

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

CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS
AS OF AND FOR THE THREE-MONTH
PERIOD ENDED 31 MARCH 2020

2 June 2020

This report contains condensed consolidated interim financial information and related disclosures and footnotes comprising 46 pages.

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ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF INTERIM FINANCIAL POSITION AS OF 31 MARCH 2020**

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

	Note References	Current Period Not Reviewed 31 March 2020	Audited 31 December 2019
ASSETS			
Current Assets		14.073.934	13.976.498
Cash and Cash Equivalents	3	1.823.976	3.513.842
Financial Investments		2.630	6.039
Trade Receivables	5	4.904.275	3.884.933
<i>From Related Parties</i>	4	1.926.429	1.118.103
<i>From Third Parties</i>		2.977.846	2.766.830
Other Receivables		387.602	380.554
<i>From Related Parties</i>		--	1.150
<i>From Third Parties</i>		387.602	379.404
Inventories	7	5.010.570	4.473.927
Prepaid Expenses	8	1.475.619	1.320.266
<i>From Related Parties</i>	4	368.628	284.767
<i>From Third Parties</i>		1.106.991	1.035.499
Other Current Assets		469.262	396.937
Non-Current Assets		12.169.622	11.656.545
Financial Investments		988.464	988.464
Trade Receivables	5	6.052.184	5.584.899
<i>From Related Parties</i>	4	4.644.553	4.266.624
<i>From Third Parties</i>		1.407.631	1.318.275
Other Receivables		1.370	1.064
<i>From Third Parties</i>		1.370	1.064
Equity Accounted Investees	6	117.082	121.769
Property, Plant and Equipment	9	1.688.883	1.573.931
Intangible Assets	9	1.382.447	1.276.578
Prepaid Expenses	8	477.999	584.653
<i>From Related Parties</i>	4	244.057	299.369
<i>From Third Parties</i>		233.942	285.284
Deferred Tax Assets	11	731.702	785.951
Other Non-Current Assets		729.491	739.236
TOTAL ASSETS		26.243.556	25.633.043

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INTERIM FINANCIAL POSITION AS OF 31 MARCH 2020

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

	Note References	Current Period Not Reviewed 31 March 2020	Audited 31 December 2019
LIABILITIES			
Current Liabilities		8.199.481	7.743.870
Short-term Financial Liabilities	20	1.109.155	1.612.321
Short-term Portion of Long-term Financial Liabilities	20	657.617	611.198
Trade Payables	5	4.004.554	3.607.856
<i>To Related Parties</i>	4	1.596.072	763.186
<i>To Third Parties</i>		2.408.482	2.844.670
Employee Benefit Obligations	13	130.753	145.939
Other Payables		25.315	58.500
<i>To Third Parties</i>		25.315	58.500
Government Grants and Incentives		40.743	43.194
Deferred Income	8	1.020.186	580.389
<i>To Related Parties</i>	4	974.586	418.578
<i>To Third Parties</i>		45.600	161.811
Corporate Tax Liability		1.634	12.847
Short-term Provisions		1.208.365	1.067.379
<i>For Employee Benefits</i>	13	85.860	72.819
<i>Other</i>	10	1.122.505	994.560
Other Current Liabilities		1.159	4.247
Non-Current Liabilities		3.549.586	4.320.274
Long-term Financial Liabilities	20	9.098	9.098
Trade Payables	5	952.413	1.860.305
<i>To Related Parties</i>	4	606.209	1.425.811
<i>To Third Parties</i>		346.204	434.494
Other Payables		14.846	4.929
<i>To Third Parties</i>		14.846	4.929
Deferred Income	8	1.932.716	1.837.987
<i>To Related Parties</i>	4	1.480.033	1.262.598
<i>To Third Parties</i>		452.683	575.389
Long-term Provisions		640.513	607.561
<i>Long-term Provisions for Employee Benefits</i>	13	236.915	225.731
<i>Other</i>	10	403.598	381.830
Other Non-Current Liabilities		--	394

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF INTERIM FINANCIAL POSITION AS OF 31 MARCH 2020**

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

	Note References	Current Period Not Reviewed 31 March 2020	Audited 31 December 2019
EQUITY		14.494.489	13.568.899
Shareholders' Equity		14.419.001	13.498.388
Share Capital	14	1.140.000	1.140.000
Inflation Adjustments on Share Capital	14	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	175.077
<i>Gain on Revaluation of Property, Plant and Equipment</i>		207.431	207.431
<i>Gain/ Loss on Remeasurement of Defined Benefit Plans</i>		(32.354)	(32.354)
Other Cumulative Comprehensive Income/ (Expense) will be reclassified to Profit/Loss		969.216	968.740
<i>Gain on Revaluation of Available for Sale Financial Assets</i>		933.298	933.298
<i>Cumulative Translation Adjustments</i>		35.918	35.442
Restricted Reserves	14	278.188	276.827
Retained Earnings		8.041.039	4.701.953
Net Profit for the Year		920.137	3.340.447
Non-Controlling Interests		75.488	70.511
TOTAL LIABILITIES AND EQUITY		26.243.556	25.633.043

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2020

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

	Note References	Current Period Not Reviewed 1 January- 31 March 2020	Not Reviewed 1 January- 31 March 2019
PROFIT OR LOSS			
Revenue	15	2.595.267	1.998.099
Cost of Sales (-)	15	(1.843.205)	(1.532.240)
GROSS PROFIT		752.062	465.859
General Administrative Expenses (-)		(95.783)	(71.162)
Marketing Expenses (-)		(45.405)	(29.269)
Research and Development Expenses (-)		(56.028)	(21.758)
Other Operating Income	16	1.403.387	747.180
Other Operating Expenses (-)	16	(743.000)	(450.339)
OPERATING PROFIT		1.215.233	640.511
Income from investing activities		31	38
Shares of profit/(losses) of Equity Accounted Investees	6	(8.439)	(1.138)
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		1.206.825	639.411
Financial Income	17	164.559	271.289
Financial Expense (-)	18	(395.287)	(255.088)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		976.097	655.612
Tax Income from Continuing Operations		(55.883)	(26.051)
- Current Corporate Tax Expense(-)	11	(1.634)	(617)
- Deferred Tax Expense (-) / Income		(54.249)	(25.434)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		920.214	629.561
Profit for the Period Attributable to			
Non-Controlling Interests		77	265
Parent Company	19	920.137	629.296
		920.214	629.561
Earnings for per 100 Shares (in full Kuruş)	19	80,71	55,20

