

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

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

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR
ENDED 31 DECEMBER 2021 WITH INDEPENDENT
AUDITORS' REPORT THEREON

01 March 2022

This report contains independent audit report comprising
5 pages and consolidated financial statements and footnotes
comprising 98 pages.

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

INDEPENDENT AUDITOR'S REPORT

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

A. Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matters (Continued)

Key Audit Matters

Capitalization of Development Cost

The Group capitalizes development costs which are related with development activities and approved by the management.

Capitalized development costs amount to a net book value of TRL 2.133.558 as 31 December 2021 in the accompanying consolidated financial statements.

Capitalized development costs on the consolidated financial statements as of 31 December 2021 is significant for our audit due to variety of nature of costs, management judgments involved in the capitalization process and projects contract costs.

Explanations about intangible assets including the capitalized development costs have been disclosed in Note 12.

How the Matter is Handled

Our audit procedures included, amongst others, the following ;

Examinations of nature of capitalized development costs related to each project,

Examinations of the suitability of management assessments for projects at development phase

Performing test of details for development costs,

Assessment of Group's management approval process,

Additionally, inquiries have been performed with project engineers and executives involved in research and development activities in related division of the Group

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

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

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

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

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.).
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.

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

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

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

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

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

1) Pursuant to Article 398 of the Turkish Commercial Code ("TCC") no. 6102, the auditor's report on early detection of risk system and the authorized committee is submitted to the Company's Board of Directors on 1 March 2022.

2) Pursuant to subparagraph 4, Article 402 of "TCC", no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2021 is not in compliance with the code and provisions of the Parent Company's articles of association in relation to financial reporting.

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

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

Yeditepe Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş.
(Associate Member of Praxity AISBL)



Mehmet Nadi Abbasoğlu
Partner
İstanbul, 1 March 2022

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ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2021

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

	Note References	Audited	
		31 December 2021	31 December 2020
ASSETS			
Current Assets		23.175.142	19.594.261
Cash and Cash Equivalents	3	2.492.096	4.081.654
Financial Investments	29	--	17.914
Trade Receivables	6	9.803.350	7.146.519
<i>From Related Parties</i>	5	4.255.114	3.486.689
<i>From Third Parties</i>		5.548.236	3.659.830
Other Receivables	7	722.508	672.391
<i>From Related Parties</i>	5	24.836	75.181
<i>From Third Parties</i>		697.672	597.210
Inventories	9	7.638.954	5.532.703
Prepaid Expenses	10	2.027.017	1.778.726
<i>From Related Parties</i>	5	939.613	586.400
<i>From Third Parties</i>		1.087.404	1.192.326
Other Current Assets	18	491.217	364.354
Non-Current Assets		23.238.156	14.499.968
Financial Investments	29	2.148.927	1.183.215
Trade Receivables	6	12.650.467	7.469.380
<i>From Related Parties</i>	5	9.329.141	5.893.276
<i>From Third Parties</i>		3.321.326	1.576.104
Other Receivables	7	2.104	1.235
<i>From Third Parties</i>		2.104	1.235
Equity Accounted Investments	8	219.833	150.210
Property, Plant and Equipment	11	3.432.149	2.342.223
Intangible Assets	12	2.267.610	1.555.318
Prepaid Expenses	10	817.736	373.625
<i>From Related Parties</i>	5	137.239	72.313
<i>From Third Parties</i>		680.497	301.312
Deferred Tax Assets	27	253.422	352.900
Other Non-Current Assets	18	1.445.908	1.071.862
TOTAL ASSETS		46.413.298	34.094.229

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2021

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

	Note References	Audited	
		31 December 2021	31 December 2020
LIABILITIES			
Current Liabilities		16.749.927	12.319.765
Short-term Financial Liabilities	30	1.956.100	1.618.175
Short-term Portion of Long-term Financial Liabilities	30	3.114.088	1.388.850
Trade Payables	6	6.039.472	4.251.469
<i>To Related Parties</i>	5	1.919.239	847.988
<i>To Third Parties</i>		4.120.233	3.403.481
Employee Benefit Obligations	17	306.525	205.506
Other Payables	7	342.336	101.022
<i>To Related Parties</i>	5	301.608	87.803
<i>To Third Parties</i>		40.728	13.219
Government Grants and Incentives	13	27.291	29.513
Deferred Income	10	1.850.165	2.656.573
<i>To Related Parties</i>	5	413.389	1.548.603
<i>To Third Parties</i>		1.436.776	1.107.970
Corporate Tax Liability	27	2.401	4.635
Short-term Provisions		3.080.222	2.046.616
<i>For Employee Benefits</i>	17	170.902	108.854
<i>Other</i>	15	2.909.320	1.937.762
Other Current Liabilities	18	31.327	17.406
Non-Current Liabilities		3.828.161	3.676.361
Long-term Financial Liabilities	30	332.762	883.448
Trade Payables	6	25.467	311
<i>To Third Parties</i>		25.467	311
Other Payables	7	13.255	36.394
<i>To Third Parties</i>		13.255	36.394
Deferred Income	10	1.929.027	1.764.157
<i>To Related Parties</i>	5	1.035.264	1.314.874
<i>To Third Parties</i>		893.763	449.283
Long-term Provisions		1.513.317	992.051
<i>Long-term Provisions for Employee Benefits</i>	17	333.508	264.964
<i>Other</i>	15	1.179.809	727.087
Other Non-Current Liabilities		14.333	--

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2021**

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

	Note References	Audited	
		31 December 2021	31 December 2020
EQUITY		25.835.210	18.098.103
Equity Attributable to Equity Holders of the Parent		25.563.442	17.881.761
Share Capital	19	2.280.000	2.280.000
Inflation Adjustments on Share Capital Differences	19	98.621	98.621
Share Premiums		2.796.723	2.796.723
Other Comprehensive Income / (Expense) that will not be Reclassified to Profit or (Loss)		186.416	248.103
<i>Gain on Revaluation of Property, Plant and Equipment</i>		309.535	309.535
<i>Gain/ Loss on Remeasurement of Defined Benefit Plans</i>		(123.119)	(61.432)
Other Cumulative Comprehensive Income / (Expense) will be Reclassified to Profit/Loss		2.177.786	1.164.981
<i>Gain (Loss) on Financial Assets That Fair Value Difference</i>			
<i>Reflect in Other Comprehensive income</i>		2.034.249	1.118.100
<i>Cumulative Translation Adjustments</i>		143.537	46.881
Restricted Reserves	19	542.341	312.371
Retained Earnings		10.350.992	6.531.856
Net Profit for the Year		7.130.563	4.449.106
Non-Controlling Interests		271.768	216.342
TOTAL LIABILITIES AND EQUITY		46.413.298	34.094.229

