("ASELSAN Kıbrıs") located in South Africa, Macedonia and Turkish Republic of Northern Cyprus("KKTC"), respectively. The branches are included in the consolidated financial statements.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 The Basis of Presentation

Statement of Compliance to TAS

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

The consolidated financial statements has been presented with examples of Financial Statement and User Guide in the Official Gazette No:30794 on 7 June 2019 by the POA. All reports have suited the TFRS formats.

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

These consolidated financial statements have been approved for issue by the Board of Directors with the resolution number 1067 on 11 February 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. Kuruş, Turkish Currency subunit and 1 TL is equal to 100 Kuruş.

Preparation of Financial Statements in Hyperinflationary Periods

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

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation

Subsidiaries:

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

			Group's proportion of ownership and voting power held (%)		
Subsidiaries	**Location**	**Functional Currency**	**31 December 2019**	**31 December 2018**	**Main Activity**
ASELSANNET	Turkey	TL	100	100	Communication systems
ASELSAN Baku	Azerbaijan	AZN	100	100	Marketing and sales of the group products
ASELSAN GLOBAL	Turkey	TL	100	--	Export
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
ULAK	Turkey	TL	51	--	Communication systems

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.

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

The share transfer agreement on the 51% shares of ULAK Haberleşme A.Ş. which wholly owned by SSTEK Savunma Teknolojileri A.Ş has signed on 1 October 2018. Capital structure is as follows; 51% ASELSAN, 49% SSTEK Savunma Teknolojileri A.Ş.

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.

The Company titled "ASELSAN Global Dış Ticaret ve Pazarlama A.Ş." was established in order to carry out import, export and marketing activities of all kinds of civil and military electronic products and systems. The company is wholly owned by ASELSAN A.Ş. The company is established with 50.000 TL capital. The establishment was registered on August 06, 2019.

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Subsidiaries (continued):

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

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

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Joint Ventures

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

			Group's proportion of ownership and voting power held (%)	
Joint Ventures	**Principal Activity**	**Country of establishment and operation**	**31 December 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
EHSİM Elektronik Harp Sistemleri Müh. Tic. A.Ş.("EHSİM")	Electronic Warfare and Tactical Command Systems	Turkey	50	--
TR Eğitim ve Teknoloji A.Ş.	Realizing Human Resources studies, Consultancy with respect to HR studies, acreditation services and trainings for every level, educational, cultural, art, sports, fair organizations and digital marketing operations.	Turkey	50	--

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Joint Ventures (continued):

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

A share transfer agreement for the acquisition of 50% of the total shares of Havelsan EHSİM Hava Elektronik Harp Sistemleri Mühendislik Ticaret Anonim Şirketi, has been signed. 1 percent of the shares has taken from Havelsan Hava Elektronik Sanayi ve Ticaret A.Ş and 49 percent of the shares has taken from real person partners. Payment for share transfer to HAVELSAN A.Ş. and to real person partners were completed on 18 September 2019. At the extraordinary general meeting held on September 9, 2019, the Company's title was changed to EHSİM Elektronik Harp Sistemleri Müh. Tic. A.Ş. EHSİM operates in Electronic Warfare and Tactical Command and Control systems.

A share transfer agreement was signed for the acquisition of 50% of TR Eğitim ve Teknoloji A.Ş. from TUSAŞ Türk Havacılık ve Sanayii A.Ş. The payment regarding the share transfer was made to TUSAŞ A.Ş. on 09 September 2019.

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, SADEC LLC has been established in 2016, TÜYAR has been established in 2017, ULAK has been established in 2018, TEKNOHAB has been established in 2018 and EHSİM has been established in 1998 were included in the condensed consolidated interim financial statements by using the equity method. Since BARQ QSTP LLC and TR Eğitim Teknoloji 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.

While purchase expenses regarding research and development in tangible assets in 2019 are subject to cost of sales decreasing the profit for the period and having the characterisctic of expenses not providing cash outflow, a positive reclassification has been made and posted under " Adjustments to reconcile profit for the period". Such cash outflows and inflows were reported under "Cash flows from investing activities" as net value previously.

The reclassification of 31 December 2018 is as below.

Cash Flow Statement	31 December 2018 (Previously Reported)	Reclassification	31 December 2018 Reported
Other Adjustments to Reconcile Profit (Loss)	132.003	998.502	1.130.505
Decrease (Increase) in Prepaid Expenses	(723.315)	32.429	(690.886)
Purchase of Intangible Assets	(396.392)	(998.502)	(1.394.894)
Other Cash Outflows	18.583	(32.429)	(13.846)

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

2.3 Accounting Policies, Changes in Accounting Estimates and Errors

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

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

2.4 New and Revised Turkish Accounting Standards

a) Standards Adopted as of 01 December 2019

TFRS 16 Leases

On April 2018, Public Oversight Accounting and Auditing Standarts Authority ("POA") 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.

Within the framework of the amendment, as of the date of transition, the Group has accounted for right of use assets and the lease obligation amounting TL 6.264 on its consolidated financial statements.

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

In December 2017, POA 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. This amendment have no effect on Group's consolidated financial statements.

TFRS 23 –Uncertainty Over Income Tax Treatments

On May 2018, POA 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. This amendment has no effect on Group's consolidated financial statements.

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

2.4 New and Revised Turkish Accounting Standards (continued)

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

On 15 January 2019, POA 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. This amendment has no effect on Group's consolidated financial statements.

Amendments to TFRS 9 - Prepayment features with negative compensation

On December 2017, POA 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. This amendment has no effect on Group's consolidated financial statements.

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. This amendment has no effect on Group's consolidated financial statements.

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. This amendment has no effect on Group's consolidated financial statements.

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. This amendment has no effect on Group's consolidated financial statements.

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

2.4 New and Revised Turkish Accounting Standards (continued)

b - Standards Issued But Not Yet Effective and Not Early Adopted as of 31 December 2019

Amendments to TFRS 4: Applying TFRS 9 Financial Instruments with TFRS 4 Insurance Contracts

TFRS 4 has been amended by POA, to reduce the impact of the differing effective dates of the new insurance contracts standard and TFRS 9. These amendments to TFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying TFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognised in profit or loss under TFRS 9 and those that would have been reported under TAS 39; or ii) an optional temporary exemption from applying TFRS 9 for companies whose activities are predominantly connected with insurance before January 1, 2021. These companies will be permitted to continue to apply existing requirements for financial instruments in TAS 39.

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

TFRS 17 – Insurance Contracts

On 16 February 2019, POA issued TFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. TFRS 17 replaces TFRS 4, which was brought in as an interim Standard in 2004. TFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. TFRS 17 solves the comparison problems created by TFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. TFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier.

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

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

On 07 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 TFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all TFRS Standards. This amendments have an effective date of 1 January 2020 but companies can apply it earlier.

The Revised Conceptual Framework

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

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

2.4 New and Revised Turkish Accounting Standards (continued)

The Revised Conceptual Framework (continued)

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.

Amendments to TFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. In May 2019, POA has also published the Definition of Business (Amendments to TFRS 3). With this amendments confirmed that a business shall include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs.. It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

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

Interest Rate Benchmark Reform (Amendments to TFRS 9, TAS 39 and TFRS 7)

Interest Rate Benchmark Reform, which amended TFRS 9, TAS 39 and TFRS 7 issued in September 2019, added Section 6.8 and amended paragraph 7.2.26. About this issue, IASB identified two groups of accounting issues that could affect financial reporting. These are: pre-replacement issues—issues affecting financial reporting in the period before the reform; and replacement issues—issues that might affect financial reporting when an existing interest rate benchmark is either reformed or replaced.

IASB considered the pre-replacement issues to be more urgent and decided to address the following hedge accounting requirements as a priority in the first phase of the project:

- The highly probable requirement,
- Prospective assessments,
- Retrospective assessments,

All other hedge accounting requirements remain unchanged. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2020 with earlier application permitted.

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

2.5 Summary of Significant Accounting Policies

Related Parties

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

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

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

(ii) has significant influence over the reporting entity;

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

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

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

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

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

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

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

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

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

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

Revenue

TFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.

It replaces existing revenue recognition guidance, including TAS 18 Revenue, TAS 11 Construction Contracts and TFRYK 13 Customer Loyalty Programmes.

General model for revenue recognition

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

Step 1: Identifying the contract with customers

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Step 2: Identifying the performance obligations

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

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

Step 3: Determining the transaction price

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

Significant financing component

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

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

Variable consideration

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

Step 4: Allocating the transaction price to performance obligations

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

Step 5: Revenue Recognition

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

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

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

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

Contract modifications

The Group recognises a contract modification as a separate contract if the modification results in a promise to deliver additional goods or services that are distinct and an increase in the price of the contract by an amount of consideration that reflects the entity's stand-alone selling price of those goods or services adjusted to reflect the circumstances of the contract.

If the goods or services are distinct, then the entity accounts for the modification as if it were a termination of the existing contract and the creation of a new contract.

If the modification to the contract does not add distinct goods or services, then the entity accounts for it on a combined basis with the original contract, as if the additional goods or services were part of the initial contract.

Dividend and interest income

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

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

Inventories

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

Property, Plant and Equipment

Land held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any increase in the fair value arising on the revaluation of such land is recognized in gain on revaluation of property.

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

2.5 Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

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

Land is not depreciated. Property, plant and equipment other than lands are carried at cost less accumulated depreciation and any accumulated impairment losses.