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2020**

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

	Note References	Current Period Not Reviewed 1 January- 31 March 2020	Not Reviewed 1 January- 31 March 2019
PROFIT FOR THE PERIOD		920.214	629.561
Items that will not to be reclassified subsequently in Profit or Loss			
Items that may be reclassified subsequently to profit or loss		476	1.548
Foreign Currency Exchange Differences		476	1.548
OTHER COMPREHENSIVE INCOME		476	1.548
TOTAL COMPREHENSIVE INCOME		920.690	631.109
Total Comprehensive Income Attributable to			
Non-Controlling Interests		77	265
Parent Company		920.613	630.844
		920.690	631.109

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR AS OF 31 MARCH 2020

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

			Other Comprehensive Income / Expense that will not be Reclassified Subsequently to Profit or Loss		Other Comprehensive Income / Expense that may not be Reclassified Subsequently to Profit or Loss		Retained Earnings						
	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 2019 (as previously reported)	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	--	--	--	--	--	--	--	982	2.317.215	(2.318.197)	--	--	--
Capital Increase	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Comprehensive Income	--	--	--	--	--	--	1.548	--	--	629.296	630.844	265	631.109
Consolidation Effect of New Company Acquisition	--	--	--	--	--	--	--	--	--	--	--	2.288	2.288
Dividends	--	--	--	--	--	--	--	--	--	--	--	--	--
Balance as of 31 March 2019	1.140.000	98.621	2.796.723	207.431	(18.073)	729.612	27.055	173.669	4.979.111	629.296	10.763.445	46.973	10.810.418
Balance as of 1 January 2020	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
Transfers	--	--	--	--	--	--	--	1.361	3.339.086	(3.340.447)	--	--	--
Capital Increase	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Comprehensive Income	--	--	--	--	--	--	476	--	--	920.137	920.613	77	920.690
Consolidation Effect of New Company Acquisition	--	--	--	--	--	--	--	--	--	--	--	4.900	4.900
Dividends	--	--	--	--	--	--	--	--	--	--	--	--	--
Balance as of 31 March 2020	1.140.000	98.621	2.796.723	207.431	(32.354)	933.298	35.918	278.188	8.041.039	920.137	14.419.001	75.488	14.494.489

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM CASH FLOWS STATEMENT AS OF 31 MARCH 2020

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

	Note References	Current Period Not Reviewed 31 March 2020	Not Reviewed 31 March 2019
A.Cash Flows from Operating Activities		(716.505)	(394.155)
Profit for the period		920.214	629.561
Adjustments to Reconcile Profit		602.463	403.871
- Adjustments for Depreciation and Amortization Expense	9	65.891	51.125
- Adjustments for Impairment Loss		(36.391)	562
<i>Adjustments for Impairment Loss of Receivables</i>	5	(40.432)	(20)
<i>Adjustments for Impairment Loss of Inventories</i>	7	4.041	582
- Adjustments for Provisions		253.366	98.026
<i>Adjustments for Provisions Related with Employee Benefits</i>	13	36.780	30.920
<i>Adjustments for / (Reversal of) Lawsuit and/or Penalty Provisions</i>		148.354	29.777
<i>Adjustments for Warranty Provisions</i>		71.823	34.685
<i>Adjustments for (Reversal of) Other Provisions</i>		(3.591)	2.644
- Adjustments for Interest (Income) Expenses		18.495	13.118
<i>Adjustments for Interest Income</i>		(169.428)	(191.631)
<i>Adjustments for Interest Expense</i>		187.923	204.749
- Share of profit/loss of Equity Accounted Investments		8.439	1.138
- Adjustments for Tax Income		55.883	26.051
Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		212.964	50.907
Other Non-Cash Adjustments		23.816	162.944
Changes in Working Capital		(2.146.907)	(1.361.633)
- Adjustments for Decrease (Increase) in Trade Receivables		186.499	(1.020.080)
- Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(7.355)	(41.874)
- Adjustments for Decrease (Increase) in Inventories		(532.581)	(465.401)
- Decrease (Increase) in Prepaid Expenses	8	(59.004)	(86.524)
- Adjustments for Increase (Decrease) in Trade Payables		(462.800)	500.980
- Increase (Decrease) in Employee Benefit Obligations	13	(15.186)	13.088
- Adjustments for Stage of Completion of Construction or Service Contracts in Progress		(1.551.915)	148.294
- Adjustments for Increase (Decrease) in Other Operating Payables		(23.268)	6.135
- Increase (Decrease) in Government Grants and Incentives		(2.451)	(2.294)
- Increase (Decrease) in Deferred Income		386.778	(387.143)
- Adjustments for Other Increase (Decrease) in Working Capital		(65.624)	(26.814)
Cash Flows From Operations		(624.230)	(328.201)
Payments Related with Provisions for Employee Benefits	13	(12.555)	(11.561)
Payments Related with Other Provisions		(66.873)	(51.557)
Income Taxes Refund (Paid)		(12.847)	(2.836)
B.Cash Flows From Investing Activities		(389.033)	(375.207)
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		31	182
Purchase of Property, Plant and Equipment		(157.551)	(117.761)
Purchase of Intangible Assets	9	(246.345)	(258.105)
Cash Inflows from Derivative Instruments		3.409	--
Other Cash Inflows (Outflows)		11.423	477
C.Cash Flows From Financing Activities		(669.711)	220.250
Proceeds from Borrowings		277.701	790.514
Repayments of Borrowings		(947.412)	(570.264)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		(1.775.249)	(549.112)
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		85.742	6.151
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(1.689.507)	(542.961)
E.CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		3.513.403	3.087.388
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	3	1.823.896	2.544.427