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2021

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

	Note References	Audited	
		1 January- 31 December 2021	1 January- 31 December 2020
PROFIT OR LOSS			
Revenue	20	20.138.953	16.104.455
Cost of Sales (-)	20	(13.490.042)	(11.499.440)
GROSS PROFIT		6.648.911	4.605.015
General Administrative Expenses (-)	21	(576.057)	(399.590)
Marketing Expenses (-)	21	(670.136)	(280.867)
Research and Development Expenses (-)	21	(332.748)	(282.580)
Other Operating Income	22	10.754.188	7.099.337
Other Operating Expenses (-)	22	(6.405.990)	(5.464.926)
OPERATING PROFIT		9.418.168	5.276.389
Income From Investing Activities	23	10.599	7.936
Shares of Profit of Equity Accounted Investees	8	(2.820)	12.408
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		9.425.947	5.296.733
Financial Income	24	514.051	1.057.589
Financial Expense (-)	25	(2.743.575)	(1.469.171)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		7.196.423	4.885.151
Tax Income from Continuing Operations		(69.082)	(423.885)
- Current Corporate Tax Expense(-)	27	(2.401)	(4.635)
- Deferred Tax Income	27	(66.681)	(419.250)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		7.127.341	4.461.266
Profit for the Period Attributable to		7.127.341	4.461.266
Non-Controlling Interest		(3.222)	12.160
Owners of the Company	28	7.130.563	4.449.106
		7.127.341	4.461.266
Earnings for per 100 Shares (in full kuruş)	28	312,74	195,14

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS and OTHER COMPREHENSIVE INCOME FOR THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2021**

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

	Note References	Audited	
		1 January- 31 December 2021	1 January- 31 December 2020
PROFIT FOR THE YEAR		7.127.341	4.461.266
OTHER COMPREHENSIVE INCOME			
Items that will not to be Reclassified Subsequently in Profit or Loss			
Gain on Remeasurement of Defined Benefit Plans	17	(61.687)	73.026
Gain on Revaluation of Property, Plant and Equipment	26	(77.108)	(36.348)
Deferred Tax Expense	26-27	--	113.449
		15.421	(4.075)
Items that may be Reclassified Subsequently to Profit or Loss		1.012.805	196.241
Gain (Loss) on Financial Assets That Fair Value Difference Reflect in Other Comprehensive income	26	964.367	194.528
Cumulative Translation Adjustments	26	96.656	11.439
Deferred Tax Expense	26-27	(48.218)	(9.726)
OTHER COMPREHENSIVE INCOME		951.118	269.267
TOTAL COMPREHENSIVE INCOME		8.078.459	4.730.533
Total Comprehensive Income Attributable to			
Non-Controlling Interest		(3.222)	12.160
Owners of the Company		8.081.681	4.718.373
		8.078.459	4.730.533

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

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

	Other Comprehensive Income / Expense that will not be Reclassified Subsequently to Profit or Loss					Other Comprehensive Income / Expense that may not to be Reclassified Subsequently to Profit or Loss			Retained Earnings				
	Share Capital	Inflation Adjustments on Share Capital	Share Issuance Premiums/ (Discounts)	Revaluation Reserves	Remeasurement of Defined Benefit Plans	Gain (Loss) on Financial Assets That Fair Value Difference Reflect in Other Comprehensive Income	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 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	--	--	--	102.104	(29.078)	184.802	11.439	--	--	4.449.106	4.718.373	12.160	4.730.533
Consolidation Effect of New Establishment	--	--	--	--	--	--	--	--	--	--	--	133.671	133.671
Dividends	--	--	--	--	--	--	--	--	--	(335.000)	(335.000)	--	(335.000)
Balance as of 31 December 2020 (Closing Balance)	2.280.000	98.621	2.796.723	309.535	(61.432)	1.118.100	46.881	312.371	6.531.856	4.449.106	17.881.761	216.342	18.098.103
Balance as of 1 January 2021	2.280.000	98.621	2.796.723	309.535	(61.432)	1.118.100	46.881	312.371	6.531.856	4.449.106	17.881.761	216.342	18.098.103
Transfers	--	--	--	--	--	--	--	229.970	3.819.136	(4.049.106)	--	--	--
Capital Increase	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Comprehensive Income	--	--	--	--	(61.687)	916.149	96.656	--	--	7.130.563	8.081.681	(3.222)	8.078.459
Consolidation Effect of New Establishment	--	--	--	--	--	--	--	--	--	--	--	58.648	58.648
Dividends	--	--	--	--	--	--	--	--	--	(400.000)	(400.000)	--	(400.000)
Balance as of 31 December 2021 (Closing Balance)	2.280.000	98.621	2.796.723	309.535	(123.119)	2.034.249	143.537	542.341	10.350.992	7.130.563	25.563.442	271.768	25.835.210

