

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

CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS and
INDEPENDENT AUDITOR'S LIMITED
REVIEW REPORT AS OF AND FOR
THE SIX-MONTH PERIOD ENDED 30
JUNE 2020

18 August 2020

This report contains independent audit report comprising 1 page,
condensed consolidated interim financial information
and related disclosures and footnotes comprising 42 pages.

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

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries (together "the Group") as at 30 June 2020, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with Turkish Accounting Standards 34 Interim Financial Reporting ("TAS 34") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

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

Yeditepe Bağımsız Denetim Yeminli Mali Müşavirlik A.Ş.
(Associate member of PRAXITY AISBL)

Mehmet Naci Abbasoğlu,
Partner
18 August 2020, Istanbul, Turkey

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ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF INTERIM FINANCIAL POSITION AS OF 30 JUNE 2020**

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

	Note References	Current Period Reviewed 30 June 2020	Prior Period Audited 31 December 2019
ASSETS			
Current Assets		14.953.855	13.976.498
Cash and Cash Equivalents	3	1.648.572	3.513.842
Financial Investments		--	6.039
Trade Receivables	5	5.451.974	3.884.933
<i>From Related Parties</i>	4	2.788.629	1.118.103
<i>From Third Parties</i>		2.663.345	2.766.830
Other Receivables		433.793	380.554
<i>From Related Parties</i>	4	6.764	1.150
<i>From Third Parties</i>		427.029	379.404
Inventories	6	5.366.428	4.473.927
Prepaid Expenses	7	1.670.449	1.320.266
<i>From Related Parties</i>	4	640.616	284.767
<i>From Third Parties</i>		1.029.833	1.035.499
Other Current Assets		382.639	396.937
Non-Current Assets		12.056.326	11.656.545
Financial Investments		988.464	988.464
Trade Receivables	5	5.824.867	5.584.899
<i>From Related Parties</i>	4	4.307.544	4.266.624
<i>From Third Parties</i>		1.517.323	1.318.275
Other Receivables		1.484	1.064
<i>From Third Parties</i>		1.484	1.064
Equity Accounted Investees		120.063	121.769
Property, Plant and Equipment	8	1.771.340	1.573.931
Intangible Assets	8	1.438.930	1.276.578
Prepaid Expenses	7	367.962	584.653
<i>From Related Parties</i>	4	18.738	299.369
<i>From Third Parties</i>		349.224	285.284
Deferred Tax Assets	10	660.474	785.951
Other Non-Current Assets		882.742	739.236
TOTAL ASSETS		27.010.181	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 30 JUNE 2020

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

	Note References	Current Period Reviewed 30 June 2020	Prior Period Audited 31 December 2019
LIABILITIES			
Current Liabilities		8.409.372	7.743.870
Short-term Financial Liabilities	19	1.359.565	1.612.321
Short-term Portion of Long-term Financial Liabilities	19	699.090	611.198
Trade Payables	5	2.298.944	3.120.513
<i>To Related Parties</i>	4	595.950	649.738
<i>To Third Parties</i>		1.702.994	2.470.775
Employee Benefit Obligations	12	166.500	145.939
Other Payables		339.268	58.500
<i>To Related Parties</i>	4	335.000	--
<i>To Third Parties</i>		4.268	58.500
Government Grants and Incentives		38.405	43.194
Deferred Income	7	2.247.653	1.067.732
<i>To Related Parties</i>	4	969.082	532.026
<i>To Third Parties</i>		1.278.571	535.706
Corporate Tax Liability		3.230	12.847
Short-term Provisions		1.253.225	1.067.379
<i>For Employee Benefits</i>	12	91.782	72.819
<i>Other</i>	9	1.161.443	994.560
Other Current Liabilities		3.492	4.247
Non-Current Liabilities		3.519.575	4.320.274
Long-term Financial Liabilities	19	545.478	9.098
Trade Payables	5	9.647	20.896
<i>To Related Parties</i>	4	--	--
<i>To Third Parties</i>		9.647	20.896
Other Payables		7.884	4.929
<i>To Third Parties</i>		7.884	4.929
Deferred Income	7	2.297.120	3.677.396
<i>To Related Parties</i>	4	1.151.002	2.688.409
<i>To Third Parties</i>		1.146.118	988.987
Long-term Provisions		652.146	607.561
<i>Long-term Provisions for Employee Benefits</i>	12	241.451	225.731
<i>Other</i>	9	410.695	381.830
Other Non-Current Liabilities		7.300	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 30 JUNE 2020**

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

	Note References	Current Period Reviewed 30 June 2020	Prior Period Audited 31 December 2019
EQUITY		15.081.234	13.568.899
Shareholders' Equity		14.999.479	13.498.388
Share Capital	13	2.280.000	1.140.000
Inflation Adjustments on Share Capital	13	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		164.524	175.077
<i>Gain on Revaluation of Property, Plant and Equipment</i>		<i>207.431</i>	<i>207.431</i>
<i>Gain/ Loss on Remeasurement of Defined Benefit Plans</i>		<i>(42.907)</i>	<i>(32.354)</i>
Other Cumulative Comprehensive Income/ (Expense) will be reclassified to Profit/Loss		973.757	968.740
<i>Gain on Revaluation of Available for Sale Financial Assets</i>		<i>933.298</i>	<i>933.298</i>
<i>Cumulative Translation Adjustments</i>		<i>40.459</i>	<i>35.442</i>
Restricted Reserves	13	312.371	276.827
Retained Earnings		6.531.856	4.701.953
Net Profit for the Year		1.841.627	3.340.447
Non-Controlling Interests		81.755	70.511
TOTAL LIABILITIES AND EQUITY		27.010.181	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 SIX-MONTH PERIOD ENDED 30 JUNE 2020