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 31 MARCH 2020

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

1. ORGANIZATION AND OPERATIONS OF THE GROUP

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

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

As of the reporting date, the Company has been organized under five 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"), Defence Systems Technologies Vice Presidency ("SST") and Microelectronics, Guidance & Electro-Optics Vice Presidency ("MGEO") and Transportation, Security, Energy and Automation Systems Vice Presidency ("UGES").

In addition to the Vice Presidencies above, the Company organization also includes 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, the Company maintains engineering operations also in Istanbul Teknopark.

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

The Company is registered to Capital Markets Board of Turkey ("CMB") and its shares have been quoted in Borsa İstanbul Anonim Şirketi ("BİST") since 1990. As of 31 March 2020, 25,80 percent of the Company's shares are publicly traded (31 December 2019: 25,80 percent) (Note 14).

The Company's trade registry address is Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06200 Yenimahalle/Ankara. The average number of personnel employed by the Group as of 31 March 2020 is 7.547 (31 December 2019: 6.797).

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 31 MARCH 2020

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

1. ORGANIZATION AND OPERATIONS OF THE GROUP (continued)

The Company's consolidated subsidiaries are ASELSAN Baku ("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. ("BİTES"), 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.

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 also 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 been presented in 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 1079 on 2 June 2020. 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.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 31 MARCH 2020

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation

Subsidiaries:

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

Subsidiaries	Location	Functional Currency	Group's proportion of ownership and voting power held (%)		Main Activity
			31 March 2020	31 December 2019	
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	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	51	Defence, Aerospace, Space Technologies, Software
ULAK	Turkey	TL	51	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.

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Subsidiaries (continued):

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.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 31 MARCH 2020

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Joint Ventures

The details of the Group's interests in joint ventures as of 31 March 2020 and 31 December 2019 are as follows:

Joint Ventures	Principal Activity	Country of incorporation and operation	Group's proportion of ownership and voting power held (%)	
			31 March 2020	31 December 2019
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	15	30
EHSİM Elektronik Harp Sistemleri Müh. Tic. A.Ş. ("EHSİM")	Electronic Warfare and Tactical Command Systems	Turkey	50	50
TR Eğitim ve Teknoloji A.Ş.	Realizing Human Resources studies, Consultancy with respect to HR studies, accreditation services and trainings for every level, educational, cultural, art, sports, fair organizations and digital marketing operations.	Turkey	50	50

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.

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Joint Ventures (continued):

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 Havaçılık 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. 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 characteristic 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.

As a result of the evaluations made within the scope of TAS 7 "Cash Flow Statements" standard, the interest paid/received and dividends are classified as cash flow from operating activities since those are considered in determining profit or loss.

The reclassification of 31 March 2019 is as below.

Cash Flow Statement	31 March 2019 (Previously Reported)	Reclassification	31 March 2019 Reported
Adjustments Related to Interest Income and Expenses	(63.859)	76.977	13.118
Other Adjustments to Reconcile Profit (Loss)	(3.741)	166.685	162.944
Decrease (Increase) in Prepaid Expenses	(85.942)	(582)	(86.524)
Purchase of Intangible Assets	(91.420)	(166.685)	(258.105)
Other Cash Outflows	(105)	582	477
Interest Paid	(10.140)	10.140	--
Interest Income	87.117	(87.117)	--

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

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

2.3 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 January 2020

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 amendment 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. The amendment has no impact on the consolidated financial position and performance of the Group.

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

On 21 June 2019, The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in 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 amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. The amendment has no impact on the consolidated financial position and performance of the Group.

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.

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

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

2.4 New and Revised Turkish Accounting Standards (continued)

a-Standards Adopted as of 01 January 2020 (continued)

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

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;
- IAS 39 retrospective assessment; and
- Separately identifiable risk components.

All other hedge accounting requirements remain unchanged. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. The amendment has no impact on the consolidated financial position and performance of the Group.

b-Standards Issued But Not Yet Effective and Not Early Adopted as of 31 March 2020

TFRS 17 – Insurance Contracts

On 16 February 2019, POASA 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 2023 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.

TMS 1- Classification of Liabilities as Current and Non-Current Liabilities

On March 12, 2020, the KGK issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to TMS 1 which are effective for periods beginning on or after 1 January 2022, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with TMS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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

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

3. CASH AND CASH EQUIVALENTS

	31 March 2020	31 December 2019
Cash	285	261
Banks		
- Time deposit	1.379.351	3.159.194
- Demand deposit	200.769	82.257
Financial Leasing Certification	240.000	267.676
Other	3.491	4.015
Cash and cash equivalents on the cash flow statement	1.823.896	3.513.403
Interest income accruals	80	439
	1.823.976	3.513.842

As of 31 March 2020, the Group had time deposits denominated in foreign currencies with maturities in April 2020 (31 December 2019: January 2020) with the interest rates between 0,2 percent and 1,55 percent (31 December 2019: 0,2 percent to 2,5 percent) amounting to TL 604.345 (31 December 2019: TL 1.030.178).

As of 31 March 2020, the Group had time deposits denominated in TL terms with maturities in April 2020 (31 December 2019: January-February 2020) amounted to TL 775.006 (31 December 2019: TL 2.129.016) at the interest rate of 10,00 percent and 11,65 percent (31 December 2019: 10,25 and 11,00 percent).