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

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

	Note References	Audited	
		1 January- 31 December 2021	1 January- 31 December 2020
A.Cash Flows from Operating Activities		2.432.551	1.718.600
Profit for the Period		7.127.341	4.461.266
Adjustments to Reconcile Profit for the Period		6.098.771	3.465.308
- Adjustments for Depreciation and Amortization Expense	11-12	432.191	285.498
- Adjustments for Impairment Loss (Reversal of Impairment Loss)		41.086	(31.191)
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Receivables</i>	6	7.730	(36.518)
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories</i>	9	33.356	5.327
- Adjustments for Provisions		2.038.842	1.643.549
<i>Adjustments for (Reversal of) Provisions Related with Employee Benefits</i>	17	130.776	79.296
<i>Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions</i>	15	1.117.428	1.026.290
<i>Adjustments for (Reversal of) Warranty Provisions</i>	15	577.727	533.451
<i>Adjustments for (Reversal of) Other Provisions</i>	15	212.911	4.512
- Adjustments for Interest (Income) Expenses		346.941	(207.223)
<i>Adjustments for Interest Income</i>	22-24	(191.290)	(736.632)
<i>Adjustments for Interest Expense</i>	22-25	538.231	529.409
- Adjustments for Retained Profit of Equity Accounted Investees	8	2.820	(12.408)
- Adjustments for Tax (Income)/Expenses	27	69.082	423.885
- Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		2.156.388	658.136
- Other Adjustments to Reconcile Profit (Loss)		1.011.421	705.062
Changes in Working Capital		(10.227.847)	(5.878.957)
- Decrease (Increase) in Trade Receivables		(6.489.832)	(3.468.468)
- Decrease (Increase) in Other Receivables Related with Operations		(50.986)	(292.008)
- Decrease (Increase) in Inventories		(2.094.115)	(1.012.940)
- Decrease (Increase) in Prepaid Expenses	10	(611.899)	(204.986)
- Increase (Decrease) in Trade Payables		1.961.552	1.183.552
- Increase (Decrease) in Employee Benefit Obligations		101.019	59.567
- Adjustments for Stage of Completion of Construction or Service Contracts in Progress		(1.479.884)	(1.062.025)
- Increase (Decrease) in Other Operating Payables		(78.433)	(8.816)
- Increase (Decrease) in Government Grants and Subsidies		(2.222)	(13.681)
- Increase (Decrease) in Deferred Income		(1.023.483)	(780.047)
- Other Increase (Decrease) in Working Capital		(459.564)	(279.105)
Cash Flows From Operations		2.998.265	2.047.617
Payments Related with Provisions for Employee Benefits	17	(77.292)	(40.376)
Payments Related with Other Provisions	15	(483.788)	(275.794)
Income Taxes Refund (Paid)		(4.634)	(12.847)
B.Cash Flows From Investing Activities		(3.505.944)	(2.001.277)
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		6.400	13.249
Purchase of Property, Plant and Equipment	11	(1.388.135)	(859.463)
Purchase of Intangible Assets	12	(2.051.206)	(1.221.326)
Proceeds from Derivative Instruments		--	6.039
Dividends Received	23	6.997	5.436
Other Cash Outflows		(80.000)	54.788
C.Cash Flows From Financing Activities		(754.301)	742.088
Proceeds from Borrowings		6.008.589	6.854.552
Repayments of Borrowings		(6.659.498)	(5.860.267)
Dividends Paid	19	(103.392)	(252.197)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		(1.827.694)	459.411
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		240.544	105.942
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(1.587.150)	565.353
E.CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		4.078.756	3.513.403
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	3	2.491.606	4.078.756

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are expressed in thousands of Turkish Lira ("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, Automation and Medical 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, Business Development, Marketing Vice Presidency, Supply Chain Management Vice Presidency and R&D Management Vice Presidency making a total of six Vice Presidencies; in addition to these, there are also Legal Affairs and Private Secreteriat.

The Internal Audit Department and Board of Directors Planning and Coordination Management have been established under the Board of Directors.

The Company maintains production and engineering operations in Ankara, Macunköy, Akyurt and Gölbaşı campuses and engineering operations in METU Teknokent, Hacettepe Teknokent, Teknopark Ankara and Teknopark İstanbul. General Management is located in Ankara Macunköy.

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

The Company is registered to Capital Markets Board of Turkey ("CMB") and its shares have been quoted in Borsa İstanbul Anonim Şirketi ("BİST") since 1990. As of 31 December 2021, 25,80 percent of the Company's shares are publicly traded (31 December 2020: 25,80 percent) (Note 19).

The Company's trade registry address is Mehmet Akif Ersoy Mahallesi İstiklal Marşı Caddesi No:16 06200 Yenimahalle/Ankara. The average number of personnel employed by the Group as of 31 December 2021 is 9.905 (31 December 2020: 8.692).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are expressed in thousands of Turkish Lira ("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 Konya Silah Sistemleri Anonim Şirketi ("ASELSAN Konya"), ASELSAN Malaysia Sdn. Bhd. ("ASELSAN Malaysia"), BITES Savunma Havacılık ve Uzay Teknolojileri Yazılım A.Ş. ("BITES"), Aselsan Global Dış Ticaret ve Pazarlama A.Ş. ("ASELSAN GLOBAL"), ASELSAN UKRAINE LLC. ("ASELSAN Ukrayna") and ULAK Haberleşme A.Ş. ("ULAK"). They are collectively referred as the "Group" in the accompanying notes.

The Company has four 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") and ASELSAN Elektronik Sanayi ve Ticaret A.Ş. QSTP-B ("ASELSAN Katar") located in South Africa, Macedonia, Turkish Republic of Northern Cyprus ("KKTC") and Qatar, 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 TFRS

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 Financial Reporting Standards ("TFRS") and Interpretations that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA").

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

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

Approval of the Consolidated Financial Statements

These consolidated financial statements have been approved for issue by the Board of Directors with the resolution number 1136 on 01 March 2022. 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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation

Subsidiaries:

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

Subsidiaries	Location	Functional Currency	Group's proportion of ownership and voting power held (%)		Main Activity
			31 December 2021	31 December 2020	
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	Defense, Aerospace, Space Technologies, Software
ASELSAN Ukraine	Ukraine	UAH	100	100	Marketing and sales of the group products
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 Turkish Lira ("TL") and in thousands of "Foreign Currency" unless otherwise stated.)

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Joint Ventures

The details of the Group's interests in joint ventures as of 31 December 2021 and 2020 are as follows:

Joint Ventures	Principal Activity	Country of establishment and operation	Group's proportion of ownership and voting power held (%)	
			31 December 2021	31 December 2020
ASELSAN 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
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	13	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	35	50
DASAL Havacılık Teknolojileri A.Ş.	Aviation technologies	Turkey	40	40

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

2.1 The Basis of Presentation (continued)

Basis of Consolidation (continued)

Joint Ventures (continued):

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

The Group's joint ventures; EHSİM established in 1998, IGG ASELSAN and ASELSAN Kazakhstan established in 2011, ASELSAN Jordan established in 2012 and ASELSAN Optik and ASELSAN Bilkent established in 2014, TÜYAR established in 2017, TEKNOHAB established in 2018 and DASAL Havacılık Teknolojileri A.Ş established in 2020 were included in the condensed consolidated financial statements by using the equity method. Since BARQ QSTP LLC and TR Eğitim Teknoloji have not started to operate yet, there is no material 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.

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

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

2.3 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

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2021 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRS interpretations effective as of January 1, 2021 and thereafter. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

a) The new standards, amendments and interpretations which are effective as at January 1, 2021 are as follows:

Interest Rate Benchmark Reform – Phase 2 – Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16

In December 2020, the KGK issued Interest Rate Benchmark Reform – Phase 2, Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 to provide temporary reliefs which address the financial reporting effects when an interbank offering rate (IBOR) is replaced with an alternative nearly risk-free rate (RFR), amending the followings. The amendments are effective for periods beginning on or after 1 January 2021. Earlier application is permitted and must be disclosed. Changes include the following:

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows.