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

	Notes References	Current Period Reviewed 1 January- 30 June 2020	Current Period Not Reviewed 1 April- 30 June 2020	Prior Period Reviewed 1 January- 30 June 2019	Prior Period Not Reviewed 1 April- 30 June 2019
PROFIT OR LOSS					
Revenue	14	5.230.659	2.635.392	4.624.415	2.626.316
Cost of Sales (-)	14	(3.676.056)	(1.832.851)	(3.498.680)	(1.966.440)
GROSS PROFIT		1.554.603	802.541	1.125.735	659.876
General Administrative Expenses (-)		(183.097)	(87.313)	(153.940)	(82.778)
Marketing Expenses (-)		(94.430)	(49.025)	(80.955)	(51.686)
Research and Development Expenses (-)		(138.779)	(82.751)	(49.551)	(27.793)
Other Operating Income	15	2.914.793	1.511.406	1.421.980	674.800
Other Operating Expenses (-)	15	(1.793.777)	(1.050.777)	(1.027.626)	(577.287)
OPERATING PROFIT		2.259.313	1.044.081	1.235.643	595.132
Income from investing activities		5.312	5.281	1.535	1.497
Shares of profit/(losses) of Equity Accounted Investees		(9.507)	(1.068)	4.851	5.989
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		2.255.118	1.048.294	1.242.029	602.618
Financial Income	16	401.021	236.462	508.527	237.238
Financial Expense (-)	17	(676.806)	(281.519)	(439.946)	(184.858)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		1.979.333	1.003.237	1.310.610	654.998
Tax Income from Continuing Operations	10	(131.362)	(75.480)	24.714	50.765
- Current Corporate Tax Expense(-)		(3.247)	(1.614)	(2.428)	(1.811)
- Deferred Tax Income		(128.115)	(73.866)	27.142	52.576
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		1.847.971	927.757	1.335.324	705.763
Profit for the Period Attributable to					
Non-Controlling Interest		6.344	6.267	2.376	2.111
Owners of the Company	18	1.841.627	921.490	1.332.948	703.652
		1.847.971	927.757	1.335.324	705.763
Earnings for per 100 Shares (in full kuruş)	18	80,77	40,42	58,46	30,86

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

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

Note References	Current Period Reviewed 1 January- 30 June 2020	Current Period Not Reviewed 1 April- 30 June 2020	Prior Period Reviewed 1 January- 30 June 2019	Prior Period Not Reviewed 1 April- 30 June 2019
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS				
Items that will not to be reclassified subsequently in Profit or Loss	(10.553)	(10.553)	3.829	3.829
Loss on Remeasurement of Defined Benefit Plans	(13.191)	(13.191)	4.786	4.786
Deferred Tax Income / (Expense)	2.638	2.638	(957)	(957)
Items that may be reclassified subsequently to profit or loss	5.017	4.542	8.315	6.767
Foreign Currency Exchange Differences	5.017	4.542	8.315	6.767
OTHER COMPREHENSIVE INCOME	(5.536)	(6.011)	12.144	10.596
TOTAL COMPREHENSIVE INCOME	1.842.435	921.746	1.347.468	716.359
Total Comprehensive Income Attributable to				
Non-Controlling Interest	6.344	6.267	2.376	2.112
Owners of the Company	1.836.091	915.479	1.345.092	714.247
	1.842.435	921.746	1.347.468	716.359

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 30 JUNE 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	--	--	--	--	--	--	--	104.140	2.040.057	(2.144.197)	--	--	--	
Total Comprehensive Income	--	--	--	--	3.829	--	8.315	--	--	1.332.948	1.345.092	2.376	1.347.468	
Consolidation Effect of New Company Acquisition	--	--	--	--	--	--	--	--	--	--	--	2.185	2.185	
Dividends	--	--	--	--	--	--	--	--	--	(174.000)	(174.000)	--	(174.000)	
Balance as of 30 June 2019	1.140.000	98.621	2.796.723	207.431	(14.244)	729.612	33.822	276.827	4.701.953	1.332.948	11.303.693	48.981	11.352.674	
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	--	--	--	--	--	--	--	35.544	2.969.903	(3.005.447)	--	--	--	
Capital Increase	1.140.000	--	--	--	--	--	--	--	(1.140.000)	--	--	--	--	
Total Comprehensive Income	--	--	--	--	(10.553)	--	5.017	--	--	1.841.627	1.836.091	6.344	1.842.435	
Consolidation Effect of New Company Acquisition	--	--	--	--	--	--	--	--	--	--	--	4.900	4.900	
Dividends	--	--	--	--	--	--	--	--	--	(335.000)	(335.000)	--	(335.000)	
Balance as of 30 June 2020	2.280.000	98.621	2.796.723	207.431	(42.907)	933.298	40.459	312.371	6.531.856	1.841.627	14.999.479	81.755	15.081.234	