As of 31 March 2020, the Group had financial leasing certification amounting to TL 240.000 (31 December 2019: TL 267.676 with 10 percent interest rate) with an interest rate of 9,83 percent and 10,21 percent on May – June 2020 term (31 December 2019: March 2020).

4. RELATED PARTY DISCLOSURES

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

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

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

Total amount of salaries and other short-term benefits paid for key management for the period ended 31 March 2020 is TL 6.218 (31 March 2019: TL 5.045).

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 31 MARCH 2020

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

4. RELATED PARTY DISCLOSURES (continued)

	31 March 2020									
	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
<u>Main shareholder</u>										
TSKGV	31	--	--	--	--	--	--	--	--	--
<u>Main shareholder's subsidiaries and associates</u>										
Hava Elektronik Harp Sistemleri Mühendislik Ticaret Anonim Şirketi ("HAVELSAN EHSİM")	--	28	--	--	--	4.213	--	--	--	--
Hava Elektronik Sanayi ve Ticaret Anonim Şirketi ("HAVELSAN")	16.407	43.732	--	756	5.556	65.775	5.625	--	--	292
HAVELSAN Teknoloji Radar Sanayi ve Ticaret Anonim Şirketi ("HTR")	2.991	19.987	--	--	19.438	18.679	--	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	21.619	--	--	1.236	13.762	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	228	30.058	--	--	1.632	41.829	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	--	4.329	--	180.481	63	35	358	--	--	14.413
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	93.013	40	--	139.819	--	4.397	71.860	--	103.535	305.492
<u>Financial Instruments</u>										
ASPİLSAN Enerji Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	--	1.775	--	--	--	4.510	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	135.518	162.685	--	124.504	204.434	374.375	53.407	--	2.106	60.747
<u>Joint ventures and its related parties</u>										
ASELSAN Bilkent Mikro Nano	--	5.483	--	--	3.999	8.495	--	--	--	--
İhsan Doğramacı Bilkent Üniversitesi	--	854	--	--	--	2.715	--	--	--	--
ASELSAN Optik	2.788	57.104	--	--	2.177	12.675	--	--	--	--
IGG	53.578	--	--	5.019	--	346	--	--	--	--
IGG ASELSAN	7.554	1.561	--	--	--	--	--	--	--	--
ASELSAN Kazakistan	65.889	--	--	15.571	--	159	149	--	--	--
ASELSAN Ürdün	13.834	--	--	205	--	4.501	1.622	--	--	--
TÜBİTAK BİLGEM	--	5.123	--	--	560	19.715	--	--	--	--
TÜBİTAK-UME	--	419	--	--	--	3	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	22.080	1.330	--	90.339	2.818	1.846	12.831	--	1.225	9.595
TÜBİTAK SAGE Savunma Sanayii	--	12.501	--	8.477	2.144	7.096	--	--	--	--
Savunma Sanayi Başkanlığı ("SSB")	1.511.792	--	--	4.079.382	--	1.010.849	828.734	--	499.343	1.089.494
SADEC LLC	726	--	--	--	--	97	--	--	--	--
	1.926.429	368.628	--	4.644.553	244.057	1.596.072	974.586	--	606.209	1.480.033

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

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

4. 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										
ASPİL SAN Enerji 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 Bilkent Nano	--	6.503	--	--	4.869	13.307	--	--	--	--
İhsan Doğramacı Bilkent University	--	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 Kazakistan	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
SSTEK	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

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

4. RELATED PARTY DISCLOSURES (continued)

	1 January- 31 March 2020	1 January- 31 March 2019
Transactions with related parties	Purchases	Purchases
<u>Main Shareholder</u>		
TSKGV	270	228
<u>Main shareholder's subsidiaries and associates</u>		
NETAŞ	20.675	21.397
İŞBİR	9.551	6.864
HTR	15.623	15.824
TUSAŞ	--	30
HAVELSAN EHSİM	3.694	--
STM	541	3.702
<u>Financial Investments</u>		
ROKETSAN	3.518	631
ASPİLSAN	4.853	11.173
<u>Joint ventures and its related parties</u>		
İhsan Dođramacı Bilkent Üniversitesi	1.349	2.674
TÜBİTAK BİLGEM	15.354	2.265
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	948	--
TÜBİTAK-UME	--	103
TÜBİTAK SAGE Savunma Sanayii	5.999	13.565
	83.885	78.456
	1 January- 31 March 2020	1 January- 31 March 2019
Transactions with related parties	Sales	Sales
<u>Main Shareholder</u>		
TSKGV	85	82
<u>Main shareholder's subsidiaries and associates</u>		
TUSAŞ	69.392	58.839
STM	20.029	188.022
HTR	2.748	407
HAVELSAN	1.227	778
<u>Financial Investments</u>		
ASPİLSAN	575	--
ROKETSAN	43.206	32.865
<u>Joint ventures and its related parties</u>		
İhsan Dođramacı Bilkent Üniversitesi	--	521
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	1.936	28.056
TÜBİTAK SAGE Savunma Sanayii	2.025	708
TÜBİTAK UZAY TEKNOLOJİLERİ	65	52
SSB	910.996	1.340.108
SSTEK	47.595	--
	1.097.943	1.650.438

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".