The practical expedient is required for entities applying TFRS 4 Insurance Contracts that are using the exemption from TFRS 9 Financial Instruments (and, therefore, apply TAS 39 Financial Instruments: Classification and Measurement) and for TFRS 16 Leases, to lease modifications required by IBOR reform.

Relief from discontinuing hedging relationships

-The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.

- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.

- For the TAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.

- The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.

- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

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

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

2.4 New and Revised Turkish Accounting Standards (continued)

a) The new standards, amendments and interpretations which are effective as at January 1, 2021 are as follows (continued)

Interest Rate Benchmark Reform – Phase 2 – Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 (continued)

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Additional disclosures

Amendments need additional TFRS 7 Financial Instruments disclosures such as;

How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and If IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes.

The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Amendments to IFRS 16 - Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021

In June 2020, the KGK issued amendments to TFRS 16 Leases to provide relief to lessees from applying TFRS 16 guidance on lease modifications to rent concessions arising a direct consequence of the Covid-19 pandemic. In April 7, 2021, KGK extended the exemption to include concessions that cause a decrease in lease payments whose maturity expired on or before June 30, 2022.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 April 2021. Early application of the amendments is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

b) Standards Issued But Not Yet Effective and Not Early Adopted as of 31 December 2021

IFRS 17 – Insurance Contracts

The KGK issued TFRS 17 in February 2019, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. TFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. TFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted. In accordance with amendments issued by KGK in December 2021, entities have transition option for a "classification overlay" to avoid possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of TFRS 17.

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

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

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

2.4 New and Revised Turkish Accounting Standards (continued)

b) Standards Issued But Not Yet Effective and Not Early Adopted as of 31 December 2021 (continued)

Amendments to TMS 1 - Classification of Liabilities as Current or Non-current

On January 15, 2021, the KGK issued amendments to TAS 1 Presentation of Financial Statements. The amendments issued to TAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments of TMS 1.

Amendments to TFRS 3 - Reference to the Conceptual Framework

In July 2020, KGK issued Reference to the Conceptual Framework, which made amendments to TFRS 3 Business Combinations. The amendments updated TFRS 3 by replacing a reference to an old version of the Board's Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018. The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

The Group does not expect that amendments to TFRS 3 will have significant impact on its consolidated financial statements.

Amendments to TMS 16 - Property, Plant and Equipment Proceeds before Intended Use

In July 2020, KGK issued Property, Plant and Equipment - Proceeds before Intended Use, which made amendments to TMS 16 Property, Plant and Equipment. The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

The amendments improve transparency and consistency by clarifying the accounting requirements specifically, the amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss. The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

The Group does not expect that amendments to TMS 16 will have significant impact on its consolidated financial statements.

Amendments to TMS 37 - Onerous Contracts - Cost of Fulfilling a Contract

In July 2020, KGK issued Onerous Contracts - Cost of Fulfilling a Contract, which made amendments to July 37 Provisions, Contingent Liabilities and Contingent Assets. The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted. The Group does not expect that application of TMS 37 will have significant impact on its consolidated financial statements.

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

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

2.4 New and Revised Turkish Accounting Standards (continued)

b) Standards Issued But Not Yet Effective and Not Early Adopted as of 31 December 2021 (continued)

Amendments to TMS 8 - Definition of Accounting Estimates

In August 2021, KGK issued amendments to TMS 8, in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors.

The amendments issued to TMS 8 are effective for annual periods beginning on or after 1 January 2023. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments of TMS 8.

Amendments to TMS 1 - Disclosure of Accounting Policies

In August 2021, KGK issued amendments to TMS 1, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. In the absence of a definition of the term 'significant' in TFRS, KGK decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in TFRS and is widely understood by the users of financial statements, according to KGK. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

The amendments issued to TMS 1 are effective for annual periods beginning on or after 1 January 2023. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments of TMS 1.

Amendments to TMS 12 – Deferred Tax related to Assets and Liabilities Arising From a Single Transaction

In August 2021, KGK issued amendments to TMS 12, which narrow the scope of the initial recognition exception under TMS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

The amendments issued to TMS 12 are effective for annual periods beginning on or after 1 January 2023. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments of TMS 12.

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

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

2.4 New and Revised Turkish Accounting Standards (continued)

b) Standards Issued But Not Yet Effective and Not Early Adopted as of 31 December 2021 (continued)

Amendments to TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In December 2017, KGK postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments.

Annual Improvements to IFRS 2018–2020

IASB issued Annual Improvements to IFRSs - 2018–2020 Cycle for applicable standards in May 2020. The amendments are effective as of 1 January 2022. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

TFRS 1 First-time Adoption of International Financial Reporting Standards

This amendment simplifies the application of TFRS 1 for a subsidiary that becomes a first-time adopter of IFRS later than its parent – i.e. if a subsidiary adopts TFRS later than its parent and applies TFRS D16(a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to TFRS. This amendment will ease transition to TFRS for subsidiaries applying this optional exemption by i) reducing undue costs; and ii) avoiding the need to maintain parallel sets of accounting records.

TFRS 9 Financial Instruments

This amendment clarifies that in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

TMS 41 Agriculture

This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in TMS 41 with those in TFRS 13 Fair Value Measurement. The amendments provide the flexibility to use either, as appropriate, in line with IFRS 13.

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

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

2.5 Summary of Significant Accounting Policies

Related Parties

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

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

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

(ii) has significant influence over the reporting entity;

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

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

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

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

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

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

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

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

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

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

Revenue

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

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

General model for revenue recognition

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

Step 1: Identifying the contract with customers

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Step 2: Identifying the performance obligations

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

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

Step 3: Determining the transaction price

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

Significant financing component

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

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

Variable consideration

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

Step 4: Allocating the transaction price to performance obligations

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

Step 5: Revenue Recognition

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

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

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

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

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

Contract modifications

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

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

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

Dividend and interest income

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

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

The Rental Income

The rental income is charged to the statement of profit or loss on a straight line method bases over the period of the lease.

Inventories

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

Property, Plant and Equipment

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

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

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

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.5 Summary of Significant Accounting Policies (continued)****Property, Plant and Equipment (continued)**

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

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

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

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

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

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

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

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

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

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Intangible Assets

Intangible assets acquired

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

Trademarks and Licenses

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

Computer software

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

Right-of-use assets

The Group reflects the non-cancellable operating leases over one year, which include the right to control the use of the asset defined in the contract, as a right-of-use asset in the accounting records. The right of use is calculated by discounting the lease payments to their present value over the interest rate stated in the contract, either explicitly or secretly. Right-of-use asset is amortized over the lease term.