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

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

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

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

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

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

The useful lives of Property, Plant and Equipment are as follows:

	Useful life
Buildings	5-50 years
Land improvements	7-25 years
Machinery and equipment	2-35 years
Motor vehicles	3-18 years
Furniture and fixtures	2-50 years
Leasehold improvements	2-11 years
Other tangible assets	2-20 years

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

2.5 Summary of Significant Accounting Policies (continued)

Intangible Assets

Intangible assets acquired

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

Trademarks and Licenses

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

Computer software

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

Internally generated intangible assets – Research and Development

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Intangible Assets (continued)

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

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

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

The useful lives of the intangible assets are as follows:

	Useful life
Rights	1-15 years
Computer software	2-3 years
Development expenditures	1-5 years

Impairment of Assets

Non-derivative Financial Assets

For financial assets that are not recognized in profit or loss, including shares in investments accounted for by equity method, it is assessed if there is objective evidence of impairment at each reporting period.

Objective evidence of impairment in financial assets includes the sentences below.

- failure to fulfill the commitment or obligation by debtor;
- depending on the circumstances that the Group may not take into consideration;
- the possibility of bankruptcy of the debtor or the issuer;
- arise of a negative status in debtor or issuer's payment status;
- elemination of a marketable asset from the active market or
- observable information indicating a measurable decrease in expected cash flows from a group of financial assets.

The fact that the fair value of an investment based on stocks falls permanently below the cost price for an important period or for a long period of time is also an objective evidence of impairment. The Group considers a 20 percent decline to be significant and a 12-month period as long-term and permanent.

Available-for-sale financial assets

Impairment losses on available for sale financial assets are recognized by reclassfying the losses accumulated in the gain on revaluation of available for sale financial assets reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in profit or loss.

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

2.5 Summary of Significant Accounting Policies (continued)

Non-derivative Financial Assets (continued)

Available-for-sale financial assets (continued)

If the fair value of an impaired available for sale debt security subsequently increases and the increase can be related objectively to an event occuring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss. Impairment loss is recognized in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

If there is an increase in the fair value of a debt instrument classified as impaired or available for sale and if that increase is recognized as reliably correlated to an event occurred after the impairment loss is recognized, withdrawal of impairment loss is accounted for in profit or loss, otherwise in comprehensive income. Impairment losses recognized in profit or loss by associating with investments in equity instruments classified as available-for-sale cannot be witdrawn through profit or loss.

Equity Accounted Investees

An impairment loss in respect of an equity accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favorable change in the estimates used to determine the recovarable amount.

Borrowing Cost

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

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

Financial Instruments

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

i. Classification – Financial assets

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

ii. Impairment – Financial assets and contract assets

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

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

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

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

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

iii. Classification – Financial liabilities

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

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

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

The Group has not identified any liability for the fair value recognized in profit or loss and has no objective purpose.

iv. Hedge accounting

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

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

2.5 Summary of Significant Accounting Policies (continued)

Capital

Common Stocks

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

Financial Lease Operations

Leasing- the group as lessor

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

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

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

Foreign Currency Transactions

Foreign currency transactions and balances

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

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

2.6 Summary of Significant Accounting Policies (continued)

Foreign Currency Transactions (continued)

Foreign currency transactions and balances (continued)

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

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

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

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

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

Earnings per Share

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Events After the Reporting Period

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

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

Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Operating Segments

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

Government Grants and Incentives

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Taxes Calculated on the Basis of the Company's Earnings

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

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

Current tax

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

Deferred tax

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

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

<u>Deferred tax (continued)</u>

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

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

<u>Current and deferred tax for the period</u>

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

Employee Benefits

<u>Termination and retirement benefits</u>

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

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

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

<u>Dividend and bonus plans</u>

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

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

2.5 Summary of Significant Accounting Policies (continued)

Employee Benefits (continued)

Dividend and bonus plans (continued)

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

Statement of Cash Flows

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

Offsetting

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

Non-Current Assets Held for Sale

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

2.6 Critical Accounting Judgments and Estimates

Critical judgments in applying the Group's accounting policies

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

Deferred tax

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

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

2.6 Critical Accounting Judgments and Estimates (continued)

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

Deferred tax (continued)

The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then provision is set for some portion of or all of the deferred tax assets (Note 27).

Liabilities with respect to employee benefits

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

Useful lives of tangible and intangible assets

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

Escalation

As of the reporting dates, the amounts of the projects subject to escalation are calculated with respect to the provisions of the contracts and estimated in accordance with TFRS 15 "Revenue from Contracts with Customers".

Provision for guarantee expenses

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

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

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

2.6 Critical Accounting Judgments and Estimates (continued)

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

Development Expenses

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

3. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash	261	153
Bank		
- *Time deposit*	3.159.194	2.987.934
- *Demand deposit*	82.257	96.981
	267.676	--
Other	4.015	2.320
Cash and cash equivalents on the cash flow statement	**3.513.403**	**3.087.388**
Interest income accruals	439	28.303
	3.513.842	**3.115.691**

As of 31 December 2019, the Group has time deposits denominated in foreign currencies with maturities on January 2020 (31 December 2018: January 2019), with the interest rates between 0,2 percent and 2,5 percent (31 December 2018: 2 percent and 5 percent) amounting to TL 1.030.178 (31 December 2018: TL 253.662) in several banks.

As of 31 December, 2019, the Group has time deposits denominated in TL terms with maturities between January-February 2020 (31 December 2018: January-February 2019) with the interest rates between 10,25 percent and 11 percent (31 December 2018: 18,5 percent and 23,5 percent) amounting to TL 2.129.016 (31 December 2018: TL 2.734.272) in several banks.

As of 31 December, 2019 the Group has leasing certification denominated in TL terms with maturities 2020, March with 10 percent interest rates.

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

4. INTERESTS IN OTHER ENTITIES

a) Subsidiaries

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

			Group's proportion of ownership and voting power held (%)		
Subsidiaries	**Location**	**Functional Currency**	**31 December 2019**	**31 December 2018**	**Main Activity**
ASELSANNET	Turkey	TL	100	100	Communication systems
ASELSAN Baku	Azerbaijan	AZN	100	100	Marketing and sales of the group products
ASELSAN GLOBAL	Turkey	TL	100	--	Export
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
ULAK	Turkey	TL	51	--	Communication systems

Composition of the Group

Explained in Note 1.

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

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

b) Joint Ventures

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

5. RELATED PARTY DISCLOSURES

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

The trade receivables from related parties generally arise from sales activities with maturities of 1-2 years.

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

Total amount of salaries and other short-term benefits paid for key management for the period ended 31 December 2019 is TL 21.333 (31 December 2018: TL 14.863).

Balance of the loan borrowed from Presidency of Defence Industries for the period ended 31 December 2019 is zero TL. (Note 30) (31 December 2018: TL 87.511).

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

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

5. RELATED PARTY DISCLOSURES (continued)

	31 December 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**	**Trading**	**Deferred Income**
Main shareholder										
TSKGV	29	--	--	--	--	--	--	--	--	--
Main shareholder's subsidiaries and associates										
Hava Elektronik Harp Sis. Müh. Tic. Anonim Şirketi (''HAVELSAN EHSİM'')	--	774	--	--	--	5.130	--	--	--	--
Hava Elektronik San. ve Tic. Anonim Şirketi (''HAVELSAN'')	16.521	49.336	--	605	676	69.350	--	--	--	--
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi ("HTR")	1.235	17.875	--	--	22.861	10.339	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	20.781	--	--	1.892	19.473	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	207	18.246	--	--	4.626	75.100	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	64.763	4.408	--	107.483	341	4.016	11.005	--	1.965	19.819
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	111.118	110	--	118.031	--	33.203	20.162	--	39.982	289.687
Financial Instruments										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	--	1.853	--	--	--	16.511	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	136.186	85.042	--	108.367	251.901	351.016	38.202	--	13.313	63.811
Joint ventures and its related parties										
ASELSAN Bİlkent Nano	--	6.503	--	--	4.869	13.307	--	--	--	--
İhsan Doğramacı Bilkent Üniversitesi	--	566	--	--	--	6.693	--	--	--	--
ASELSAN Optik	2.548	62.575	1.150	--	6.464	14.343	--	--	--	--
IGG	49.009	--	--	5.019	--	--	--	--	--	--
IGG ASELSAN	6.694	1.561	--	--	--	319	--	--	--	--
ASELSAN Kazakhstan	75.858	--	--	15.427	--	538	4	--	--	--
ASELSAN Jordan	85.924	--	--	205	--	54.099	1.654	--	--	--
TÜBİTAK BİLGEM	--	3.133	--	--	2.549	4.755	--	--	--	--
TÜBİTAK-UME	--	173	--	--	--	3	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	2.416	1.022	--	93.404	3.190	1.136	2.797	--	3.390	9.611
TÜBİTAK SAGE Savunma Sanayii	--	10.809	--	6.003	--	7.484	--	--	--	--
TÜBİTAK UZAY TEKNOLOJİLERİ	470	--	--	--	--	--	--	--	--	--
Savunma Sanayi Başkanlığı ("SSB")	563.585	--	--	3.812.080	--	76.252	344.754	--	1.367.161	879.670
Ankaref Bilişim Teknolojileri Limited Şirketi ("ANKAREF")										
ULAK	878	--	--	--	--	30	--	--	--	--
SADEC LLC	662	--	--	--	--	89	--	--	--	--
	1.118.103	**284.767**	**1.150**	**4.266.624**	**299.369**	**763.186**	**418.578**	**--**	**1.425.811**	**1.262.598**