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED
30 JUNE 2020**

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

	Note References	Current Period Reviewed 30 June 2020	Revised- Prior Period Reviewed 30 June 2019
A.Cash Flows from Operating Activities		(1.211.607)	(1.330.169)
Profit for the period		1.847.971	1.335.324
Adjustments to Reconcile Profit		1.071.824	663.400
- Adjustments for Depreciation and Amortization Expense	8	135.969	105.909
- Adjustments for Impairment Loss		(36.864)	2.199
<i>Adjustments for Impairment Loss of Receivables</i>	5	(39.850)	324
<i>Adjustments for Impairment Loss of Inventories</i>	6	2.986	1.875
- Adjustments for Provisions		361.526	173.463
<i>Adjustments for Provisions Related with Employee Benefits</i>	12	40.860	45.005
<i>Adjustments for / (Reversal of) Lawsuit and/or Penalty Provisions</i>		215.361	27.182
<i>Adjustments for Warranty Provisions</i>		106.450	98.940
<i>Adjustments for (Reversal of) Other Provisions</i>		(1.145)	2.336
- Adjustments for Interest (Income) Expenses		(35.332)	22.413
<i>Adjustments for Interest Income</i>		(381.967)	(319.212)
<i>Adjustments for Interest Expense</i>		346.635	341.625
- Share of profit/loss of Equity Accounted Investments		9.507	(4.851)
- Adjustments for Tax Income		131.362	(24.714)
Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		321.161	61.523
Other Non-Cash Adjustments		184.495	327.458
Changes in Working Capital		(3.974.250)	(3.215.163)
- Adjustments for Decrease (Increase) in Trade Receivables	5	191.136	(1.751.936)
- Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(53.658)	(57.036)
- Adjustments for Decrease (Increase) in Inventories	6	(879.560)	(960.220)
- Decrease (Increase) in Prepaid Expenses	7	(117.807)	(172.126)
- Adjustments for Increase (Decrease) in Trade Payables	5	(1.473.032)	195.546
- Increase (Decrease) in Employee Benefit Obligations	12	20.561	21.208
- Adjustments for Stage of Completion of Construction or Service Contracts in Progress		(991.162)	397.676
- Adjustments for Increase (Decrease) in Other Operating Payables		(51.276)	6.369
- Increase (Decrease) in Government Grants and Incentives		(4.789)	(6.212)
- Increase (Decrease) in Deferred Income	7	(496.851)	(746.707)
- Adjustments for Other Increase (Decrease) in Working Capital		(117.812)	(141.725)
Cash Flows From Operations		(1.054.455)	(1.216.439)
Payments Related with Provisions for Employee Benefits	12	(19.368)	(19.021)
Payments Related with Other Provisions		(124.920)	(92.533)
Income Taxes Refund (Paid)		(12.864)	(2.176)
B.Cash Flows From Investing Activities		(788.054)	(705.215)
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		881	184
Purchase of Property, Plant and Equipment		(283.603)	(170.004)
Purchase of Intangible Assets	8	(497.900)	(469.058)
Cash Inflows from Derivative Instruments		6.039	1.155
Dividends Received		5.214	--
Other Cash Inflows (Outflows)		(18.685)	(67.492)
C.Cash Flows From Financing Activities		45.141	550.472
Proceeds from Borrowings		1.342.953	1.537.974
Repayments of Borrowings		(1.297.812)	(929.502)
Dividends Paid		--	(58.000)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		(1.954.520)	(1.484.912)
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		89.586	7.160
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(1.864.934)	(1.477.752)
E.CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		3.513.403	3.087.387
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	3	1.648.469	1.609.635

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 30 JUNE 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 30 June 2020, 25,80 percent of the Company's shares are publicly traded (31 December 2019: 25,80 percent) (Note 13).

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 30 June 2020 is 8.250 (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 30 JUNE 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"), BITES Savunma Havacılık ve Uzay Teknolojileri Yazılım A.Ş. ("BITES"), Aselsan Global Dış Ticaret ve Pazarlama A.Ş. ("ASELSAN GLOBAL"), ULAK Haberleşme A.Ş. ("ULAK"). They are collectively referred as the "Group" in the accompanying notes.

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. The condensed consolidated financial statements of the Group for the 6-month period ending on June 30, 2020 have been prepared in accordance with TAS 34 Interim Financial Reporting. Interim condensed financial statements do not contain all the information and explanations that should be included in the annual financial statements and should be read together with the Group's annual consolidated financial statements prepared on 31 December 2019.

Approval of the Consolidated Financial Statements

These consolidated financial statements have been approved for issue by the Board of Directors with the resolution number 1085 on 18 August 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 30 JUNE 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
			30 June 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.

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.

(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):

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 30 JUNE 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 30 June 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 (%)	
			30 June 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
DASAL Havacılık Teknolojileri A.Ş.	Aviation Technologies	Turkey	40	--

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.

(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):

A share transfer agreement for the acquisition of 40% of the total shares of DASAL Havacılık Teknolojileri A.Ş. was completed by making the payment to Altınay Havacılık ve İleri Teknolojiler Sanayi Ticaret A.Ş on April 2nd, 2020.

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, 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, TR Eğitim Teknoloji and DASAL Havacılık Teknolojileri A.Ş 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 the financial statements of 31 December 2019, TL 2.326.751, classified under the trade payables, reclassified to Deferred Income. In the financial statements of 30 June 2019, TL 427.566, classified under the trade payables, reclassified to Deferred Income.

While purchase expenses regarding research and development in intangible assets 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 30 June 2019 is as below.

Cash Flow Statement	30 June 2019 (Previously Reported)	Reclassification	30 June 2019 Reported
Adjustments Related to Interest (Income) and Expenses	(115.361)	137.774	22.413
Adjustments for Losses (Profits) on Disposal of Non-Current Assets	11.980	(11.980)	--
Other Adjustments to Reconcile Profit (Loss)	163	327.293	327.456
Decrease (Increase) in Prepaid Expenses	(220.048)	47.922	(172.126)
Adjustments for Increase (Decrease) in Trade Payables	255.011	(59.465)	195.546
Increase (Decrease) in Deferred Income	(806.172)	59.465	(746.707)
Purchase of Intangible Assets	(153.745)	(315.313)	(469.058)
Other Cash Inflows (Outflows)	(19.570)	(47.922)	(67.492)
Interest Paid	(24.715)	24.715	--
Interest Income	162.489	(162.489)	--

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. On 21 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.