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 31 MARCH 2020**

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

5. TRADE RECEIVABLES AND PAYABLES

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

Short-term trade receivables	31 March 2019	31 December 2019
Trade receivables	2.928.763	2.722.650
Trade receivables from related parties (Note 4)	1.926.429	1.118.103
Notes receivable	49.083	44.180
Doubtful trade receivables	18.528	58.960
Allowance for doubtful trade receivables (-)	(18.528)	(58.960)
	4.904.275	3.884.933

Long-term trade receivables	31 March 2020	31 December 2019
Unbilled receivables from construction contracts in progress	1.175.648	1.057.620
Trade receivables	231.983	260.655
Unbilled receivables from construction contracts in progress-Related party (Note 4)	4.638.124	4.260.764
Trade receivables from related parties (Note 4)	6.429	5.860
	6.052.184	5.584.899

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 31 MARCH 2020

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

5. TRADE RECEIVABLES AND PAYABLES (continued)

a) Trade receivables (continued)

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

	31 March 2020	31 March 2019
Opening balance	58.960	2.218
Provision for the period	--	45
Provisions no longer required	(40.432)	(65)
Closing balance	18.528	2.198

The sectoral distribution of trade receivables is as follows:

	31 March 2020	31 December 2019
Public sector	6.478.003	4.990.685
Private sector	2.404.908	2.528.297
Receivables from companies operating abroad	2.073.548	1.950.850
Total receivables	10.956.459	9.469.832

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

b) Trade payables

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

	31 March 2020	31 December 2019
Short-term trade payables		
Trade payables	1.790.003	2.220.802
Unearned revenue related to contracts with customers	380.276	373.895
Due to related parties (Note 4)	1.016.151	113.448
Unearned revenue related to contracts with customers –Related party (Note 4)	579.921	649.738
Notes Payable	236.658	246.029
Other trade payables	1.545	3.944
	4.004.554	3.607.856

	31 March 2020	31 December 2019
Long-term trade payables		
Unearned revenue related to contracts with customers	324.190	413.598
Unearned revenue related to construction contracts in progress- Related party (Note 4)	606.209	1.425.811
Other trade payables	22.014	20.896
	952.413	1.860.305

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

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6. EQUITY ACCOUNTED INVESTMENTS

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

31 March 2020	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN Kazakhstan	49	95.827	113.821	209.648	128.158	11.024	139.182
ASELSAN Jordan	49	25.232	24.154	49.386	13.143	--	13.143
ASELSAN Optik	50	82.669	63.901	146.570	45.848	70.355	116.203
IGG ASELSAN	49	35.825	687	36.512	14.379	946	15.325
ASELSAN Bilkent	50	45.102	148.734	193.836	33.247	133.175	166.422
TEKNOHAB	15	40.219	380	40.599	47	--	47
EHSİM	50	75.178	3.031	78.209	5.839	57.869	63.708
TÜYAR	51	15.658	749	16.407	106	3	109
		415.710	355.457	771.167	240.767	273.372	514.139

31 March 2020	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN Kazakhstan	49	15.467	(33.081)	(17.614)	34.529	(8.631)
ASELSAN Jordan	49	1.035	(2.783)	(1.748)	17.759	(856)
ASELSAN Optik	50	36.110	(34.102)	2.008	15.184	1.004
IGG ASELSAN	49	2.275	(890)	1.385	10.381	679
ASELSAN Bilkent	50	14.139	(16.387)	(2.248)	13.707	(1.124)
SADEC LLC	50	--	--	--	2.043	--
BARQ QSTP LLC.	48	--	--	--	834	--
TEKNOHAB	15	610	(162)	448	6.083	67
EHSİM	50	796	(223)	573	7.250	287
TR Eğitim ve Teknolojileri	50	--	--	--	1.000	--
TÜYAR	51	398	(134)	264	8.312	135
		70.830	(87.762)	(16.932)	117.082	(8.439)

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

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6. EQUITY ACCOUNTED INVESTMENTS (continued)

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

31 December 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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2020**

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

7. INVENTORIES

	31 March 2020	31 December 2019
Raw materials	2.513.677	2.268.578
Work in progress	1.916.553	1.728.108
Goods in transit ¹	193.952	178.206
Finished goods	313.500	234.811
Other inventories	33.388	28.654
Trade goods	59.369	51.398
Allowance for impairment on inventories (-)	(19.869)	(15.828)
	5.010.570	4.473.927

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

The Group has identified raw material, work-in progress and finished goods inventories whose net realizable value is below their costs within the current year.

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

	31 March 2020	31 March 2019
Opening balance	15.828	8.120
Provision for the period	4.041	1.220
Provision released	--	(638)
Closing balance	19.869	8.702

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

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8. PREPAID EXPENSES AND DEFERRED INCOME

	31 March 2020	31 December 2019
Short-term prepaid expenses		
Order advances given for inventory purchases	524.361	930.628
Short-term order advances given to related parties for inventory purchases (Note 4)	368.628	284.767
Prepaid expenses	582.630	104.871
	1.475.619	1.320.266

	31 March 2020	31 December 2019
Long-term prepaid expenses		
Long-term order advances given to related parties for inventory purchases (Note 4)	244.057	299.369
Order advances given for inventory purchases	125.235	172.382
Order advances given for fixed assets purchases	82.142	92.447
Prepaid expenses	26.565	20.455
	477.999	584.653

	31 March 2020	31 December 2019
Short-term deferred income		
Order advances received	27.961	131.022
Order advances received from related parties (Note 4)	974.586	418.578
Deferred income	17.639	30.789
	1.020.186	580.389

Short-term order advances received comprises advances received from 75 customers (31 December 2019: 69 customers) of which first 10 customers constitutes 98 percent of the total (31 December 2019: 99 percent).

	31 March 2020	31 December 2019
Long-term deferred income		
Order advances received	452.680	575.385
Order advances received from related parties (Note 4)	1.480.033	1.262.598
Deferred income	3	4
	1.932.716	1.837.987

Long-term order advances received comprises advances received from 28 customers (31 December 2019: 62 customers) of which the largest 10 customers constitutes 99 percent of the total (31 December 2019: 98 percent).