Internally generated intangible assets – Research and Development

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

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

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

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.5 Summary of Significant Accounting Policies (continued)****Intangible Assets (continued)****Internally generated intangible assets – R&D expenditure (continued)**

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

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

The useful lives of the intangible assets are as follows:

	<u>Useful life</u>
Rights	1-15 years
Computer software	2-3 years
Development expenditures	1-5 years

Impairment of Assets**Non-derivative Financial Assets**

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

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

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

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

Available-for-sale financial assets

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Non-derivative Financial Assets (continued)

Available-for-sale financial assets (continued)

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

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

Equity Accounted Investees

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

Borrowing Cost

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

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

Financial Instruments

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

i. Classification – Financial assets

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

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

ii. Impairment – Financial assets and contract assets

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

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

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

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

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

iii. Classification – Financial liabilities

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

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

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

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

iv. Hedge accounting

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Capital

Common Stocks

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

Leasing

Leasing- the group as lessor

The Group recognizes the contracts that include the right to control the use of an asset, the transfer of it for a specified period and for a certain price, as lease agreements and accounts for the relevant contractual rights as "right-of-use asset".

The right-of-use asset includes the initial measurement amount of the lease liability, all lease incentives and discounts related to the lease, all direct costs incurred and all costs related to dismantling / moving the defined asset. The Group applies the short-term lease registration exemption for assets that have a lease term of twelve months or less from the start date and do not have a purchase option.

The Group depreciates the right-of-use asset based on the lease term and values it at cost.

The lease obligation, on the other hand, is measured over the present value of unrealized lease payments at the actual start date. Lease payments are discounted using the implied interest rate, if any, otherwise the lessee's alternative borrowing interest rate.

Foreign Currency Transactions

Foreign currency transactions and balances

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

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

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

2.6 Summary of Significant Accounting Policies (continued)

Foreign Currency Transactions (continued)

Foreign currency transactions and balances (continued)

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

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

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

Earnings per Share

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Events After the Reporting Period

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

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

Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Operating Segments

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

Government Grants and Incentives

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

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Taxes Calculated on the Basis of the Company's Earnings

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

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

Current tax

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

Deferred tax

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

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

Deferred tax (continued)

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

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

Current and deferred tax for the period

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

Employee Benefits

Termination and retirement benefits

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

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

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

Dividend and bonus plans

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Employee Benefits (continued)

Dividend and bonus plans (continued)

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

Statement of Cash Flows

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

Offsetting

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

Non-Current Assets Held for Sale

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

2.6 Critical Accounting Judgments and Estimates

Critical judgments in applying the Group's accounting policies

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

Deferred tax

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

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

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

2.6 Critical Accounting Judgments and Estimates (continued)

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

Deferred tax (continued)

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

Liabilities with respect to employee benefits

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

Useful lives of tangible and intangible assets

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

Escalation

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

Provision for guarantee expenses

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

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

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

2.6 Critical Accounting Judgments and Estimates (continued)

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

Development Expenses

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

3. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash	461	298
Bank		
- Time deposit	2.284.705	3.767.013
- Demand deposit	125.876	224.295
Lease Certificate (Sukuk)	78.970	80.000
Other	1.594	7.150
Cash and cash equivalents on the cash flow statement	2.491.606	4.078.756
Interest income accruals	490	2.898
	2.492.096	4.081.654

As of 31 December 2021, the Group has time deposits denominated in foreign currencies with maturities on January 2022 (31 December 2020: January 2021), with the interest rates between 0,05 percent and 1,00 percent (31 December 2020: 0,25 percent and 2,35 percent) amounting to TL 74.795 (31 December 2020: TL 606.150) in several banks.

As of 31 December 2021, the Group has time deposits denominated in TL terms with maturities on January 2022 (31 December 2020: January-March 2021) with the interest rates between 15,75 percent and 26 percent (31 December 2020: 14 percent and 18,75 percent) amounting to TL 2.209.910 (31 December 2020: TL 3.160.863) in several banks.

As of 31 December 2021, the Group has leasing certification denominated in TL terms with maturities on January 2022 (31 December 2020: January 2021) with the interest rate of 15,80 percent (31 December 2020: 17,15 percent).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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4. INTERESTS IN OTHER ENTITIES

a) Subsidiaries

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

Subsidiaries	Location	Functional Currency	Group's proportion of ownership and voting power held (%)		Main Activity
			31 December 2021	31 December 2020	
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	Defense, Aerospace, Space Technologies, Software
ASELSAN Ukraine	Ukraine	UAH	100	100	Marketing and sales of the group products
ULAK	Turkey	TL	51	51	Communication systems

Composition of the Group

Explained in Note 1.

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

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

b) Joint Ventures

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

5. RELATED PARTY DISCLOSURES

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

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

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

Total amount of salaries and other short-term benefits paid for key management for the period ended 31 December 2021 is approximately TL 37.208 (The vast majority consists of paid wages and benefits.) (31 December 2020: TL 25.657).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

5. RELATED PARTY DISCLOSURES (continued)

	31 December 2021									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
Balances with related parties	Trading	Prepaid Expenses	Other Receivables	Trading	Prepaid Expenses	Trading	Deferred Income	Other Payables ¹	Trading	Deferred Income
Main shareholder										
TSKGV	58	--	--	--	--	--	--	296.608	--	--
Main shareholder's subsidiaries and associates										
Hava Elektronik San. ve Tic. Anonim Şirketi ("HAVELSAN")	47.280	117.072	--	15.302	5.365	109.589	--	--	--	--
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi ("HTR")	2.041	22.495	--	--	17.045	63.374	3.088	--	--	561
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	31.057	--	--	3.953	33.093	0	--	--	0
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	--	10.500	--	--	1.669	84.588	0	--	--	0
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	448.434	3.116	--	494.820	--	12.226	21.676	--	--	117.547
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	399.681	--	--	353.046	--	1.120	55.525	--	--	105.814
Financial Instruments										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	223	105	--	--	--	4.646	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	925.117	589.590	--	172.320	92.435	1.294.374	23.664	--	--	208.407
Joint ventures and its related parties										
ASELSAN Bilkent Mikro Nano	--	22.758	--	--	1.103	39.117	--	--	--	--
İhsan Doğramacı Bilkent Üniversitesi	--	416	--	--	--	5.788	--	--	--	--
ASELSAN Optik	20.639	68.661	2.250	--	12.198	38.353	--	--	--	--
IGG	114.107	--	--	4.236	--	--	--	--	--	--
IGG ASELSAN	6.326	--	--	--	1.561	705	--	--	--	--
ASELSAN Kazakistan	138.581	--	--	--	--	106	222	--	--	--
ASELSAN Jordan	108.736	4.497	--	--	--	85.478	--	--	--	--
TÜBİTAK BİLGEM	--	26.569	--	--	--	38.595	--	--	--	--
TÜBİTAK-UME	--	316	--	--	--	466	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	36.457	7.367	--	153.035	1.910	5.974	13.222	--	--	14.218
TÜBİTAK SAGE Savunma Sanayii	--	34.493	--	5.617	--	98.664	--	--	--	--
Savunma Sanayi Başkanlığı ("SSB")	1.990.421	--	--	8.130.765	--	--	295.992	--	--	588.717
SSTEK	17.013	--	22.586	--	--	177	--	5.000	--	--
EHSİM	--	601	--	--	--	1.424	--	--	--	--
DASAL	--	--	--	--	--	1.382	--	--	--	--
	4.255.114	939.613	24.836	9.329.141	137.239	1.919.239	413.389	301.608	--	1.035.264