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 30 June 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.

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

2.4 New and Revised Turkish Accounting Standards (continued)

b-Standards Issued But Not Yet Effective and Not Early Adopted as of 30 June 2020 (continued)

TFRS 16 COVID-19 Related Rent Concessions For Lessees

On 05 June 2020, KGK issued amendments to TFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021 and
- there is no substantive change to other terms and conditions of the lease.

A lessee shall apply COVID-19-Related Rent Concessions amendment for annual reporting periods beginning on or after 1 June 2020. Earlier 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 30 JUNE 2020

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

3. CASH AND CASH EQUIVALENTS

	30 June 2020	31 December 2019
Cash	301	261
Banks		
- Time deposit	1.413.970	3.159.194
- Demand deposit	128.043	82.257
Financial Leasing Certification	100.000	267.676
Other	6.155	4.015
Cash and cash equivalents on the cash flow statement	1.648.469	3.513.403
Interest income accruals	103	439
	1.648.572	3.513.842

As of 30 June 2020, the Group had time deposits denominated in foreign currencies with maturities in July 2020 (31 December 2019: January 2020) with the interest rates between 0,25 percent and 1,15 percent (31 December 2019: 0,2 percent to 2,5 percent) amounting to TL 259.534 (31 December 2019: TL 1.030.178).

As of 30 June 2020, the Group had time deposits denominated in TL terms with maturities in July 2020 (31 December 2019: January-February 2020) amounted to TL 1.154.436 (31 December 2019: TL 2.129.016) at the interest rate of 8,25 percent and 8,30 percent (31 December 2019: 10,25 and 11,00 percent).

As of 30 June 2020, the Group had financial leasing certification amounting to TL 100.000 (31 December 2019: TL 267.676 with 10 percent interest rate) with an interest rate of 7,92 percent on August 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 30 June 2020 is TL 12.303 (30 June 2019: TL 8.759).

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 30 JUNE 2020

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

4. RELATED PARTY DISCLOSURES (continued)

	30 June 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	28	--	--	--	--	--	--	--	--	--
<u>Main shareholder's subsidiaries and associates</u>										
EHSİM Elektronik Harp Sistemleri Müh. Tic. A.Ş. ("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	--	5.989	--	--	2.632	1.932	--	--	--	--
İhsan Doğramacı Bilkent Üniversitesi	--	968	--	--	--	778	--	--	--	--
ASELSAN Optik	2.961	58.899	1.550	--	1.745	9.318	--	--	--	--
IGG	58.246	--	--	4.236	--	--	--	--	--	--
IGG ASELSAN	8.791	1.561	--	--	--	370	--	--	--	--
ASELSAN Kazakistan	71.967	--	--	--	--	167	10.970	--	--	--
ASELSAN Ürdün	23.790	--	--	205	--	568	48	--	--	--
TÜBİTAK BİLGEM	--	8.529	--	--	694	7.917	--	--	--	--
TÜBİTAK-UME	--	251	--	--	--	3	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	17.181	1.569	--	97.610	2.818	--	2.342	--	--	10.242
TÜBİTAK SAGE Savunma Sanayii	537	21.525	--	8.761	585	8.803	--	--	--	--
TÜBİTAK UZAY TEKNOLOJİLERİ	125	--	--	--	--	--	--	--	--	--
Savunma Sanayi Başkanlığı ("SSB")	2.207.307	--	--	3.675.330	--	--	587.695	--	--	770.525
SSTEK	--	--	--	--	--	--	1.883	--	--	--
SADEC LLC	762	--	--	--	--	102	--	--	--	--
<u>Shared offered to the public</u>	--	--	--	--	--	--	--	86.430	--	--
	2.788.629	640.616	6.764	4.307.544	18.738	595.950	969.082	335.000	--	1.151.002

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	
	Trading	Prepaid Expenses	Other Receivables	Trading	Prepaid Expenses	Trading	Deferred Income	Other Payables	Trading	Deferred Income
Balances with related parties										
<u>Main shareholder</u>										
TSKGV	29	--	--	--	--	--	--	--	--	--
<u>Main shareholder's subsidiaries and associates</u>										
EHSİM Elektronik Harp Sistemleri Müh. Tic. A.Ş. ("EHSİM")	--	774	--	--	--	5.130	--	--	--	--
Hava Elektronik San. ve Tic. Anonim Şirketi ("HAVELSAN")	16.521	49.336	--	605	676	69.347	3	--	--	--
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	3.606	11.415	--	--	21.784
Türk Havaçılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	111.118	110	--	118.031	--	618	52.747	--	--	329.670
<u>Financial Instruments</u>										
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	349.496	39.722	--	--	77.123
<u>Joint ventures and its related parties</u>										
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	--	--	13.001
TÜBİTAK SAGE Savunma Sanayii	--	10.809	--	6.003	--	4.806	2.678	--	--	--
TÜBİTAK UZAY TEKNOLOJİLERİ	470	--	--	--	--	--	--	--	--	--
Savunma Sanayi Başkanlığı ("SSB")	563.585	--	--	3.812.080	--	--	421.006	--	--	2.246.831
SSTEK	878	--	--	--	--	30	--	--	--	--
SADEC LLC	662	--	--	--	--	89	--	--	--	--
	1.118.103	284.767	1.150	4.266.624	299.369	649.738	532.026	--	--	2.688.409

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

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4. RELATED PARTY DISCLOSURES (continued)