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9. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

Cost	Property, Plant and Equipment	Intangible Assets
Opening balance as of 1 January 2020	2.626.647	1.781.226
Additions	157.731	246.345
Disposals	(162)	(109.260)
Closing balance as of 31 March 2020	2.784.216	1.918.311
Accumulated Depreciation and Amortisation		
Opening balance as of 1 January 2020	1.052.716	504.648
Change for the period ¹	42.779	31.216
Disposals	(162)	--
Closing balance as of 31 March 2020	1.095.333	535.864
Net book value as of 31 March 2020	1.688.883	1.382.447
Net book value as of 31 December 2019	1.573.931	1.276.578
Cost		
Opening balance as of 1 January 2019	2.231.201	1.476.779
Additions	118.361	91.420
Disposals	(223)	(1.461)
Closing balance as of 31 March 2019	2.349.339	1.566.738
Accumulated Depreciation and Amortisation		
Opening balance as of 1 January 2019	894.904	394.712
Change for the period	35.842	21.458
Disposals	(79)	--
Closing balance as of 31 March 2019	930.667	416.170
Net book value as of 31 March 2019	1.418.672	1.150.568
Net book value as of 31 December 2018	1.336.297	1.082.067

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

¹ The amount of amortization related to inventories are TL 8.104 in the year 2020 (March 2019: TL 6.175)

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10. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

	31 March 2020	31 December 2019
Other short-term provisions		
Provision for warranties ¹	758.761	731.395
Provision for onerous contracts	150.000	129.518
Provision for delay penalties ²	182.369	100.508
Provision for legal cases	26.329	24.501
Provision for cost expenses	3.119	7.525
Other	1.927	1.113
	1.122.505	994.560
	31 March 2020	31 December 2019
Other long-term provisions		
Provision for delay penalties	19.448	--
Provision of onerous contracts	384.150	381.830
	403.598	381.830

b) Legal cases

There is no judicial decision against the group within 2020 due to violation of employee rights. There is no judicial decision against the group in 2020 due to the responsibility for work accidents.

As of the dates 31 March 2020 and 31 December 2019, according to the declarations written by the legal counselors, amounts of the lawsuits and legal executions in favor of and against the Group are as follows:

Description	31 March 2020	31 December 2019
a) Ongoing lawsuits filed by the Group	70.804	70.374
b) Execution proceedings carried out by the Group	209.609	193.568
c) Ongoing lawsuits filed against the Group	26.329	24.501
d) Executions against the Group	485	485
e) Lawsuits finalized against the Group within the period	440	1.505
f) Lawsuits finalized in favor of the Group within the period	175	1.975

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

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

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

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11. TAX

"Deferred Tax Assets" of the Group as of 31 March 2020 is TL 731.702. The amount is comprised of the items below.

	31 March 2020	31 December 2019
Carried Forward R&D Incentives Effect	949.980	849.723
Temporary Differences	(218.278)	(63.772)
Deferred Tax Assets - Net	731.702	785.951

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

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

In accordance with the law numbered 5746 pertaining to 1 January-31 March 2020 period, the Group has calculated "Deferred Tax Asset" amounting to TL 949.980 from Research and Development expenses comprising "Outstanding Research and Development Deductions".

	31 March 2020	31 March 2019
Profit before tax from continuing operations	976.097	655.609
Tax (expense)/income recognized in profit or loss	(55.883)	(26.051)
Effective tax rate	(%6)	(%4)

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

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12. COMMITMENTS AND CONTINGENCIES

a) Guarantees received

	31 March 2020	31 December 2019
Letters of guarantees received from the suppliers	2.356.205	2.125.852
Collaterals received from the customers	21.645	19.952
Letters of guarantees received from the customers	7.514	6.450
Collaterals received from the suppliers	40.495	28.155
Letters of guarantees received from the suppliers	13.722	8.042
Mortgages received from the customers	265	265
	2.439.846	2.188.716

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

The collaterals/pledges/mortgages ("CPM") given by the Group as of 31 March 2020 and 31 December 2019 are stated on the following page:

In accordance with the terms of the Patrol and Anti-Submarine Warfare Ship Projects ("MİLGEM"), the Company is a guarantor if HAVELSAN cannot be able to fulfill the obligations in this project of an amount of USD 287.888.

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

31 March 2020	TL Equivalent	TL	USD	EURO	UAE Dirham	Indian Rupee	British Pound	Tunisian Riyal
A. Total amount of CPM given on behalf of the legal entity								
-Collateral	20.684.603	6.473.968	1.168.263	914.390	--	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	19.998	--	3.069	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
Total	20.704.601	6.473.968	1.171.332	914.390	--	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 March 2020 is 14 percent. TL 19.998 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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

31 December 2019	TL Equivalent	TL	USD	EURO	UAE Dirham	Indian Rupee	British Pound	Tunisian 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 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 2019 is 0,13 percent. TL 18.231 is the collateral amount pertaining to guarantee letter given on behalf of the entities' affiliate company Mikro AR-GE and joint venture ASELSAN Bilkent.

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

	31 March 2020	31 December 2019
Social security premiums payable	41.843	37.643
Taxes and funds payable	10.186	39.259
Due to personnel	78.724	69.037
	130.753	145.939

b) Short-term provisions for employee benefits

	31 March 2020	31 December 2019
Provision for vacation pay liability	85.860	72.819

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

	31 March 2020	31 March 2019
Opening balance	72.819	49.382
Provision for the period	20.658	26.428
Provision paid during the period	(6.444)	(5.788)
Provision realised during the period	(1.173)	(928)
Closing balance	85.860	69.094

c) Other long-term provisions for employee benefits

	31 March 2020	31 December 2019
Provision for severance pay	217.226	206.040
Provision for retirement pay	19.689	19.691
	236.915	225.731

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

	31 March 2020	31 March 2019
Opening balance	225.731	198.611
Service cost	15.674	3.952
Interest cost	1.621	1.468
Payments	(6.111)	(5.773)
Closing balance	236.915	198.258

Provision for severance pay:

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

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13. EMPLOYEE BENEFITS (continued)

Provision for severance pay (continued)

Certain provisions regarding services before retirement, has been annulled on 23 May 2002 during the revision of the related law. As of 31 March 2020 severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL¹ 6.730 (31 December 2019: TL¹ 6.380).