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

5. 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'')	--	--	--	--	--	--	--	60	--	--
Main shareholder's subsidiaries and 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 Instruments										
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 Bİlkent Nano	--	4.809	--	--	3.939	2.595	--	--	--	--
İhsan Doğramacı Bilkent Üniversitesi	--	7.533	--	--	--	3.499	--	--	--	--
ASELSAN Optik	2.726	34.985	--	--	--	14.056	--	--	--	--
IGG	37.245	--	--	8.552	--	--	--	--	--	--
IGG ASELSAN	1.934	1.534	--	--	--	--	--	--	--	--
ASELSAN Kazakhstan	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
Ankaref Bilişim Teknolojileri Limited Şirketi ("ANKAREF")	--	--	24	--	--	--	--	--	--	--
ULAK	44.556	--	--	--	--	--	--	--	--	2.155
SADEC LLC	586	--	--	--	--	222	--	--	--	--
	772.851	**311.668**	**24**	**1.976.539**	**155.933**	**593.911**	**510.751**	**60**	**1.617.969**	**1.669.160**

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

5. RELATED PARTY DISCLOSURES (continued)

	1 January-31 December 2019	1 January-31 December 2018
Transactions with related parties	**Purchases**	**Purchases**
Main Shareholder		
TSKGV	928	766
Main shareholder's subsidiaries and associates		
NETAŞ	133.535	132.739
STM	19.331	9.428
İŞBİR	57.029	47.964
HTR - HAVELSAN	63.854	36.305
MERCEDES-BENZ TÜRK ANONİM ŞİRKETİ ("MERCEDES")	--	4
TUSAŞ	1.657	2.548
HAVELSAN	45.697	70.976
HAVELSAN EHSİM	1.520	5.568
Financial Instruments		
ROKETSAN	328.570	34.748
ASPİLSAN	40.202	24.412
Joint ventures and its related parties		
İHSAN DOĞRAMACI BİLKENT ÜNİVERSİTESİ	16.301	14.146
TÜBİTAK BİLGEM	27.395	28.585
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	1.674	--
TÜBİTAK-UME	892	200
TÜBİTAK SAGE SAVUNMA SANAYİİ	35.126	67.144
TUBİTAK UZAY TEKNOLOJİLERİ	--	612
SSB	514	--
ULAK	--	3.463
SSTEK	25	--
	774.250	**479.608**

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

5. RELATED PARTY DISCLOSURES (continued)

	1 January- 31 December 2019	1 January- 31 December 2018
Transactions with related parties	**Sales**	**Sales**
Main Shareholder		
TSKGV	290	293
Main shareholder's subsidiaries and associates		
TUSAŞ	384.259	313.638
STM	738.160	528.564
HAVELSAN	9.792	8.742
HTR	21.137	1.679
HAVELSAN EHSİM	--	121
NETAŞ	1.380	207
Financial Instruments		
ROKETSAN	194.459	132.613
ASPİLSAN	--	1.460
Joint ventures and its related parties		
İHSAN DOĞRAMACI BİLKENT ÜNİVERSİTESİ	521	--
IGG	--	5.505
TÜBİTAK BİLGEM	546	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	1.483	113.347
TÜBİTAK SAGE SAVUNMA SANAYİİ	506	41
TÜBİTAK UZAY TEKNOLOJİLERİ	220	41
SSB	5.733.028	5.168.321
ULAK	--	81.302
SSTEK	39.442	--
	7.125.223	**6.355.874**

Transactions with related parties are generally related to the purchases and sales of goods and services related to projects under TFRS 15 "Revenue from Contracts with Customers".

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

6. TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

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

Short-term trade receivables	31 December 2019	31 December 2018
Trade receivables	2.722.650	2.291.660
Trade receivables from related parties (Note 5)	1.118.103	772.851
Notes receivable	44.180	7.602
Doubtful trade receivables	58.960	2.218
Allowance for doubtful trade receivables (-)	(58.960)	(2.218)
	3.884.933	**3.072.113**

Long-term trade receivables	31 December 2019	31 December 2018
Unbilled receivables from contracts with customers	1.057.620	756.215
Trade receivables	260.655	94.185
Unbilled receivables from contracts with customers - Related party (Note 5)	4.260.764	1.976.302
Trade receivables from related parties (Note 5)	5.860	237
	5.584.899	**2.826.939**

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

	31 December 2019	31 December 2018
Opening balance	2.218	21.457
Provision for the period	56.743	--
Provisions no longer required	(1)	(19.239)
Closing balance	**58.960**	**2.218**

The sectorial distribution of trade receivables is as follows:

	31 December 2019	31 December 2018
Public sector	4.990.685	2.813.246
Private sector	2.528.297	1.935.259
Receivables from companies operating abroad	1.950.850	1.150.547
Total receivables	**9.469.832**	**5.899.052**

Receivables from public sector represent the receivables are due from the Presidency of Defense Industry and other public entities. The Group's operations are based on contracts and no other collaterals are obtained from the customers.

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

6. TRADE RECEIVABLES AND PAYABLES (continued)

b) Trade payables

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

Short-term trade payables	**31 December 2019**	**31 December 2018**
Trade payables	2.220.802	1.624.670
Unearned revenue related to contracts with customers	373.895	325.838
Due to related parties (Note 5)	113.448	320.051
Unearned revenue related to contracts with customers -Related party (Note 5)	649.738	273.860
Notes Payable	246.029	--
Other trade payables	3.944	4.164
	3.607.856	**2.548.583**

Long-term trade payables	**31 December 2019**	**31 December 2018**
Unearned revenue related to contracts with customers	413.598	150.294
Unearned revenue related to construction contracts in progress- Related party (Note 5)	1.425.811	1.617.969
Other trade payables	20.896	20
	1.860.305	**1.768.283**

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

7. OTHER RECEIVABLES AND PAYABLES

a) Other receivables

Short-term other receivables	31 December 2019	31 December 2018
Receivables from tax office[1]	356.238	187.893
Deposits and guarantees given	1.903	1.391
Other receivables from related parties (Note 5)	1.150	24
Other[2]	21.263	14.809
	380.554	**204.117**

Long-term other receivables	31 December 2019	31 December 2018
Deposits and guarantees given	**1.064**	**764**

b) Other payables

Short-term other payables	31 December 2019	31 December 2018
Short-term other payables	56.986	2.347
Deposits and guarantees received	380	325
Financial leasing	1.134	--
Short-term other payables to related parties (Note 5)	--	60
	58.500	**2.732**

Long-term other payables	31 December 2019	31 December 2018
Deposits and guarantees received	1.093	106
Financial leasing	3.836	--
	4.929	**106**

[1] Mainly comprises Value Added Tax (VAT) returns and are expected to be offseted in the following periods.
[2] Consists of R&D Center social security premium incentive and R&D Center income tax exceptions.

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

8. EQUITY ACCOUNTED INVESTMENTS

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

31 December 2019	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN Kazakhstan	49	102.720	121.328	224.048	119.149	11.809	130.958
ASELSAN Jordan	49	94.927	22.335	117.262	82.531	--	82.531
ASELSAN Optik	50	93.400	61.703	155.103	57.863	68.880	126.743
IGG ASELSAN	49	5.202	806	6.008	--	880	880
ASELSAN Bilkent	50	48.554	141.191	189.745	39.661	120.423	160.084
SADEC LLC	50	4.927	1.073	6.000	1.472	443	1.915
TEKNOHAB	30	7.456	283	7.739	51	--	51
EHSİM	50	82.258	3.023	85.281	10.800	60.553	71.353
TÜYAR	51	15.644	525	16.169	132	3	135
		455.088	**352.267**	**807.355**	**311.659**	**262.991**	**574.650**

31 December 2019	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN Kazakhstan	49	83.928	(86.879)	(2.951)	45.613	(1.447)
ASELSAN Jordan	49	83.132	(82.069)	1.063	17.018	521
ASELSAN Optik	50	130.643	(120.604)	10.039	14.180	5.019
IGG ASELSAN	49	8.760	(7.393)	1.367	8.803	670
ASELSAN Bilkent	50	39.363	(28.462)	10.901	14.831	5.455
SADEC LLC	50	2.136	(10.389)	(8.253)	2.043	(4.128)
BARQ QSTP LLC.	48	--	--	--	834	--
TEKNOHAB	30	346	(2.658)	(2.312)	2.306	(694)
EHSİM	50	15.483	(20.535)	(5.052)	6.964	(2.527)
TR Eğitim ve Teknolojileri	50	--	--	--	1.000	--
TÜYAR	51	1.865	(2.931)	(1.066)	8.177	(544)
		365.656	**(361.920)**	**3.736**	**121.769**	**2.325**

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

8. EQUITY ACCOUNTED INVESTMENTS (continued)

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)**

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

9. INVENTORIES

	31 December 2019	31 December 2018
Raw materials	2.268.578	1.948.791
Work in progress	1.728.108	1.172.216
Goods in transit [1]	178.206	196.567
Finished goods	234.811	174.341
Other inventories	28.654	19.561
Trade goods	51.398	73.262
Allowance for impairment on inventories (-)	(15.828)	(8.120)
	4.473.927	**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 below net realizable value within the current year.

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

	2019	2018
Opening balance	8.120	25.661
Provision for the period	8.347	11.908
Provision released	(639)	(29.449)
Closing balance	**15.828**	**8.120**

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

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

10. PREPAID EXPENSES AND DEFERRED INCOME

Short-term prepaid expenses	31 December 2019	31 December 2018
Order advances given for inventory purchases	930.628	889.631
Short-term order advances given to related parties for inventory purchases (Note 5)	284.767	311.668
Prepaid expenses	104.871	118.031
	1.320.266	**1.319.330**

Long-term prepaid expenses	31 December 2019	31 December 2018
Long-term order advances given to related parties for inventory purchases (Note 5)	299.369	155.933
Order advances given for inventory purchases	172.382	279.727
Order advances given for fixed assets purchases	92.447	60.621
Prepaid expenses	20.455	8.118
	584.653	**504.399**

Short-term deferred income	31 December 2019	31 December 2018
Order advances received	131.022	92.303
Order advances received from related parties (Note 5)	418.578	510.751
Deffered income	30.789	29.591
	580.389	**632.645**

Short-term order advances received comprises advances received from 69 customers (31 December 2018: 61 customers) of which first 10 customers constitutes 99 percent of the total (31 December 2018: 99 percent).