	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Transactions with related parties	Purchases	Purchases	Purchases	Purchases
Main Shareholder				
TSKGV	540	270	457	229
Main shareholder's shareholders/subsidiaries/associates				
NETAŞ	59.572	38.897	75.524	54.127
İŞBİR	22.711	13.161	15.269	8.405
HTR	40.966	25.344	29.476	13.652
TUSAŞ	260	260	1.012	982
HAVELSAN EHSİM	4.511	817	--	--
HAVELSAN	1.510	--	22.952	22.952
STM	8.452	7.910	8.433	4.731
Financial Investments				
ROKETSAN	8.387	4.869	7.769	7.138
ASPİLSAN	15.493	10.640	17.710	6.539
Joint ventures and its related parties				
İhsan Dođramacı Bilkent Üniversitesi	3.905	2.556	7.584	4.910
TÜBİTAK BİLGEM	21.495	6.141	23.190	20.925
TÜBİTAK-UME	145	145	153	50
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	620	--	--	--
TÜBİTAK-SAGE Savunma Sanayii	12.359	6.361	24.181	10.616
	200.926	117.371	233.710	155.256
	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Transactions with related parties	Sales	Sales	Sales	Sales
Main Shareholder				
TSKGV	155	70	152	70
Main shareholder's shareholders/subsidiaries /associates				
TUSAŞ	262.257	192.865	140.789	81.950
STM	55.981	35.952	294.687	106.665
HAVELSAN	4.060	2.833	6.147	5.369
HAVELSAN EHSİM	--	--	--	--
HTR	5.604	2.856	1.429	1.022
NETAŞ	--	--	1.210	1.210
TEI	747	747	--	--
Financial Investments				
ASPİLSAN	575	--	--	--
ROKETSAN	130.238	87.032	95.314	62.450
Joint ventures and its related parties				
İhsan Dođramacı Bilkent Üniversitesi	--	--	521	--
TÜBİTAK BİLGEM	52	52	16.888	16.888
TÜBİTAK-UME	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	22.667	20.731	--	--
TÜBİTAK-SAGE Savunma Sanayii	3.369	1.345	1.061	353
TÜBİTAK UZAY TEKNOLOJİLERİ	171	106	100	48
Savunma Sanayi Başkanlığı ("SSB")	2.656.434	1.745.438	2.157.639	817.531
SSTEK	47.595	--	--	--
	3.189.905	2.090.027	2.715.937	1.093.556

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".

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

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

	30 June 2020	31 December 2019
Short-term trade receivables		
Trade receivables	2.654.424	2.722.650
Trade receivables from related parties (Note 4)	2.788.629	1.118.103
Notes receivable	5.649	44.180
Doubtful trade receivables	19.110	58.960
Other trade receivables	3.272	--
Allowance for doubtful trade receivables (-)	(19.110)	(58.960)
	5.451.974	3.884.933
	30 June 2020	31 December 2019
Long-term trade receivables		
Unbilled receivables from construction contracts in progress	1.283.139	1.057.620
Trade receivables	234.184	260.655
Unbilled receivables from construction contracts in progress-Related party (Note 4)	4.301.412	4.260.764
Trade receivables from related parties (Note 4)	6.132	5.860
	5.824.867	5.584.899

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

	30 June 2020	30 June 2019
Opening balance	58.960	2.218
Provision for the period	--	324
Provisions no longer required	(39.850)	--
Closing balance	19.110	2.542

b) Trade payables

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

	30 June 2020	31 December 2019
Short-term trade payables		
Trade payables	1.424.665	2.220.802
Due to related parties (Note 4)	595.950	649.738
Notes Payable	276.837	246.029
Other trade payables	1.492	3.944
	2.298.944	3.120.513
	30 June 2020	31 December 2019
Long-term trade payables		
Trade payables	9.647	--
Other trade payables	--	20.896
	9.647	20.896

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6. INVENTORIES

	30 June 2020	31 December 2019
Raw materials	2.755.116	2.268.578
Work in progress	2.041.183	1.728.108
Goods in transit ¹	188.781	178.206
Finished goods	317.921	234.811
Other inventories	32.695	28.654
Trade goods	49.546	51.398
Allowance for impairment on inventories (-)	(18.814)	(15.828)
	5.366.428	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 30 June are as follows:

	30 June 2020	30 June 2019
Opening balance	15.828	8.120
Provision for the period	--	2.514
Provision released	2.986	(639)
Closing balance	18.814	9.995

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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7. PREPAID EXPENSES AND DEFERRED INCOME

	30 June 2020	31 December 2019
Short-term prepaid expenses		
Order advances given for inventory purchases	811.911	930.628
Short-term order advances given to related parties for inventory purchases (Note 4)	640.616	284.767
Prepaid expenses	217.922	104.871
	1.670.449	1.320.266

	30 June 2020	31 December 2019
Long-term prepaid expenses		
Long-term order advances given to related parties for inventory purchases (Note 4)	18.738	299.369
Order advances given for inventory purchases	213.384	172.382
Order advances given for fixed assets purchases	108.132	92.447
Prepaid expenses	27.708	20.455
	367.962	584.653

	30 June 2020	31 December 2019
Short-term deferred income		
Order advances received	884.456	131.022
Order advances received from related parties (Note 4)	969.082	532.026
Deferred income	394.115	404.684
	2.247.653	1.067.732

	30 June 2020	31 December 2019
Long-term deferred income		
Order advances received	925.195	575.385
Order advances received from related parties (Note 4)	1.151.002	2.688.409
Deferred income	220.923	413.602
	2.297.120	3.677.396