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

Provision for retirement grant:

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

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

	31 March 2020 (%)	31 December 2019 (%)
Interest rate	12,88	12,88
Inflation rate	8,90	8,90
Discount ratio	3,35	3,35
Estimation of probability of retirement ratio	97	97

¹ Amounts are expressed in full Turkish Lira.

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14. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

Shareholders	Share (%)	31 March 2020	Share (%)	31 December 2019
TSKGV	74,20	845.826	74,20	845.826
Publicly held	25,80	294.174	25,80	294.174
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 March 2020, The Group's restricted reserves set aside from profit comprises legal reserves. The total of the Group's legal reserves are TL 278.188 (31 December 2019: TL 276.827).

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

Retained Earnings

Accumulated profits apart from net profit for the year and extraordinary reserves which is accumulated profit by nature are shown under retained earnings. As of 31 March 2020, the extraordinary reserves balance presented under retained earnings is TL 2.987.028 (31 December 2019: TL 2.987.028). As of balance sheet date, period profit under statutory requirement is TL 147.885 (31 December 2019: TL 3.686.183) Profits available for distribution are calculated following statutory requirement is TL 3.034.425 (31 December 2019: TL 3.034.425).

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.

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15. REVENUE AND COST OF SALES

Geographical region of revenue	1 January- 31 March 2020	1 January- 31 March 2019
Domestic sales	2.449.233	1.746.174
Export sales	146.034	251.925
	2.595.267	1.998.099

Timing of revenue recognition	1 January- 31 March 2020	1 January- 31 March 2019
Over time	1.803.987	1.460.123
At a point in time	791.280	537.976
	2.595.267	1.998.099

b) Cost of sales (-)	1 January- 31 March 2020	1 January- 31 March 2019
Cost of raw materials and supplies (-)	1.393.812	1.333.006
Cost of trade goods sold (-)	25.002	23.072
Cost of services sold (-)	342.568	135.595
Cost of other sales (-)	81.823	40.567
	1.843.205	1.532.240

16. OTHER OPERATING INCOME AND EXPENSES

a) Other operating income	1 January- 31 March 2020	1 January- 31 March 2019
Foreign currency exchange differences from operations	1.340.409	675.685
Amortized cost effect of trade payables	48.468	59.140
Other income	14.510	12.355
	1.403.387	747.180

b) Other operating expense (-)	1 January- 31 March 2020	1 January- 31 Mart 2019
Foreign currency exchange differences from operations (-)	691.372	379.820
Amortized cost effect of trade receivables (-)	40.175	63.063
Other expense and losses (-)	11.453	7.456
	743.000	450.339

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17. FINANCIAL INCOME

	1 January- 31 March 2020	1 January- 31 March 2019
Interest income	22.710	117.822
TFRS 15 Financial component interest income	120.881	102.384
Foreign currency exchange gain from bank loans	20.968	51.083
	164.559	271.289

18. FINANCIAL EXPENSES

	1 January- 31 March 2020	1 January- 31 March 2019
Foreign currency exchange losses from bank loans (-)	233.576	101.794
TFRS 15 Interest cost of borrowings from financial component (-)	147.748	141.686
Interest cost from employee benefits (-)	1.621	1.468
Discount expenses of bank loans (-)	12.342	10.140
	395.287	255.088

19. EARNINGS PER SHARE

Earnings per share is calculated by dividing the portion of profit allocated to the Group's weighted average number of shares outstanding over the reporting term. The Group does not have diluted shares. For the periods ended 31 March 2020 and 31 March 2019, earnings per share calculations are as follows:

	1 January- 31 March 2020	1 January- 31 March 2019
Common stock (thousand)	1.140.000	1.140.000
Net profit – TL	920.137	629.296
Earnings per 100 shares (in full Kuruş)	80,71	55,20
Diluted Earnings per 100 shares (in full Kuruş)	80,71	55,20

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20. FINANCIAL LIABILITIES

Financial Liabilities

		31 March 2020	31 December 2019
Short-term financial liabilities	Unsecured loan	1.018.143	1.522.010
Other short-term financial liabilities	Unsecured loan	91.012	90.311
Current portion of long-term financial liabilities	Unsecured loan	657.617	611.198
Total short-term financial liabilities		1.766.772	2.223.519
Other long-term financial liabilities	Unsecured loan	9.098	9.098
Total long-term financial liabilities		9.098	9.098
Total financial liabilities		1.775.870	2.232.617

As of 31 March 2020, TL 260.640 of the short term financial borrowings are USD Rediscount Credits, which have maturity dates due to April 2020 and interest rates between 2,73 – 4,99 percent. Short term borrowings in terms of EUR Rediscount Credits, which have maturity dates due between May 2020 – July 2020 amounting to TL 744.067 which has interest rate between 0,30 – 0,65 percent. There is no interest-free loan in order to pay custom debts. 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 0,79 percent from Ziraat Bank.

As of 31 March 2020, the current portion of long-term financial liabilities in terms of EUR Credit amounting to TL 552.617 and TL 105.000 "İvme" Credit which have maturity dates due between July 2020 - November 2020 and interest rates between 2,20 and 10,55 percent.

As of 31 March 2020, loans amounting to TL 12.000 in short and long term financial liabilities taken for subcontracting payments, which have maturity dates due to December 2021 and interest rate of 11,50 percent. As of 31 March 2020, loans amounting to TL 12.000 in other short and long term financial liabilities taken for credit card expenditures, with interest-free and maturity dates due to April 2020.

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.