Long-term deferred income	31 December 2019	31 December 2018
Order advances received	575.385	627.349
Order advances received from related parties (Note 5)	1.262.598	1.669.160
Deferred income	4	4
	1.837.987	**2.296.513**

Long-term order advances received comprises advances received from 62 customers (31 December 2018: 39 customers) of which the first 10 customers constitutes 98 percent of the total (31 December 2018: 98 percent).

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

11. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other fixed assets[1]	Leasehold improvements	Financial leasing	Construction in progress[2]	Total
Cost and revaluation											
Opening balance as of 1 January 2019	**302.045**	**35.554**	**204.961**	**1.002.686**	**5.492**	**238.723**	**105.946**	**202.083**	**--**	**133.711**	**2.231.201**
Additions[3]	17.634	1.346	19.923	152.825	1.668	57.116	18.919	7.538	6.264	115.240	398.473
Revaluation fund	--	--	--	--	--	--	--	--	--	--	--
Disposals	--	--	--	(540)	(102)	(48)	--	--	--	(2.337)	(3.027)
Closing balance as of 31 December 2019	**319.679**	**36.900**	**224.884**	**1.154.971**	**7.058**	**295.791**	**124.865**	**209.621**	**6.264**	**246.614**	**2.626.647**
Accumulated depreciation											
Opening balance as of 1 January 2019	**--**	**11.744**	**80.704**	**549.024**	**2.568**	**150.680**	**67.529**	**32.655**	**--**	**--**	**894.904**
Charge for the period	--	2.132	10.141	84.624	669	39.361	11.650	8.359	1.481	--	158.417
Disposals	--	--	--	(540)	(65)	--	--	--	--	--	(605)
Closing balance as of 31 December 2019	--	**13.876**	**90.845**	**633.108**	**3.172**	**190.041**	**79.179**	**41.014**	**1.481**	**--**	**1.052.716**
Net book value as of 31 December 2019	**319.679**	**23.024**	**134.039**	**521.863**	**3.886**	**105.750**	**45.686**	**168.607**	**4.783**	**246.614**	**1.573.931**

[1] Comprises the mould model devices manufactured by the Group with net book value of TL 45.686 (31 December 2018: TL 38.417).

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

[3] TL 43.225 of additions are free of charge investment income (31 December 2018: TL 22.362).

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other fixed assets	Leasehold improvements	Construction in progress	Total
Cost and revaluation										
Opening balance as of 1 January 2018	**249.265**	**18.229**	**193.499**	**828.923**	**4.540**	**190.169**	**91.638**	**197.842**	**93.063**	**1.867.168**
Additions	52.780	421	--	170.755	1.272	48.529	22	488	91.636	365.903
Revaluation fund	--	--	--	--	--	--	--	--	--	--
Disposals	--	--	--	(449)	(320)	(320)	--	(194)	(587)	(1.870)
Transfers	--	16.904	11.462	3.457	--	345	14.286	3.947	(50.401)	--
Closing balance as of 31 December 2018	**302.045**	**35.554**	**204.961**	**1.002.686**	**5.492**	**238.723**	**105.946**	**202.083**	**133.711**	**2.231.201**
Accumulated depreciation										
Opening balance as of 1 January 2018	**--**	**9.946**	**73.466**	**481.111**	**2.175**	**127.149**	**57.442**	**25.036**	**--**	**776.325**
Charge for the period	--	1.798	7.238	68.029	525	23.574	10.087	7.708	--	118.959
Disposals	--	--	--	(116)	(132)	(43)	--	(89)	--	(380)
Closing balance as of 31 December 2018	**--**	**11.744**	**80.704**	**549.024**	**2.568**	**150.680**	**67.529**	**32.655**	**--**	**894.904**
Net book value as of 31 December 2018	**302.045**	**23.810**	**124.257**	**453.662**	**2.924**	**88.043**	**38.417**	**169.428**	**133.711**	**1.336.297**

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	31 December 2019	31 December 2018
Cost of sales	111.957	79.986
General administrative expenses	29.689	25.578
Inventories	16.114	13.032
Marketing expenses	657	363
	158.417	**118.959**

There is no tangible assets acquired through financial leasing as of 31 December 2019 and 2018.

There is no collateral, pledges, and mortgages on tangible assets as of 31 December 2019 and 2018.

There is no capitalized interest expense as of 31 December 2019 and 2018.

Fair value measurement of the Group's land

The lands owned by the Group are revalued and presented at fair value as of 31 December 2019. The fair value of the lands owned by the Group is revalued on 11 December 2017 by Metrik Gayrimenkul Değerleme Danışmanlık Anonim Şirketi ("Metrik Değerleme"), an independent appraisal company. Metrik Değerleme is authorized by the CMB and provides real estate appraisal services in accordance with the capital market legislation. The fair value of the lands is determined according to "Market Value Approach (Equivalent Comparison Method)". Gains resulting from revaluation are recognized under "Gain on Revaluation of Property" in other comprehensive income.

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

There are no restrictions on the distribution of revaluation funds. The valuation difference on the lands is TL 230.391 (31 December 2018: TL 230.391).

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

		Fair value as of reporting date		
	31 December 2019	**Level 1 TL**	**Level 2 TL**	**Level 3 TL**
Macunköy	173.421	--	--	173.421
Akyurt	92.147	--	--	92.147
Gölbaşı	1.110	--	--	1.110
Oğulbey	52.780			52.780
Gölbek	166	--	--	166
Denizli	55	--	--	55
	319.679			**319.679**

		Fair value as of reporting date		
	31 December 2018	**Level 1 TL**	**Level 2 TL**	**Level 3 TL**
Macunköy	173.421	--	--	173.421
Akyurt	74.513	--	--	74.513
Gölbaşı	1.110	--	--	1.110
Oğulbey	52.780	--	--	52.780
Gölbek	166	--	--	166
Denizli	55	--	--	55
	302.045			**302.045**

The fair value level action table as of 31 December 2018 are as follows:

	Fair Value Level as of Reporting Date		
	Level 1 TL	**Level 2 TL**	**Level 3 TL**
1 January 2019	--	--	302.045
Additions	--	--	17.634
31 December 2019	**--**	**--**	**319.679**

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

12. INTANGIBLE ASSETS

	Rights	Development Costs	Other intangible assets[1]	Total
Cost				
Opening balance as of 1 January 2019	**51.569**	**1.247.730**	**177.480**	**1.476.779**
Additions	23.052	1.230.946	47.612	1.301.610
Disposals	--	(997.163)	--	(997.163)
Transfers	6.176	(6.176)	--	--
Closing balance as of 31 December 2019	**80.797**	**1.475.337**	**225.092**	**1.781.226**
Accumulated Amortization				
Opening balance as of 1 January 2019	**32.783**	**231.611**	**130.318**	**394.712**
Charge for the period	18.982	50.967	39.987	109.936
Closing balance as of 31 December 2019	**51.765**	**282.578**	**170.305**	**504.648**
Net book value as of 31 December 2019	**29.032**	**1.192.759**	**54.787**	**1.276.578**

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

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

12. INTANGIBLE ASSETS (continued)

	Rights	Development Costs	Other intangible assets[1]	Total
Cost				
Opening balance as of 1 January 2018	51.388	1.023.178	137.825	1.212.391
Additions	135	1.355.103	39.655	1.394.893
Disposals	--	(1.130.505)	--	(1.130.505)
Transfers	46	(46)	--	--
Closing balance as of 31 December 2018	**51.569**	**1.247.730**	**177.480**	**1.476.779**
Accumulated Amortization				
Opening balance as of 1 January 2018	27.733	193.918	99.524	321.175
Charge for the period	5.050	37.693	30.794	73.537
Closing balance as of 31 December 2018	**32.783**	**231.611**	**130.318**	**394.712**
Net book value as of 31 December 2018	**18.786**	**1.016.119**	**47.162**	**1.082.067**

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

	31 December 2019	31 December 2018
Research and development expenses	49.831	37.338
Cost of sales	41.596	23.908
Inventories	11.023	8.073
Marketing expenses	356	301
General administrative expenses	7.130	3.917
	109.936	**73.537**

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

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

13. GOVERNMENT GRANTS AND INCENTIVES

The deferred incentive income shown under consolidated statement of financial position is as follows:

	31 December 2019	31 December 2018
Current government grants and incentives	**43.194**	**53.818**

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

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

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

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

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

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

13. GOVERNMENT GRANTS AND INCENTIVES (continued)

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

14. BORROWING COSTS

As of 31 December 2019, there is no borrowing cost regarding the qualifiying assets. (31 December 2018: None).