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8. 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	284.774	497.900
Disposals	(1.038)	(270.233)
Closing balance as of 30 June 2020	2.910.383	2.008.893
Accumulated Depreciation and Amortisation		
Opening balance as of 1 January 2020	1.052.716	504.648
Change for the period ¹	86.581	65.315
Disposals	(254)	--
Closing balance as of 30 June 2020	1.139.043	569.963
Net book value as of 30 June 2020	1.771.340	1.438.930
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	170.994	469.058
Disposals	(224)	(327.295)
Closing balance as of 30 June 2019	2.401.971	1.618.542
Accumulated Depreciation and Amortisation		
Opening balance as of 1 January 2019	894.904	394.712
Change for the period	73.963	44.638
Disposals	(79)	--
Closing balance as of 30 June 2019	968.788	439.350
Net book value as of 30 June 2019	1.433.183	1.179.192
Net book value as of 31 December 2018	1.336.297	1.082.067

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 is TL 15.927 in the first 6 months of 2020 (June 2019: TL 12.692)

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

	30 June 2020	31 December 2019
Other short-term provisions		
Provision for warranties ¹	747.863	731.395
Provision for onerous contracts	211.824	129.518
Provision for delay penalties ²	166.728	100.508
Provision for legal cases	27.534	24.501
Provision for cost expenses	4.671	7.525
Other	2.823	1.113
	1.161.443	994.560
	30 June 2020	31 December 2019
Other long-term provisions		
Provision for delay penalties	56.783	--
Provision of onerous contracts	353.912	381.830
	410.695	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 30 June 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	30 June 2020	31 December 2019
a) Ongoing lawsuits filed by the Group	96.643	70.374
b) Execution proceedings carried out by the Group	223.642	193.568
c) Ongoing lawsuits filed against the Group	27.534	24.501
d) Executions against the Group	3.853	485
e) Lawsuits finalized against the Group within the period	385	1.505
f) Lawsuits finalized in favor of the Group within the period	1.316	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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10. TAX

"Deferred Tax Assets" of the Group as of 30 June 2020 is TL 660.474. The amount is comprised of the items below.

	30 June 2020	31 December 2019
Carried Forward R&D Incentives Effect	1.008.661	849.723
Temporary Differences	(348.187)	(63.772)
Deferred Tax Assets - Net	660.474	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-30 June 2020 period, the Group has calculated "Deferred Tax Asset" amounting to TL 1.008.661 from Research and Development expenses comprising "Outstanding Research and Development Deductions".

	30 June 2020	30 June 2019
Profit before tax from continuing operations	1.979.333	1.310.610
Tax (expense)/income recognized in profit or loss	(131.362)	24.714
Effective tax rate	(7%)	%2

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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11. COMMITMENTS AND CONTINGENCIES

a) Guarantees received

	30 June 2020	31 December 2019
Letters of guarantees received from the suppliers	2.364.824	2.125.852
Collaterals received from the customers	23.125	19.952
Letters of guarantees received from the customers	7.488	6.450
Collaterals received from the suppliers	87.874	28.155
Letters of guarantees received from the suppliers	22.459	8.042
Mortgages received from the customers	264	265
	2.506.034	2.188.716

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

The collaterals/pledges/mortgages ("CPM") given by the Group as of 30 June 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 288.665.

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11. COMMITMENTS AND CONTINGENCIES (continued)

30 June 2020	TL Equivalent	TL	USD	EURO	UAE Dirham	Indian Rupee	British Pound	Tunisian Dinar
A. Total amount of CPM given on behalf of the legal entity								
-Collateral	22.675.951	6.745.166	1.215.576	987.601	--	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	20.999	--	3.069	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover								
-Collateral	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--
Total	22.696.950	6.745.166	1.218.645	987.601	--	10.000	--	25

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

¹ The ratio of the other CPM given by the Group to equity as of 30 June 2020 is 0,14 percent. TL 20.999 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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11. COMMITMENTS AND CONTINGENCIES (continued)

31 December 2019	TL Equivalent	TL	USD	EURO	UAE Dirham	Indian Rupee	British Pound	Tunisian Dinar
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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12. EMPLOYEE BENEFITS

a) Short-term provisions for employee benefits

	30 June 2020	31 December 2019
Provision for vacation pay liability	91.782	72.819

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

	30 June 2020	30 June 2019
Opening balance	72.819	49.382
Provision for the period	33.709	35.286
Provision paid during the period	(11.508)	(10.818)
Provision realised during the period	(3.238)	(1.468)
Closing balance	91.782	72.382

c) Other long-term provisions for employee benefits

	30 June 2020	31 December 2019
Provision for severance pay	221.754	206.040
Provision for retirement pay	19.697	19.691
	241.451	225.731

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

	30 June 2020	30 June 2019
Opening balance	225.731	198.611
Actuarial Loss/Gain	13.191	(4.786)
Interest cost	3.214	2.915
Service cost	7.175	8.272
Payments	(7.860)	(8.203)
Closing balance	241.451	196.809

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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12. EMPLOYEE BENEFITS (continued)

Provision for severance pay (continued)

Certain provisions regarding services before retirement, has been annulled on 23 May 2002 during the revision of the related law. As of 30 June 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:

	30 June 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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13. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

Shareholders	Share (%)	30 June 2020	Share (%)	31 December 2019
TSKGV	74,20	1.691.652	74,20	845.826
Publicly held	25,80	588.348	25,80	294.174
Nominal capital	100	2.280.000	100	1.140.000
Share capital adjustment		98.621		98.621
Inflation adjusted capital		2.378.621		1.238.621

The Group's nominal capital is TL 2.280.000 comprising 2.280.000.000 shares each of which is TL 1 . A total of 1.210.909.090 of the shares constitutes "Group A" and 1.069.090.910 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 30 June 2020, The Group's restricted reserves set aside from profit comprises legal reserves. The total of the Group's legal reserves are TL 312.371 (31 December 2019: TL 276.827).