¹ All other short term payable is 2020 dividend payments. The debt was paid in January 2022.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

5. RELATED PARTY DISCLOSURES (continued)

Balances with related parties	31 December 2020									
	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
Main shareholder										
TSKGV	52	--	--	--	--	--	--	--	--	--
Main shareholder's subsidiaries and associates										
Hava Elektronik San. ve Tic. Anonim Şirketi ("HAVELSAN")	36.215	43.453	--	862	7.365	99.826	528	--	--	--
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi ("HTR")	1.213	39.266	--	--	--	26.885	1.683	--	--	2.245
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	32.205	--	--	--	21.441	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	--	15.405	--	--	4.206	70.695	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	124.672	4.772	--	311.625	--	19.143	--	--	--	9.656
Türk Havacılık ve Uzak Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	219.235	40	--	219.908	--	324	45.160	--	--	224.140
Financial Instruments										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	--	256	--	--	--	11.092	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	268.176	308.928	--	93.602	53.593	374.567	37.391	--	--	77.983
Joint ventures and its related parties										
ASELSAN Bilkent Mikro Nano	--	25.593	--	--	3.939	29.601	--	--	--	--
İhsan Doğramacı Bilkent Üniversitesi	--	833	--	--	--	2.967	--	--	--	--
ASELSAN Optik	6.729	78.184	1.550	--	--	44.791	--	--	--	--
IGG	68.260	--	--	4.236	--	--	--	--	--	--
IGG ASELSAN	10.721	1.561	--	--	--	6.048	--	--	--	--
ASELSAN Kazakistan	47.720	--	--	6.270	--	60	322	--	--	--
ASELSAN Jordan	70.416	--	--	2.258	--	47.569	--	--	--	--
TÜBİTAK BİLGEM	--	9.508	--	--	359	25.739	--	--	--	--
TÜBİTAK-UME	--	161	--	--	--	145	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	14.173	4.506	--	138.414	--	3.574	1.300	--	--	11.067
TÜBİTAK SAGE Savunma Sanayii	--	21.128	--	6.041	2.851	59.995	660	--	--	--
TÜBİTAK UZAY TEKNOLOJİLERİ	--	--	--	--	--	--	--	--	--	--
Savunma Sanayi Başkanlığı ("SSB")	2.603.849	--	--	5.110.060	--	--	1.461.559	--	--	989.783
SSTEK	14.549	--	73.631	--	--	--	--	5.000	--	--
DASAL	--	--	--	--	--	1.448	--	--	--	--
EHSİM	--	601	--	--	--	2.078	--	--	--	--
SADEC LLC	709	--	--	--	--	--	--	--	--	--
Shares offered to the public								82.803		
	3.486.689	586.400	75.181	5.893.276	72.313	847.988	1.548.603	87.803	--	1.314.874

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

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

5. RELATED PARTY DISCLOSURES (continued)

Transactions with related parties	1 January- 31 December 2021	1 January- 31 December 2020
	Purchases	Purchases
<u>Main Shareholder</u>		
TSKGV	1.226	540
<u>Main shareholder's subsidiaries and associates</u>		
NETAŞ	102.073	93.867
STM	18.895	24.055
İŞBİR	109.049	50.204
HTR	126.080	69.012
TUSAŞ	1.377	669
HAVELSAN	72.472	47.988
MERCEDES-BENZ	2.174	--
<u>Financial Instruments</u>		
ROKETSAN	1.169.455	116.124
ASPİLSAN	32.818	36.957
<u>Joint ventures and its related parties</u>		
İHSAN DOĞRAMACI BİLKENT ÜNİVERSİTESİ	15.580	9.365
TÜBİTAK BİLGEM	--	49.427
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	72.506	4.967
TÜBİTAK UME	--	672
TÜBİTAK SAGE SAVUNMA SANAYİİ	114.984	70.572
TUBİTAK UZAY TEKNOLOJİLERİ	--	150
SSTEK	150	--
	1.838.839	574.569

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

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5. RELATED PARTY DISCLOSURES (continued)

	1 January- 31 December 2021	1 January- 31 December 2020
Transactions with related parties	Sales	Sales
<u>Main Shareholder</u>		
TSKGV	496	357
<u>Main shareholder's subsidiaries and associates</u>		
TUSAŞ	605.725	829.755
STM	517.682	229.502
HAVELSAN	20.055	42.951
HTR	14.333	6.699
İŞBİR	--	40
NETAŞ	--	124
TEI	--	747
<u>Financial Instruments</u>		
ROKETSAN	654.590	375.702
ASPİLSAN	271	900
<u>Joint ventures and its related parties</u>		
TÜBİTAK BİLGEM	--	1.135
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	28.617	53.654
TÜBİTAK SAGE SAVUNMA SANAYİİ	--	3
TÜBİTAK UZAY TEKNOLOJİLERİ	152	171
SSB	10.991.600	8.706.935
SSTEK	30.870	156.885
	12.864.391	10.405.560

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

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

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

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

	31 December 2021	31 December 2020
Short-term trade receivables		
Trade receivables	5.521.251	3.639.819
Trade receivables from related parties (Note 5)	4.255.114	3.486.689
Notes receivable	26.985	20.011
Doubtful trade receivables	30.172	22.442
Allowance for doubtful trade receivables (-)	(30.172)	(22.442)
	9.803.350	7.146.519

	31 December 2021	31 December 2020
Long-term trade receivables		
Unbilled receivables from contracts with customers	2.943.086	1.358.501
Trade receivables	378.240	217.603
Unbilled receivables from contracts with customers - Related party (Note 5)	9.316.338	5.886.034
Trade receivables from related parties (Note 5)	12.803	7.242
	12.650.467	7.469.380