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

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

Other short-term provisions	31 December 2019	31 December 2018
Provision for warranties[1]	731.395	442.777
Provision for onerous contracts	129.518	87.772
Provision for delay penalties[2]	100.508	41.403
Provision for legal cases	24.501	10.905
Provision for cost expenses	7.525	2.072
Other	1.113	640
	994.560	**585.569**

The movement of the provision for warranties is as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance	442.777	253.253
Provision for the period	448.790	305.852
Realized during the period	(160.172)	(116.328)
Closing balance	**731.395**	**442.777**

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

	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance	87.772	106.318
Reclass from short-term provisions to long-term provisions	--	(54.140)
Provision for the period	41.746	42.769
Provision reversed during the period	--	(7.175)
Closing balance	**129.518**	**87.772**

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

[2] Provision for delay penalties and fines are calculated in accordance with interest rates mentioned in the agreement for defaulet and within the client's knowledge.

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

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (continued)

a) Provisions (continued)

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

	1 January-31 December 2019	1 January-31 December 2018
Opening balance	41.403	15.787
Provision for the period	93.963	118.914
Realized during the period	(30.348)	(88.370)
Provision reversed during the period	(4.510)	(4.928)
Closing balance	**100.508**	**41.403**

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

	1 January-31 December 2019	1 January-31 December 2018
Opening balance	10.905	5.917
Provision for the period	17.173	6.128
Realized during the period	(3.577)	(1.140)
Closing balance	**24.501**	**10.905**

Other long-term provisions	31 December 2019	31 December 2018
Provision for delay penalties	381.830	328.385
	381.830	**328.385**

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

	1 January-31 December 2019	1 January-31 December 2018
Opening balance	328.385	42.925
Reclassification from short-term provisions to long-term provisions	--	54.140
Provision during the period	53.445	238.861
Provision reversed during the period	--	(7.541)
Closing balance	**381.830**	**328.385**

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

15. PROVISION, CONTINGENT ASSET AND LIABILITIES (continued)

b) Legal cases

There has not been any final judicial decision against the Group due to the violation of employee rights within 2019. There has not been any final judicial decision against the Group due to the responsibility related with work accidents within 2019.

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

	Description	2019	2018
a)	Ongoing lawsuits filed by the Group	70.374	12.162
b)	Execution proceedings carried out by the Group	193.568	119.415
c)	Ongoing lawsuits filed against the Group	24.501	10.905
d)	Executions against the Group	485	--
e)	Lawsuits finalized against the Group within the period	1.505	150
f)	Lawsuits finalized in favor of the Group within the period	1.975	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 positon and "Other Operating Expense" in the statement of profit or loss and other comprehensive income.

d) Executions against the Group are not included in Financial Statements.

e) 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.

f) 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.

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

16. COMMITMENTS AND CONTINGENCIES

a) Operating lease

As of 31 December 2019, the Group has two lands that are rented for 49 years and 46 years. In 2019 the Group has paid rent amounting to TL 306 (31 December 2018: TL 229) and TL 542 (31 December 2018: TL 459) for property lands rented for 49 years and 46 years respectively. Rent payments escelated every year based on the "Producer Price Index (PPI)" rate. The rental period will end on 23 January 2061.

As of 31 December 2019, the Group has paid rent amounting to TL 4.484 (31 December 2018: TL 3.425) for vehicles rented during the year.

b) Guarantees received

	31 December 2019	31 December 2018
Letters of guarantees received from the suppliers	2.125.852	1.749.080
Collaterals received from the customers	19.952	18.084
Letters of guarantees received from the customers	6.450	4.901
Collaterals received from the suppliers	28.155	4.932
Letters of guarantees received from the suppliers	8.042	--
Mortgages received from the customers	265	265
	2.188.716	**1.777.262**

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

The collaterals/pledges/mortgages ("CPM") given by the Group as of 31 December 2019 and 31 December 2018 is as follows:

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 288.493.

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

16. COMMITMENTS AND CONTINGENCIES (continued)

c) Guarantees given (continued)

31 December 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	19.163.727	5.678.746	1.209.264	947.409	--	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	18.231	--	3.069	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
Total	**19.181.958**	**5.678.746**	**1.212.333**	**947.409**	**--**	**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 31 December 2019 is 0,13 percent. TL 18.231 is the collateral amount pertaing to guarantee letter given on behalf of the entity's joint venture ASELSAN Bilkent.

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

16. COMMITMENTS AND CONTINGENCIES (continued)

c) 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**

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

[1] The ratio of the other CPM given by the Group to equity as of 31 December 2018 is 0,22 percent. TL 22.590 is the collateral amount pertaing to guarantee letter given on behalf of the entities’ affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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

17. EMPLOYEE BENEFITS

a) Obligations for employee benefits

	31 December 2019	31 December 2018
Social security premiums payable	37.643	24.869
Taxes and funds payable	39.259	7.472
Due to personnel	69.037	2.532
	145.939	**34.873**

b) Short-term provisions for employee benefits

	31 December 2019	31 December 2018
Provision for vacation pay and overtime	**72.819**	**49.382**

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

	2019	2018
Opening balance	49.382	42.301
Provision for the period	53.771	24.608
Provision paid during the period	(26.372)	(14.584)
Provision realized during the period	(3.962)	(2.943)
Closing balance	**72.819**	**49.382**

c) Long-term provisions for employee benefits

	31 December 2019	31 December 2018
Provision for severance pay	206.040	184.440
Provision for retirement pay	19.691	14.171
	225.731	**198.611**

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

	2019	2018
Opening balance	198.611	168.742
Service cost	21.193	11.254
Interest cost	6.100	4.795
Actuarial gains/(loss)	17.851	24.662
Payments	(18.024)	(10.842)
Closing balance	**225.731**	**198.611**

Provision for severance pay:

In accordance with the Labor Law Legislations, the Group is obliged to make legal severance indemnity payments to entitled employees whose employment has been terminated. Furthermore, with regard to Social Security Law numbered 506 dated 6 March 1981, number 2422 dated 25 August 1999 and law numbered 4447, article 60 denotes the legal obligation to make severance payments to all employees who are entitled to indemnity by the date of leave of employment.

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

17. EMPLOYEE BENEFITS (continued)

Provision for severance pay (continued)

Certain provisions regarding services before retirement, has been annulled on 23 May 2002 during the revision of the related law. As of 31 December 2019 severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL 6.380[1] (31 December 2018: TL 5.434) [1]

As of 1 January 2020, the ceiling for the severance payments is TL 6.730. [1]

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

Provision for retirement grant:

Retirement bonus provision is recognized for the employees with service of more than 20 years within the Group and has earned/will earn their retirement.

Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 December 2019 (%)	31 December 2018 (%)
Interest rate	12,88	15,60
Inflation rate	8,90	11,80
Discount ratio	3,35	3,40
Estimation of probability of retirement ratio	97	97

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

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

18. OTHER ASSETS AND LIABILITIES

a) Other current assets

	31 December 2019	31 December 2018
VAT carried forward[1]	219.828	177.210
Restricted cash[2]	49.949	74.269
Other VAT	70.185	53.873
Job advances	729	705
Other[3]	56.246	22.754
	396.937	**328.811**

b) Other non-current assets

	31 December 2019	31 December 2018
VAT carried forward[1]	695.137	463.005
Prepaid taxes and funds	34.377	29.202
Other[3]	9.722	7.935
	739.236	**500.142**

c) Other short-term liabilities

	31 December 2019	31 December 2018
Taxes and funds payable	3.596	218
Other[3]	651	8.019
	4.247	**8.237**

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

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

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

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

19. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

Shareholders	Share (%)	31 December 2019	Share (%)	31 December 2018
TSKGV	74,20	845.826	74,20	845.826
Publicly held	25,80	294.174	25,70	293.019
Axa Sigorta Anonim Şirketi[1]	--	--	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 Communique Serial II No:19.1 "Share of Profit", effective as of 1 February 2014, and with regard to the Turkish Commercial Code ("TCC"), legal reserves in publicly held companies will be generated by 5 percent of income until it reaches 20 percent of paid-in share capital. After the 5 percent of the dividend is paid to shareholders, 10 percent of the total distributed to shareholders and employees can be added in the other legal reserve. Under the TCC, the legal reserves can be used only to offset losses for the going concern of the company or to prevent unemployment as long as the amount does not exceed 50 percent of the paid-in capital.

As of 31 December 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).

Retained Earnings

Accumulated profits apart from net profit for the year and extraordinary reserves which is accumulated profit by nature are shown under retained earnings. As of 31 December 2019 the extraordinary reserves balance presented in retained earnings is TL 2.987.028 (31 December 2018: TL 1.435.063). According to the statutory records, the Company's profit for the period is TL 3.686.183 (31 December 2018: TL 1.829.121) and its other funds available for profit distribution is TL 3.034.425 (31 December 2018: TL 1.481.866) and the details are as followings.

1 As of 12 July 2019, the nominal amount of TL 1.155 held by Axa Sigorta A.Ş. converted to publicly traded share with respect to the announcement "Conversion to the Type Traded on the Stock Exchange".

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

Retained Earnings (continued)

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).

The dividend which amounted TL 174.000 has been allocated to shareholders.