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

Retained Earnings

Accumulated profits apart from net profit for the year and extraordinary reserves which is accumulated profit by nature are shown under retained earnings. As of 30 June 2020, the extraordinary reserves balance presented under retained earnings is TL 5.499.028 (31 December 2019: TL 2.987.028). As of balance sheet date, period profit under statutory requirement is TL 371.489 (31 December 2019: TL 3.686.183) Profits available for distribution are calculated following statutory requirement is TL 5.211.343 (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.

On 19 June 2020, in accordance with the consolidated financial statements, the General Assembly of the Company has decided to allocate legal reserve amounting to TL 34.184 of the TL 3.308.531 which is based on the profit distribution, and to distribute TL 335.000 in cash to shareholders for dividend payment, and to increase the non-paid up capital amounting to TL 1.140.000 and the remaining TL 2.177.000 to be within the Group. Thus, the cash gross dividend amount for TL 1 nominal value per share is Kuruş 29,39 net (31 December 2019: Kuruş 15,26 net).

Within 2020, dividend amounting to TL 335.000 in gross, 29,39 Kuruş per share of TL 1 (net profit amounting to TL 284.750, 24,98 Kuruş per share of TL 1) will be paid to shareholders. (31 December 2019: TL 174.000 in gross, 15,26 Kuruş per share of TL 1 (TL 147.900 in net , 12,97 Kuruş per share of TL 1) was paid).

On 20 March 2020, General Assembly of ASELSANNET has decided to distribute TL 2.000 as dividend payments to shareholders, to reserve TL 125 as retained earnings and to distribute TL 10.000, the share issued for inclusion in the capital, to shareholders from net profit of the year 2019. Remaining TL 11.364 is decided to be allocated as extraordinary reserves (31 December 2019: 10.000).

All of the dividend payable to shareholders has not been paid to the shareholders as of 30 June 2020.

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14. REVENUE AND COST OF SALES

	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
a) Revenue				
Domestic sales	4.991.763	2.542.530	4.227.955	2.481.781
Export sales	238.896	92.862	396.460	144.535
	5.230.659	2.635.392	4.624.415	2.626.316

Revenue Recognized Regarding Performance Obligation	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Over time	3.775.698	1.971.711	3.137.891	1.677.768
Point in time	1.454.961	663.681	1.486.524	948.548
	5.230.659	2.635.392	4.624.415	2.626.316

b) Cost of Sales (-)	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Cost of raw materials and supplies (-)	3.090.638	1.696.826	2.986.582	1.653.576
Cost of merchandise goods sold (-)	53.352	28.350	37.185	14.113
Cost of services sold (-)	382.448	39.880	338.644	203.049
Cost of other sales (-)	149.618	67.795	136.269	95.702
	3.676.056	1.832.851	3.498.680	1.966.440

15. OTHER OPERATING INCOME AND EXPENSES

a) Other operating income	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Foreign currency exchange differences from operations	2.845.101	1.504.692	1.342.977	667.292
Amortized cost effect of trade payables	44.365	(4.103)	62.173	3.033
Other income	25.327	10.817	16.830	4.475
	2.914.793	1.511.406	1.421.980	674.800

b) Other operating expense (-)	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Foreign currency exchange differences from operations	1.717.367	1.025.995	935.686	555.866
Amortized cost effect of trade receivables	50.139	9.963	80.513	17.450
Other expense and losses	26.271	14.819	11.427	3.971
	1.793.777	1.050.777	1.027.626	577.287

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2020**

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16. FINANCIAL INCOME

	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Interest income	33.488	10.778	197.356	79.534
TFRS 15 Financial component interest income	332.693	211.812	222.172	119.788
Foreign currency exchange gain from bank loans	34.840	13.872	88.999	37.916
	401.021	236.462	508.527	237.238

17. FINANCIAL EXPENSES

	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Interest cost of borrowings	16.414	4.072	24.715	14.575
TFRS 15 Interest cost of borrowings from financial component	296.496	148.748	261.112	119.426
Foreign currency exchange losses from bank loans	360.682	127.106	151.204	49.410
Interest cost related with employee benefits	3.214	1.593	2.915	1.447
	676.806	281.519	439.946	184.858

18. EARNINGS PER SHARE

Earnings per share is calculated by dividing the portion of profit allocated to the Group's weighted average number of shares outstanding over the reporting term. The Group does not have diluted shares. For the periods ended 30 June 2020 and 30 June 2019, earnings per share calculations are as follows:

	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Common stock (thousand)	2.280.000	2.280.000	2.280.000	2.280.000
Net profit – TL	1.841.627	921.490	1.332.948	703.652
Earnings per 100 shares (Kuruş)	80,77	40,42	58,46	30,86
Diluted Earnings per 100 shares (Kuruş)	80,77	40,42	58,46	30,86

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19. FINANCIAL LIABILITIES

Financial Liabilities

		30 June 2020	31 December 2019
Short-term financial liabilities	Unsecured loan	1.269.029	1.522.010
Other short-term financial liabilities	Unsecured loan	90.536	90.311
Current portion of long-term financial liabilities	Unsecured loan	699.090	611.198
Total short-term financial liabilities		2.058.655	2.223.519
Other long-term financial liabilities	Unsecured loan	545.478	9.098
Total long-term financial liabilities		545.478	9.098
Total financial liabilities		2.604.133	2.232.617