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21. FOREIGN EXCHANGE POSITION

FOREIGN EXCHANGE POSITION						
31 March 2020	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other ¹ (TL equivalent)
1. Trade Receivables	3.539.185	324.915	2.117.143	195.833	1.412.936	9.106
2a. Monetary financial assets (including cash. bank)	721.378	44.651	290.945	59.178	426.971	3.462
2b. Non- monetary financial assets	480.797	58.877	383.644	25.301	182.545	50.298
3. Other	6.366	279	1.819	625	4.511	36
4. Current assets (1+2+3)	4.747.726	428.722	2.793.551	280.937	2.026.963	62.902
5. Trade receivables	4.447.488	529.249	3.448.589	138.447	998.899	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	342.353	13.977	91.070	96.422	695.679	10.363
7. Other	8.866	259	1.690	992	7.160	16
8. Long-term assets (5+6+7)	4.798.707	543.485	3.541.349	235.861	1.701.738	10.379
9. Total assets (4+8)	9.546.433	972.207	6.334.900	516.798	3.728.701	73.281
10. Trade payables	2.032.595	171.755	1.119.155	117.491	847.699	65.741
11. Financial liabilities	1.547.075	40.000	260.640	178.300	1.286.435	--
12a. Other monetary financial liabilities	814	116	753	8	61	--
12b. Other non-monetary financial liabilities	2.110.716	252.281	1.643.866	195.623	1.411.415	--
13. Current liabilities (10+11+12)	5.691.200	464.152	3.024.414	491.422	3.545.610	65.741
14. Trade payables	867.439	111.871	728.953	19.194	138.486	--
15. Financial liabilities	--	--	--	--	--	--
16a. Other monetary financial liabilities	999	150	977	3	22	--
16b. Other non-monetary financial liabilities	682.442	92.418	602.192	92.953	670.652	--
17. Non-current liabilities (14+15+16)	1.550.880	204.439	1.332.122	112.150	809.160	--

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

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21. FOREIGN EXCHANGE POSITION (continued)

FOREIGN EXCHANGE POSITION						
31 March 2020	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other (TL equivalent)
18. Total liabilities (13+17)	7.242.080	668.591	4.356.536	603.572	4.354.770	65.741
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)	2.304.353	303.616	1.978.364	(86.774)	(626.069)	7.540
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10- 11-12a-14-15-16a)	4.259.129	574.923	3.746.199	78.462	566.103	(53.173)
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	146.034	17.592	125.832	3.004	20.202	--
26. Imports	778.694	81.912	533.738	28.137	203.012	41.944

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

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

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21. FOREIGN EXCHANGE POSITION (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	Other¹ (TL equivalent)
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 Consists of CAD, CHF, GBP, JPY, AUD, DKK, ZAR, AED, PHP, SAR currencies.

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21. FOREIGN EXCHANGE POSITION (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 (TL equivalent)
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 TL and in thousands of "Foreign Currency" unless otherwise stated.)

21. FOREIGN EXCHANGE POSITION (continued)

Foreign currency sensitivity

The Group is exposed to foreign currency risk with respect to USD and EURO. As of 31 March 2020, USD 1: TL 6,5160 (31 December 2019: TL 5,9402), EURO 1: TL 7,2150 (31 December 2019: TL 6,6506).

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

Foreign currency sensitivity table				
31 March 2020				
	Profit/Loss		Equity¹	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	374.620	(374.620)	374.620	(374.620)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	374.620	(374.620)	374.620	(374.620)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	56.610	(56.610)	56.610	(56.610)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	56.610	(56.610)	56.610	(56.610)
Change of other² currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	(5.317)	5.317	(5.317)	5.317
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	(5.317)	5.317	(5.317)	5.317

¹ Comprises of profit/loss effect.

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

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

Foreign currency sensitivity table				
31 December 2019				
	Profit/Loss		Equity¹	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD against TL by 10%:				
1- USD denominated net assets/(liabilities)	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 other² 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.

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

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

31 March 2020	Financial assets at fair value	Loans and receivables (including cash and cash equivalents)	Available for sale financial assets	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
Cash and cash equivalents	--	1.823.976	--	--	1.823.976	3
Blocked deposits	--	50.646	--	--	50.646	
Financial investments	3.532	--	987.560	--	991.094	
Equity Accounted Investees	127.153	--	--	--	127.153	6
Trade receivables	--	10.956.459	--	--	10.956.459	5
<u>Financial liabilities</u>						
Borrowings	--	--	--	1.775.870	1.775.870	20
Trade payables	--	--	--	4.956.967	4.956.967	5
Other payables	--	--	--	40.161	40.161	

31 December 2019	Financial assets at fair value	Loans and receivables (including cash and cash equivalents)	Available for sale financial assets	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
Cash and cash equivalents	--	3.513.842	--	--	3.513.842	3
Blocked deposits	--	49.949	--	--	49.949	
Financial investments	6.943	--	987.560	--	994.503	
Equity Accounted Investees	121.769	--	--	--	121.769	6
Trade receivables	--	9.469.832	--	--	9.469.832	5
<u>Financial liabilities</u>						
Borrowings	--	--	--	2.232.617	2.232.617	20
Trade payables	--	--	--	5.468.161	5.468.161	5
Other payables	--	--	--	63.429	63.429	

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

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

31 March 2020	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
Financial Investments	--	--	987.560
	--	--	987.560

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

The movement of the fair value level as of 31 March 2020 is as follows:

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
1 January 2020	--	--	987.560
Additions	--	--	--
31 March 2020	--	--	987.560

23. EVENTS AFTER THE REPORTING PERIOD

After the reporting period, the Group has signed contracts amounting to 48 Million USD.

As 2 April 2020, the Group has signed share transfer agreement with Altınay Havacılık ve İleri Teknolojiler Sanayi Ticaret A.Ş. for %40 of DASAL Havacılık Teknolojileri A.Ş.