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

20. REVENUE AND COST OF SALES

a) Revenue	**1 January-31 December 2019**	**1 January-31 December 2018**
Domestic sales	11.503.350	8.140.207
Export sales	1.573.783	888.955
Other revenues	20.746	7.033
Sales returns (-)	(82.069)	(24.179)
Sales discounts (-)	(3.259)	(3.315)
Other discounts (-)	--	(185)
	13.012.551	**9.008.516**

Revenue Recognized Regarding Performance Obligation	**1 January - 31 December 2019**	**1 January - 31 December 2018**
Over time	8.852.909	5.634.134
Point in time	4.159.642	3.374.382
	13.012.551	**9.008.516**

b) Cost of sales(-)	**1 January-31 December 2019**	**1 January-31 December 2018**
Cost of raw materials and supplies	7.475.716	5.202.636
Cost of merchandise goods sold	91.917	171.551
Cost of services sold	1.702.925	1.201.580
Cost of other sales	370.260	221.657
	9.640.818	**6.797.424**

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

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

	1 January - 31 December 2019	**1 January - 31 December 2018**
General administrative expenses (-)	343.456	221.719
Marketing expenses (-)	204.118	150.760
Research and development expenses (-)	211.565	114.408
	759.139	**486.887**

a) General administrative expenses (-)	**1 January - 31 December 2019**	**1 January - 31 December 2018**
Personnel expenses	202.003	135.236
Depreciation and amortization expenses	36.819	29.495
Expertise and consultancy expenses	8.261	7.257
Electricity expenses	7.119	5.188
Insurance expenses	6.628	1.420
Travel expenses	6.508	3.036
Rent expenses	5.491	2.820
Legal expenses	4.409	3.850
Personnel meal expenses	3.743	2.682
Personnel transportation expenses	2.765	2.564
Property and environmental cleaning tax	2.055	1.778
Course and seminar expenses	1.641	879
Water expenses	658	929
Other	55.356	24.585
	343.456	**221.719**

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

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

b) Marketing expenses (-)	**1 January-31 December 2019**	**1 January-31 December 2018**
Subcontractor service expenses	40.335	12.233
Exhibition expenses	37.794	27.406
Personnel expenses	34.498	20.582
Commission expenses	27.834	44.494
Shipping and delivery expenses	11.550	5.700
Travel expenses	10.576	7.378
Advertising expenses	7.316	3.743
Expertise and Consultancy expenses	5.288	7.246
Packaging expenses	4.592	3.876
Samples expenses	4.586	2.585
Stamp duty expenses	3.382	9.788
Representation expenses	1.442	2.191
Depreciation and amortization expenses	1.013	665
Other	13.912	2.873
	204.118	**150.760**

c) Research and development expenses (-)	**1 January-31 December 2019**	**1 January-31 December 2018**
Personnel expenses	75.061	49.778
Depreciation and amortization expenses	49.831	37.338
Equipment costs	33.760	14.718
Other	52.913	12.574
	211.565	**114.408**

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

22. OTHER OPERATING INCOME AND EXPENSES

a) Other operating income

	1 January- 31 December 2019	1 January- 31 December 2018
Foreign currency exchange gains	3.650.791	5.590.625
Rediscounted interest income	63.436	19.495
Free of charge investment income[1]	43.225	22.362
Other income	60.918	21.685
	3.818.370	**5.654.167**

b) Other operating expenses (-)

	1 January- 31 December 2019	1 January- 31 December 2018
Foreign currency exchange losses	3.175.862	5.075.934
Rediscounted interest expense	48.902	61.378
Other expense and losses	28.938	15.964
	3.253.702	**5.153.276**

23. INCOME FROM INVESTING ACTIVITIES

	1 January- 31 December 2019	1 January- 31 December 2018
Gain/(loss) on sales profit of marketable securities	1.243	--
Dividend income	4.618	5.222
Gain/(loss) on sales profit of fixed assets	518	(433)
	6.379	**4.789**

24. FINANCIAL INCOME

	1 January- 31 December 2019	(Restated) 1 January- 31 December 2018
Interest income	259.744	366.285
TFRS 15 financial component effect	472.563	271.472
Foreign currency exchange gains on bank loans	246.553	238.722
Gain/(loss) on derivative ınstruments(forward)	6.347	**--**
	985.207	**876.479**

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

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

25. FINANCIAL EXPENSES

	1 January- 31 December 2019	1 January- 31 December 2018
Foreign currency exchange losses from bank loans (-)	387.879	350.329
TFRS 15 financial component effect (-)	380.510	474.279
Interest cost related with employee benefits (-)	6.100	4.795
Rediscount expenses at bank loans (-)	--	1.102
Interest cost of borrowings (-)	88.153	25.142
	862.642	**855.647**

26. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

	31 December 2019	31 December 2018
Gain from revaluation of available for sale financial assets	933.298	729.612
Revaluation of property	207.431	207.431
Cumulative Translation Adjustments	35.442	25.507
Loss on remeasurement of defined benefit plans	(32.354)	(18.073)
	1.143.817	**944.477**

Revaluation reserve available for sale financial assets	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance	729.612	535.444
Gain on revaluation and reclassification of available for sale financial assets	214.406	204.387
Deferred tax liability arising from revaluation	(10.720)	(10.219)
Closing balance	**933.298**	**729.612**

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

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

26. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS (continued)

Revaluation of property	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance (Previously reported)	207.431	207.431
Increase arising from revaluation of property	--	--
Deferred tax on revaluation[1]	--	--
Current period value increase deferred tax effect	--	--
Closing balance	**207.431**	**207.431**

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

The fair value of the lands owned by the Group is revalued on 11 December 2017 by Metrik Gayrimenkul Değerleme Danışmanlık Anonim Şirketi ("Metrik Değerleme"), an independent appraisal company.

Foreign currency exchange differences:	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance	25.507	5.246
Currency differences from net asset currency translation investent in foreign operations	9.935	20.261
Closing balance	**35.442**	**25.507**

Gain/Loss on remeasurement of defined benefit plans	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance	(18.073)	1.656
Gain/Loss on remeasurement of defined benefit plans	(17.851)	(24.662)
Deferred tax on gain/loss on remeasurement of defined benefit plans	3.570	4.933
Closing balance	**(32.354)**	**(18.073)**

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

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

27. INCOME TAXES

Corporate tax liabilities:	31 December 2019	31 December 2018
Current corporate tax provision	14.868	11.022
Less: Prepaid taxes and funds	(2.021)	(8.186)
	12.847	**2.836**

Tax income:	1 January-31 December 2019	1 January-31 December 2018
Current corporate tax expense	(14.868)	(11.022)
Deferred tax income	59.010	88.603
	44.142	**77.581**

	1 January-31 December 2019		
Tax effects related to components of other comprehensive income	**Amount before tax**	**Tax income/expense**	**Net of tax amount**
Defined benefit plan revaluation gains/losses	(17.851)	3.570	(14.281)
Cumulative Currency Translation Adjustments	9.935	--	9.935
Gain on revaluation of available for sale financial assets gains/losses	214.406	(10.720)	203.686
Other comprehensive income in the period	**206.490**	**(7.150)**	**199.340**

	1 January-31 December 2018		
Tax effects related to components of other comprehensive income	**Amount before tax**	**Tax income/expense**	**Net of tax amount**
Defined benefit plan revaluation gains/losses	(24.662)	4.933	(19.729)
Cumulative Translation Adjustments	20.261	--	20.261
Gain on revaluation of available for sale financial assets gains/losses	204.387	(10.219)	194.168
Other comprehensive income in the period	**199.986**	**(5.286)**	**194.700**

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

27. INCOME TAXES (continued)

Tax recognized directly in equity	**1 January- 31 December 2019**	**1 January- 31 December 2018**
Deferred tax:		
- Revaluation of property	--	--
- Gain on revaluation of available for sale financial assets	(10.720)	(10.219)
- Actuarial gain/loss	3.570	4.933
Deferred tax recognized directly in equity	**(7.150)**	**(5.286)**

Corporate tax

The Group is subject to Turkish corporate taxes. The corporate income tax is declared until the relevant accounting period-end's following fourth month, twenty-fifth day's evening and it is batch paid until the end of the related month. In accordance with the tax legislation, quarterly 22 percent (31 December 2018: 22 percent) on profits of advance tax is being calculated and paid. The amounts paid in this way are deducted by the tax on annual earning.

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

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

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

The tax rate in 2019 is 22 percent (31 December 2018: 20 percent).

27. INCOME TAXES (continued)

Deferred Tax

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

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

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

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

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

27. INCOME TAXES (continued)

Deferred Tax (continued)

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

Deferred Tax Assets:	**31 December 2019**	**31 December 2018**
Discount on receivables	10.394	13.343
Adjustment to costs and provision for expected losses of construction contracts	1.656.545	1.382.112
Allowance for impairment on inventories	1.878	1.646
Provision for delay penalties	22.112	9.109
Provision for warranties	161.501	97.848
Provision for severance pay	41.187	36.938
Provision for retirement bonus pay	3.931	2.836
Provision for annual leave	16.020	10.864
Provision for legal cases	326	28
Provision for doubtful receivables	990	288
Accumulated research and development incentive	849.723	912.673
Deferred Tax Liabilities:	**31 December 2019**	**31 December 2018**
Discount on payables	(2.664)	(2.614)
Adjustment of progress payments for long- term construction projects	(1.854.233)	(1.623.722)
Depreciation of fixed assets / amortization of intangible assets	(49.540)	(45.818)
Fixed assets revaluation fund	(23.039)	(23.039)
Gain on revaluation of available for sale financial assets	(49.121)	(38.400)
Other	(59)	--
Deferred tax assets	**2.764.607**	**2.467.685**
Deferred tax liabilities	**(1.978.656)**	**(1.733.593)**
Deferred tax assets – net	**785.951**	**734.092**

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

27. INCOME TAXES (continued)

Deferred tax (continued)

Movement of deferred tax assets/(liabilities):	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance as of 1 January	734.092	650.775
Charged to statement of profit or loss	59.010	88.603
Charged to equity	(7.150)	(5.286)
	785.951	**734.092**

Tax reconciliations:	Effective Tax Rate (%)	1 January- 31 December 2019	Effective Tax Rate (%)	1 January- 31 December 2018
Profit before tax from continuing operations		3.308.531		2.241.766
Income tax rate		%22		%22
Tax at the domestic income tax rate	22	727.877	22	493.188
Tax effects of:				
- revenue that is exempt from taxation	(1)	(32.452)	(28)	(635.254)
- expenses that are not deductible in determining taxable profit	1	39.091	28	637.293
- R&D incentives and other income exempt from taxation	(23)	(750.333)	(24)	(542.019)
- Change effect of determining statutory tax rate as 20 percent to 22 percent for 3 years	(1)	(22.085)	(1)	(32.185)
- Subsidiaries and associates revenue that is exempt from taxation	--	--	--	1.312
- effect of other adjustments	--	(6.240)	--	84
Tax income recognized in profit or loss	**(1)**	**(44.142)**	**(3)**	**(77.581)**

28. EARNINGS PER SHARE

Earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period. The Group does not have diluted shares.