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

	31 December 2021	31 December 2020
Opening balance	22.442	58.960
Provision for the period	7.730	--
Provisions no longer required	--	(36.518)
Closing balance	30.172	22.442

The sectorial distribution of trade receivables is as follows:

	31 December 2021	31 December 2020
Public sector	13.678.347	8.895.771
Private sector	5.149.539	3.412.251
Receivables from companies operating abroad	3.625.931	2.307.877
Total receivables	22.453.817	14.615.899

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

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

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

	31 December 2021	31 December 2020
Short-term trade payables		
Trade payables	3.570.663	2.640.978
Due to related parties (Note 5)	1.919.239	847.988
Notes Payable	521.675	743.932
Other trade payables	27.895	18.571
	6.039.472	4.251.469
	31 December 2021	31 December 2020
Long-term trade payables		
Other trade payables	25.467	311
	25.467	311

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7. OTHER RECEIVABLES AND PAYABLES**a) Other receivables**

	31 December 2021	31 December 2020
Short-term other receivables		
Receivables from tax office ¹	614.554	565.613
Deposits and guarantees given	9.016	1.964
Other receivables from related parties (Note 5)	24.836	75.181
Other ²	74.102	29.633
	722.508	672.391

	31 December 2021	31 December 2020
Long-term other receivables		
Deposits and guarantees given	2.104	1.235

b) Other payables

	31 December 2021	31 December 2020
Short-term other payables		
Short-term other payables	27.064	5.569
Deposits and guarantees received	3.334	4.790
Leasing Liabilities	10.330	2.860
Short-term other payables to related parties (Note 5)	301.608	87.803
	342.336	101.022

	31 December 2021	31 December 2020
Long-term other payables		
Deposits and guarantees received	3.342	1.182
Other payables	3.596	5.873
Leasing Liabilities	6.317	29.339
	13.255	36.394

¹ Mainly comprises Value Added Tax (VAT) returns and are expected to be offsetted in the following periods.

² Consists of R&D Center social security premium incentive and R&D Center income tax exceptions.

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

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8. EQUITY ACCOUNTED INVESTMENTS

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

31 December 2021	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN KAZAKHSTAN	49	148.540	217.353	365.893	121.821	38.519	160.340
ASELSAN JORDAN	49	196.913	56.304	253.217	150.946	13.536	164.482
ASELSAN OPTİK	50	134.498	118.371	252.869	94.949	103.652	198.601
IGG ASELSAN	49	74.165	129	74.294	24.093	1.284	25.377
ASELSAN BİLKENT	50	69.211	164.233	233.444	63.037	170.407	233.444
TEKNOHAB	13	52.201	2.608	54.809	827	--	827
EHSİM	50	123.548	5.714	129.262	73.304	55.958	129.262
DASAL	40	12.243	18.818	31.061	19.177	--	19.177
TÜYAR	51	15.881	2.790	18.671	564	--	564
TR EĞİTİM	35	8.566	451	9.017	1.397	--	1.397
		835.766	586.771	1.422.537	550.115	383.356	933.471

31 December 2021	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN KAZAKHSTAN	49	21.934	(22.461)	(527)	100.721	(258)
ASELSAN JORDAN	49	87.764	(83.595)	4.169	43.480	2.043
ASELSAN OPTİK	50	205.113	(187.410)	17.703	27.134	8.851
IGG ASELSAN	49	8.006	(5.823)	2.183	23.969	1.070
ASELSAN BİLKENT	50	143.699	(178.975)	(35.276)	--	(17.638)
BARQ QSTP LLC.	48	--	--	--	834	--
TEKNOHAB	13	8.539	(3.398)	5.141	7.039	670
EHSİM	50	173.485	(173.485)	--	--	--
DASAL	40	12.274	(11.107)	1.167	4.754	467
TÜYAR	51	2.962	(1.574)	1.388	9.235	708
TR EĞİTİM	35	11.152	(7.532)	3.620	2.667	1.267
		674.928	(675.360)	(432)	219.833	(2.820)

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

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8. EQUITY ACCOUNTED INVESTMENTS (continued)

31 December 2020	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN KAZAKHSTAN	49	106.828	133.602	240.430	82.957	22.586	105.543
ASELSAN JORDAN	49	85.288	34.114	119.402	64.547	8.057	72.604
ASELSAN OPTİK	50	76.745	71.138	147.883	46.342	60.476	106.818
IGG ASELSAN	49	38.026	183	38.209	18.108	1.179	19.287
ASELSAN BİLKENT	50	62.169	151.279	213.448	68.974	124.198	193.172
TEKNOHAB	15	41.796	861	42.657	197	--	197
EHSİM	50	122.108	3.300	125.408	29.625	95.783	125.408
DASAL	40	8.743	4.230	12.973	2.255	--	2.255
TÜYAR	51	15.016	1.756	16.772	53	--	53
		556.719	400.463	957.182	313.058	312.279	625.337

31 December 2020	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN KAZAKHSTAN	49	298.077	(268.228)	29.849	66.094	14.627
ASELSAN JORDAN	49	111.311	(106.802)	4.509	22.931	2.210
ASELSAN OPTİK	50	168.336	(152.530)	15.806	20.533	7.903
IGG ASELSAN	49	9.246	(8.474)	772	9.272	378
ASELSAN BİLKENT	50	89.858	(99.244)	(9.386)	10.138	(4.693)
SADEC LLC ¹	50	--	(4.085)	(4.085)	--	(2.043)
BARQ QSTP LLC.	48	--	--	--	834	--
TEKNOHAB	15	3.645	(1.289)	2.356	6.369	353
EHSİM	50	63.969	(77.896)	(13.927)	--	(6.964)
TR EĞİTİM VE TEKNOLOJİLERİ	35	--	--	--	1.225	--
DASAL	40	3.245	(2.528)	717	4.287	287
TÜYAR	51	1.592	(906)	686	8.527	350
		749.279	(721.982)	27.297	150.210	12.408

¹ The liquidation process of the company is about to be completed.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

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9. INVENTORIES

	31 December 2021	31 December 2020
Raw materials	3.433.812	2.531.001
Work in progress	2.791.484	2.198.693
Goods in transit ¹	482.050	284.201
Finished goods	783.826	403.829
Other inventories	153.212	75.805
Trade goods	49.081	60.329
Allowance for impairment on inventories (-)	(54.511)	(21.155)
	7.638.954	5.532.703

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

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

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

	2021	2020
Opening balance	21.155	15.828
Provision for the period	33.356	5.327
Provision released	--	--
Closing balance	54.511	21.155