As of 30 June 2020, TL 273.688 of the short term financial borrowings are USD Rediscount Credits, which have maturity dates due to July 2020 and interest rates between 0,70 – 0,97 percent. Short term borrowings in terms of EUR Rediscount Credits, which have maturity dates due between July 2020 – September 2020 amounting to TL 678.300 which has interest rate between 0,30 – 0,65 percent. Short term borrowings in terms of TL Rediscount Credits, which have maturity dates due between May 2021 – June 2021 amounting to TL 300.000 which has interest rate between 7,08 – 7,25 percent. The rest of the short term and the long term other financial liabilities consist of credit card loans borrowed for social security payments. As of 30 June 2020, the current portion of long-term financial liabilities in terms of EUR Credit amounting to TL 594.090 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 30 June 2020, loans amounting to TL 12.032 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 30 June 2020, the long-term financial liabilities consist of EUR Rediscount Credits amounting to TL 536.380 and maturity date due to April 2022, which has an interest rate of 0,75 percent.

As of 30 June 2020, loans amounting to TL 90.536 in other short and long term financial liabilities taken for credit card expenditures, with interest-free and maturity dates due between July - August 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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20. FOREIGN EXCHANGE POSITION

FOREIGN EXCHANGE POSITION						
30 June 2020	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other¹ (TL equivalent)
1. Trade Receivables	3.849.882	377.549	2.583.263	163.052	1.256.839	9.780
2a. Monetary financial assets (including cash. bank)	710.594	19.130	130.890	74.729	576.024	3.680
2b. Non- monetary financial assets	504.221	52.896	361.922	30.827	237.621	9.845
3. Other	6.762	277	1.903	625	4.821	38
4. Current assets (1+2+3)	5.071.459	449.852	3.077.978	269.233	2.075.305	23.343
5. Trade receivables	4.663.201	528.346	3.615.051	135.979	1.048.150	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	342.054	1.331	9.107	101.337	781.128	6.397
7. Other	8.456	400	2.734	742	5.720	2
8. Long-term assets (5+6+7)	5.013.711	530.077	3.626.892	238.058	1.834.998	6.399
9. Total assets (4+8)	10.085.170	979.929	6.704.870	507.291	3.910.303	29.742
10. Trade payables	926.195	60.351	412.931	62.845	484.418	28.846
11. Financial liabilities	1.537.833	40.000	273.688	164.000	1.264.145	0
12a. Other monetary financial liabilities	881	119	815	8	66	0
12b. Other non-monetary financial liabilities	3.597.137	383.339	2.622.884	272.498	2.100.469	0
13. Current liabilities (10+11+12)	6.062.046	483.809	3.310.318	499.351	3.849.098	28.846
14. Trade payables	--	--	--	--	--	--
15. Financial liabilities	539.574	--	--	70.000	539.574	--
16a. Other monetary financial liabilities	1.049	150	1.026	3	23	--
16b. Other non-monetary financial liabilities	1.353.680	102.243	699.570	84.859	654.110	--
17. Non-current liabilities (14+15+16)	1.894.303	102.393	700.596	154.862	1.193.707	--

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

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20. FOREIGN EXCHANGE POSITION (continued)

FOREIGN EXCHANGE POSITION						
30 June 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)	7.956.349	586.202	4.010.914	654.213	5.042.805	28.846
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)	2.128.821	393.727	2.693.956	(146.922)	(1.132.502)	896
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10- 11-12a-14-15-16a)	6.218.145	824.405	5.640.744	76.904	592.787	(15.386)
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	238.896	38.749	198.234	5.711	40.662	--
26. Imports	1.551.647	154.956	1.060.238	52.134	401.858	89.551

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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20. 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	1.288.961	117.435	697.584	77.841	517.692	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	821.201	119.973	712.668	115.336	767.046	--
13. Current liabilities (10+11+12)	4.137.678	317.519	1.886.127	426.485	2.836.379	73.685
14. Trade payables	--	--	--	--	--	--
15. Financial liabilities	--	--	--	--	--	--
16a. Other monetary financial liabilities	1.038	171	1.018	3	20	--
16b. Other non-monetary financial liabilities	2.300.574	427.817	2.541.315	212.269	1.411.719	--
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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20. 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)	4.935.521	664.133	3.945.086	158.258	1.052.504	(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.

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20. FOREIGN EXCHANGE POSITION (continued)

Foreign currency sensitivity

The Group is exposed to foreign currency risk with respect to USD and EURO. As of 30 June 2020, USD 1: TL 6,8422 (31 December 2019: TL 5,9402), EURO 1: TL 7,7082 (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				
30 June 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)	564.074	(564.074)	564.074	(564.074)
2- Hedged amount against USD risk (-)	-	-	-	-
3- Net effect of USD (1+2)	564.074	(564.074)	564.074	(564.074)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	59.279	(59.279)	59.279	(59.279)
5- Hedged amount against EURO risk (-)	-	-	-	-
6- Net effect of EURO (4+5)	59.279	(59.279)	59.279	(59.279)
Change of other² currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	(1.539)	1.539	(1.539)	1.539
8- Hedged amount against other currencies risk (-)	-	-	-	-
9- Net effect of other currencies (7+8)	(1.539)	1.539	(1.539)	1.539

¹ Comprises of profit/loss effect.

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

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20. 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)	394.509	(394.509)	394.509	(394.509)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	394.509	(394.509)	394.509	(394.509)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	105.250	(105.250)	105.250	(105.250)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	105.250	(105.250)	105.250	(105.250)
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

21. EVENTS AFTER THE REPORTING PERIOD

After the reporting period, the Group has signed contracts amounting to 112 Million USD.

¹ Comprises of profit/loss effect.

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