For the years ended 31 December 2019 and 2018, earnings per share calculations are as follows:

	1 January-31 December 2019	1 January-31 December 2018
Number of shares outstanding (in thousands)	1.140.000	1.079.781
Net profit – TL	3.340.447	2.318.197
Earnings per 100 shares	**293,02**	**214,69**
Diluted earnings per 100 shares	**293,02**	**214,69**

29. FINANCIAL INVESTMENTS

Financial Investments

Short-term Financial Investments

	31 December 2019	31 December 2018
Realization of derivative instruments(forward)	6.039	--
	6.039	**--**

Non-Current Financial Investments

	31 December 2019	31 December 2018
a) Available for sale financial investments	987.560	773.154
b) Financial investments valued at cost that do not have a quoted market value	904	5.511
	988.464	**778.665**

a) Fair Value Difference Reflect in Other Comprehensive income

	31 December 2019	31 December 2018
Fair value difference reflect in other comprehensive income that are not traded in an active market	988.464	778.665
	988.464	**778.665**

ROKETSAN which is Group's equity investment is revalued and stated at fair value. As of 31 December 2019, the revaluation was performed by Oyak Yatırım Menkul Değerler Anonim Şirketi which is an independent valuation company. The fair value was determined according to "Discounted Cash Flow", "Similar Company Comparison" and "Realized Company Mergers and Acquisitions" methodologies. Discount ratio used in "Discounted Cash Flow"method is 19 percent (31 December 2018: 21 percent).

Company Name	Ratio(%)	31 December 2019	Ratio (%)	31 December 2018
ROKETSAN	14,897	987.560	14,897	773.154

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

29. FINANCIAL INVESTMENTS (continued)

a) Available for sale financial investments (continued)

Financial Investments (continued)

Roketsan shares, shown under available for sale financial investments, are reported on the third level in the fair value hierarchy (Note 32).

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

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

Company Name	Ratio (%)	31 December 2019	Ratio (%)	31 December 2018
ULAK	51	--	--	5.100
ASPİLSAN	1	904	1	411
		904		**5.511**

The above available-for-sale equity investment amounting to TL 904 (31 December 2018: TL 5.511) does not have a quoted market value and the fair value cannot be reliably measured due to a wide range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. For this reason they are stated at cost less provision for diminution in value, if any.

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

30. FINANCIAL LIABILITIES

Financial Liabilities

		31 December 2019	31 December 2018
Short-term financial liabilities	Unsecured loan	1.522.010	675.715
Other short-term financial liabilities	Unsecured loan	90.311	22.811
Current portion of long-term financial liabilities	Secured loan	611.198	67.277
Total short-term financial liabilities		**2.223.519**	**765.803**
Other long-term financial liabilities	Secured loan	9.098	20.234
Total long-term financial liabilities		**9.098**	**20.234**
Total financial liabilities		**2.232.617**	**786.037**

As of 31 December 2019, TL 475.216 of the short term financial borrowings are USD Rediscount Credits, which have maturity dates due between January 2020 -April 2020 and interest rates between 2,73 – 4,99 percent. Short term borrowings in terms of EUR, which have maturity dates due between January 2020 -July 2020 amounting to TL 1.046.794 which has interest rate between 0,65-1,60 percent. Current portions of long-term financial liabilities are EUR and "İvme" Credit which have amounted to TL 506.198 and TL 105.000, respectively. They have interest rates between 2,75- 10,55 and maturity dates between July 2020- November 2020.

The TL 6.045 amounted portion of short term and long term financial liabilities have consisted of loans for supplier payments with 12 month maturity and interest rate of 11,50 percent. 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 from Ziraat Bank.

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

30. FINANCIAL LIABILITIES (continued)

Financial Liabilities (continued)

As of 31 December 2018, TL 675.715 in the short term financial liabilities consist of USD Discount Currency Loans in which instalment payments maturity dates are between January-July 2019 and interest rate between 3,16-3,54. In the long term financial liabilities, current portion of all short term liabilities consist of instalment payments of the principal equal to USD 12.790 that belongs to credits that are taken from Presidency of Defense Industries with the interest rate of %2,1 percent and 3,5 percent respectively and maturity date is August 2019. Also, there are TL 22.811 financial liability in order to pay Social Security payments.

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

Bank Loans

		31 December 2019	
Currency	**Weighted average interest rate (%)**	**Short-term**	**Long-term**
Euro	1,02	1.551.585	--
TL	10,55	196.718	9.098
USD	3,79	475.216	--
		2.223.519	**9.098**

		31 December 2018	
Currency	**Weighted average interest rate (%)**	**Short-term**	**Long-term**
TL	-	22.811	--
USD	3,17	742.992	20.234
		765.803	**20.234**

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

	31 December 2019	**31 December 2018**
Within 1 year	2.223.519	765.803
Between 1-2 years	9.098	20.234
	2.232.617	**786.037**

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

31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS

a) Capital risk management

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

The capital structure of the Group consists of debt, which includes the borrowings as explained Note 30, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group's board of directors review capital structure regularly in the meetings. The risks that are associated with every equity item together with the Group's cost of capital are evaluated by the board of directors. Based on the recommendations of the board, the Group aims to balance its overall capital structure through the payment of dividends.

Net debt and share capital as of 31 December 2019 and 2018 is as follows:

	31 December 2019	31 December 2018
Total liabilities	2.232.617	786.037
Less: Cash and cash equivalents	(3.513.842)	(3.115.691)
Net debt (asset)	(1.281.225)	(2.329.653)
Total equity	13.568.899	10.177.021

a) Financial Risk Factors:

It refers to the risks arising from the financial structure and financial preferences of the Group. Exchange rate, liquidity and interest rate risks are some risks under this heading. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

ASELSAN's Enterprise Risk Management Policy aims; to take proper actions against uncertainties that threaten the existence of the Company and to protect corporate identity and stakeholders' interest at all conditions. Risk management is an integrated element of Corporate Management. The information gathered within the scope of risk management activities in ASELSAN is integrated into decision making mechanisms.

The "top-down" and "bottom-up" approach is being applied into Enterprise Risk Management activities together. Risks, which are significant enough to affect ASELSAN's achievement of its targets, are identified, evaluated, monitored and reported along with the risk responses and precautions to be taken. At ASELSAN; The Enterprise Risk Management process is regularly reviewed and improved. ASELSAN's employees and business processes are at the center of the Enterprise Risk Management System.

Group's finance department identifies and evaluates financial risks and use tools to reduce risks by working in cooperation with the group's operating units.

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is mainly working with public sector and obtaining advance payments where appropriate, both from public sector and private sector entities. The Group management does not foresee significant credit risk. Additionally, receivables are monitored regularly to minimize the collection risk.

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

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

Credit risk (continued)

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

31 December 2019	Receivables					
	Trade Receivables		Other Receivables			
	Related party	Third party	Related party	Third party	Bank Deposits	Other
Maximum net credit risk as of the reporting date (A+B+C+D)[1]	5.384.727	4.085.105	1.150	380.468	3.559.515	10.053
- The part of maximum risk under guarantee with collateral etc.[2]	--	6.450	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	5.384.727	2.727.841	1.150	380.468	3.559.515	10.053
B. Net book value of financial assets that are past due but not impaired	--	1.357.264	--	--	--	--
C. Net book value of impaired assets	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	58.960	--	--	--	--
- Impairment (-)						
- The part of net value under guarantee with collateral etc.	--	(58.960)	--	--	--	--
- Undue (gross carrying amount)	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
D. Factors that include off balance sheet credit risks	--	--	--	--	--	--

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

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

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

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

Credit risk (continued)

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

31 December 2018	Receivables					
	Trade Receivables		Other Receivables			
	Related party	Third party	Related party	Third party	Bank Deposits	Other
Maximum net credit risk as of the reporting date (A+B+C+D)[1]	2.749.390	3.149.662	24	204.857	3.187.487	2.320
- The part of maximum risk under guarantee with collateral etc.[2]	--	4.901	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	2.749.390	2.317.500	24	204.857	3.187.487	2.320
B. Net book value of financial assets that are past due but not impaired	--	832.162	--	--	--	--
C. Net book value of impaired assets	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	2.218	--	--	--	--
- Impairment (-)		(2.218)				
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
- Undue (gross carrying amount)	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
D. Factors that include off balance sheet credit risks	--	--	--	--	--	--

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

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

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

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

Credit Risk (continued)

The aging of the overdue receivables is as follows:

	31 December 2019	31 December 2018
Overdue by 1-30 days	74.658	189.827
Overdue by 1-3 months	76.222	178.415
Overdue by 3-12 months	481.981	245.265
Overdue by 12 months	724.403	218.655
Total receivables	**1.357.264**	**832.162**

No collateral has been received for the overdue receivables.

Management has assessed its aged receivables and does not expect any collection problem arising from its aged receivables.

Liquidity risk

Board of directors has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. ASELSAN eliminates the liquidity risk, which is known as the risk arising from default and inability to fund the the assets, it monitors forecasted and actual cash flows regularly and ensures the continuity of adequate funds and credit lines by matching the maturity of financial assets and liabilities. In order to manage the interest rate risk arising from changes in assets and / or liabilities as a result of fluctuations in interest rates in the future, it conducts transactions with fixed interest rates and uses financial derivative instruments when necessary.

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

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

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

Liquidity Risk (continued)

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 31 December 2019 is as follows:

Contractual Maturity Analysis	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Financial liabilities	2.232.617	2.232.617	775.358	1.448.161	9.098	--

Expected Maturity	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Trade payables	5.468.161	5.481.171	3.375.866	240.182	1.865.123	--
Other payables	63.429	63.429	58.500	--	4.929	--

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

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

Liquidity Risk (continued)

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 31 December 2018 is as follows:

Contractual Maturity Analysis	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Financial liabilities	786.037	788.537	380.949	386.823	20.765	--

Expected Maturity	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Trade payables	4.316.866	4.328.746	645.481	1.914.982	1.768.283	--
Other payables	2.838	2.838	2.732	--	106	--

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

Market risk management

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

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

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

Foreign currency risk management

The exchange rate risk, which is any kind of change that may occur in assets and / or liabilities as a result of exchange rate fluctuations in the future, ASELSAN aims to minimize the effect of exchange rate fluctuations by keeping the long and short foreign exchange position at a minimum level. The balance sheet methods have been used in managing the exchange rate risk. Implementations such as; making use of foreign exchange denominated loans in line with the company's export volume, matching the contract currency with the currency of the costs of the project, and signing the subcontractor contracts in line with the main contract currency are used.

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

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

FOREIGN EXCHANGE POSITION						
31 December 2019	**TL Equivalent (Functional currency)**	**USD**	**TL equivalent by using closing rates**	**EURO**	**TL equivalent by using closing rates**	**Other[1]**
1. Trade receivables	3.205.720	267.003	1.586.053	242.283	1.611.329	8.338
2a. Monetary financial assets (including cash, bank)	1.028.481	47.173	280.219	112.018	744.984	3.278
2b. Non- monetary financial assets	448.065	58.665	348.484	24.294	161.569	52.714
3. Other	6.435	254	1.511	735	4.891	33
4. Current assets (1+2+3)	**4.688.701**	**373.095**	**2.216.267**	**379.330**	**2.522.773**	**64.363**
5. Trade receivables	4.018.835	547.674	3.253.291	115.109	765.544	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	315.941	13.765	81.766	93.322	620.649	10.020
7. Other	14.357	979	5.814	1.199	7.970	573
8. Long-term assets (5+6+7)	**4.349.133**	**562.418**	**3.340.871**	**209.630**	**1.394.163**	**10.593**
9. Total assets (4+8)	**9.037.834**	**935.513**	**5.557.138**	**588.960**	**3.916.936**	**74.956**
10. Trade payables	1.783.658	149.765	889.633	123.348	820.340	73.685
11. Financial liabilities	2.026.801	80.000	475.216	233.300	1.551.585	--
12a. Other monetary financial liabilities	715	111	659	8	56	--
12b. Other non-monetary financial liabilities	326.504	87.643	520.619	69.829	464.398	--
13. Current liabilities (10+11+12)	**4.137.678**	**317.519**	**1.886.127**	**426.485**	**2.836.379**	**73.685**
14. Trade payables	1.634.038	220.533	1.310.011	48.721	324.027	--
15. Financial liabilities	--	--	--	--	--	--
16a. Other monetary financial liabilities	1.038	171	1.018	3	20	--
16b. Other non-monetary financial liabilities	666.536	207.284	1.231.304	163.548	1.087.692	--
17. Non-current liabilities (14+15+16)	**2.301.612**	**427.988**	**2.542.333**	**212.272**	**1.411.739**	**--**

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

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

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

FOREIGN EXCHANGE POSITION						
31 December 2019	**TL Equivalent (Functional currency)**	**USD**	**TL equivalent by using closing rates**	**EURO**	**TL equivalent by using closing rates**	**Other**
18. Total liabilities (13+17)	**6.439.290**	**745.507**	**4.428.460**	**638.757**	**4.248.118**	**73.685**
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)	**2.598.544**	**190.006**	**1.128.678**	**(49.797)**	**(331.182)**	**1.271**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**2.806.786**	**411.270**	**2.443.026**	**64.030**	**425.829**	**(62.069)**
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	**1.573.783**	**258.181**	**1.533.613**	**4.983**	**34.149**	**--**
26. Imports	**3.543.961**	**405.543**	**2.409.006**	**134.467**	**894.286**	**240.669**

Accompanying foreign exchange position which was prepared in accordance with TAS is different from the foreign exchange position of the financial statement which is prepared according to General Communiqué on Accounting System Application (GCASA). The difference is mainly due to the adjustments and classifications which are related with TFRS 15 .

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

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

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

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

31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (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
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

Accompanying foreign exchange position which was prepared in accordance with TAS is different from the foreign exchange position of the financial statement which is prepared according to General Communiqué on Accounting System Application (GCASA). The difference is mainly due to the adjustments and classifications which are related with TFRS 15.

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

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

Foreign currency sensitivity

The Group is exposed to foreign currency risk with respect to USD and EURO. As of 31 December 2019, USD 1: TL 5,9402 (31 December 2018: TL 5,2609), EURO 1: TL 6,6506 (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 present 10 percent change in foreign currency rates. This analysis does not include Group companies' balance sheet items which have functional currency other than TL. The effects of 10 percent changes in foreign currency rate on financial statements is as follows;

Foreign currency sensitivity table				
31 December 2019				
	Profit/Loss		**Equity[1]**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	244.303	(244.303)	244.303	(244.303)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	**244.303**	**(244.303)**	**244.303**	**(244.303)**
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	42.583	(42.583)	42.583	(42.583)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	**42.583**	**(42.583)**	**42.583**	**(42.583)**
Change of other currencies against TL by 10%:				
7- Other currencies denominated net assets/ (liabilities)	(6.207)	6.207	(6.207)	6.207
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	**(6.207)**	**6.207**	**(6.207)**	**6.207**

[1] Comprises of profit/loss effect.

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

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

Foreign currency sensitivity (continued)

Foreign currency sensitivity table				
31 December 2018				
	Profit/Loss		**Equity**[1]	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	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 other 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**

Interest rate risk management

As of 31 December 2019 and 31 December 2018, since all of the loans obtained by the Group are fixed-rate loans, the Group is not exposed to significant interest rate risk.

As of 31 December 2019, the Group does not have interest bearing financial assets, therefore there is no exposure to interest risk (31 December 2018: None).

Price risk

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

Hierarchy of fair value

As of 31 December 2019 and 31 December 2018, the Group's financial assets at their fair values are as in the following page:

[1] Comprises of profit/loss effect.

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

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

31 December 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	--	3.513.842	--	--	3.513.842	3
Blocked deposits	--	49.949	--	--	49.949	18
Financial investments	6.943	--	987.560	--	994.503	29
Equity accounted investments	121.769	--	--	--	121.769	8
Trade receivables	--	9.469.832	--	--	9.469.832	6
<u>Financial liabilities</u>						
Borrowings	--	--	--	2.232.617	2.232.617	30
Trade payables	--	--	--	5.468.161	5.468.161	6
Other payables	--	--	--	63.429	63.429	7

31 December 2018	**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	--	3.115.691	--	--	3.115.691	3
Blocked deposits	--	74.269	--	--	74.269	18
Financial investments	5.511	--	773.154	--	778.665	29
Equity accounted investments	93.586	--	--	--	93.586	8
Trade receivables	--	5.899.052	--	--	5.899.052	6
<u>Financial liabilities</u>						
Borrowings	--	--	--	786.037	786.037	30
Trade payables	--	--	--	4.316.866	4.316.866	6
Other payables	--	--	--	2.838	2.838	7

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

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

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

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

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

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

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

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

ROKETSAN has presented under Group's available for sale financial asset and measured at fair value as of 31 December 2019. The fair value of ROKETSAN as of 31 December 2019 is TL 987.560 and was determined according to "Discounted Cash Flow", "Similar Company Comparison" and "Realized Company Mergers and Acquisitions" methodologies and its fair value hierarchy is Level 3.

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

Available for sale financial assets	**31 December 2019**	**31 December 2018**
	Marketable Equity Shares	**Marketable Equity Shares**
Opening balance	773.154	568.767
Total gain/loss		
- transferred to other comprehensive income	214.406	204.387
Closing balance	**987.560**	**773.154**

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

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

31 December 2019	**Fair value level as of reporting date**		
	Level 1	**Level 2**	**Level 3**
	TL	**TL**	**TL**
Financial Investments	--	--	987.560
	--	**--**	**987.560**

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

The movement of the fair value level as of 31 December 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	--	--	214.406
31 December 2019	--	--	**987.560**

33. EXPLANATIONS RELATED TO THE STATEMENT OF CASH FLOW

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

	31 December 2018	**Cash Movements**	**Non-cash movements**			**31 December 2019**
			Additions	**Exchange rate change**	**Other non-cash movements**	
Financial Liabilities (Note 30)	786.037	1.303.253	1.407	141.920	--	2.232.617
Total liabilities arising from financing activities	**786.037**	**1.303.253**	**1.407**	**141.920**	**--**	**2.232.617**

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

34. EVENTS AFTER THE REPORTING PERIOD

There has been no related events after the reporting period.