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

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10. PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2021	31 December 2020
Short-term prepaid expenses		
Order advances given for inventory purchases	748.103	845.857
Short-term order advances given to related parties for inventory purchases (Note 5)	939.613	586.400
Work advances	1.101	113.278
Prepaid expenses	338.200	233.191
	2.027.017	1.778.726

	31 December 2021	31 December 2020
Long-term prepaid expenses		
Long-term order advances given to related parties for inventory purchases (Note 5)	137.239	72.313
Order advances given for inventory purchases	440.988	134.384
Order advances given for fixed assets purchases	215.397	134.894
Prepaid expenses	24.112	32.034
	817.736	373.625

	31 December 2021	31 December 2020
Short-term deferred income		
Order advances received	198.093	230.881
Order advances received from related parties (Note 5)	413.389	1.548.603
Deferred income	1.238.683	877.089
	1.850.165	2.656.573

Short-term order advances received comprises advances received from 78 customers (31 December 2020: 86 customers) of which first 10 customers constitutes 94 percent of the total (31 December 2020: 99 percent).

	31 December 2021	31 December 2020
Long-term deferred income		
Order advances received	322.350	321.721
Order advances received from related parties (Note 5)	1.035.264	1.314.874
Deferred income	571.413	127.562
	1.929.027	1.764.157

Long-term order advances received comprises advances received from 26 customers (31 December 2020: 42 customers) of which the first 10 customers constitutes 98 percent of the total (31 December 2020: 99 percent).

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11. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other fixed assets ¹	Leasehold improvements	Financial leasing ²	Construction in progress ³	Total
<u>Cost and revaluation</u>											
Opening balance as of 1 January 2021	410.102	40.091	259.556	1.325.940	8.802	456.202	154.082	213.931	43.210	680.256	3.592.172
Additions ⁴	2.448	20	57.442	416.825	5.904	188.976	73	9.878	1.899	719.510	1.402.975
Revaluation fund	--	--	--	--	--	--	--	--	--	--	--
Disposals	--	--	(2)	(35.767)	(1.063)	(14.652)	(1.353)	(40)	--	(3.187)	(56.064)
Transfers	--	3.521	297.957	2.302	--	4	56.373	13.207	--	(373.440)	(76)
Closing balance as of 31 December 2021	412.550	43.632	614.953	1.709.300	13.643	630.530	209.175	236.976	45.109	1.023.139	4.939.007
<u>Accumulated depreciation</u>											
Opening balance as of 1 January 2021	--	16.123	99.125	730.903	3.734	246.231	92.656	49.668	11.509	--	1.249.949
Charge for the period	--	2.400	13.231	135.913	950	114.745	17.886	12.532	11.185	--	308.842
Disposals	--	--	(2)	(35.380)	(544)	(14.649)	(1.318)	(40)	--	--	(51.933)
Transfers	--	--	--	--	--	--	--	--	--	--	--
Closing balance as of 31 December 2021	--	18.523	112.354	831.436	4.140	346.327	109.224	62.160	22.694	--	1.506.858
Net book value as of 31 December 2021	412.550	25.109	502.599	877.864	9.503	284.203	99.951	174.816	22.415	1.023.139	3.432.149

¹ All of the net book value of other fixed assets consists of mold models manufactured by the Group.

² As of December 31,2021 and December 31,2020, Group has two land that leased for 49 years and 46 years and car rentals.

³ Includes of investments in molds, models, devices and construction works.

⁴ TL 14.765 of additions are free of charge investment income (31 December 2020: TL 6.035).

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other fixed assets	Leasehold improvements	Financial leasing	Construction in progress	Total
<u>Cost and revaluation</u>											
Opening balance as of 1 January 2020	319.679	36.900	224.884	1.154.971	7.058	295.791	124.865	209.621	6.264	246.614	2.626.647
Additions	--	--	2.662	173.150	2.031	160.683	7.532	5.650	36.946	476.844	865.498
Revaluation fund	106.783	--	--	--	--	--	--	--	--	--	106.783
Disposals	--	--	--	(2.181)	(287)	(272)	--	(1.340)	--	(2.676)	(6.756)
Transfers	(16.360)	3.191	32.010	--	--	--	21.685	--	--	(40.526)	--
Closing balance as of 31 December 2020	410.102	40.091	259.556	1.325.940	8.802	456.202	154.082	213.931	43.210	680.256	3.592.172
<u>Accumulated depreciation</u>											
Opening balance as of 1 January 2020	--	13.876	90.845	633.108	3.172	190.041	79.179	41.014	1.481	--	1.052.716
Charge for the period	--	2.247	8.280	99.429	849	56.420	13.477	8.945	10.028	--	199.675
Disposals	--	--	--	(1.634)	(287)	(230)	--	(291)	--	--	(2.442)
Transfers	--	--	--	--	--	--	--	--	--	--	--
Closing balance as of 31 December 2020	--	16.123	99.125	730.903	3.734	246.231	92.656	49.668	11.509	--	1.249.949
Net book value as of 31 December 2020	410.102	23.968	160.431	595.037	5.068	209.971	61.426	164.263	31.701	680.256	2.342.223

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	31 December 2021	31 December 2020
Cost of sales	201.999	121.074
General administrative expenses	78.042	54.756
Inventories	27.463	22.956
Marketing expenses	1.338	889
	308.842	199.675

There is no collateral, pledges, and mortgages on tangible assets as of 31 December 2020 and 2021.

There is no capitalized interest expense as of 31 December 2020 and 2021.

Fair value measurement of the Group's land

The lands owned by the Group are revalued and presented at fair value as of 31 December 2020. The fair value of the lands owned by the Group is revalued on 5 November 2020 by Açık Kurumsal Gayrimenkul Değerleme ve Danışmanlık Anonim Şirketi ("Açık Değerleme"), an independent appraisal company. Açık Değerleme is authorized by the CMB and provides real estate appraisal services in accordance with the capital market legislation. The fair value of the lands is determined according to "Market Value Approach (Equivalent Comparison Method)". Gains resulting from revaluation are recognized under "Gain on Revaluation of Property" in other comprehensive income.

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

There are no restrictions on the distribution of revaluation funds. The valuation difference on the lands is TL 337.174 (31 December 2020: TL 337.174).

Change in Revaluation

	31 December 2021
Opening balance as of 31 December 2020:	337.174
Appreciation (Other Comprehensive Income)	--
Depreciation (Profit / Loss)	--
TOTAL	337.174

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

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

	Fair value as of reporting date			
	31 December	Level 1	Level 2	Level 3
	2021	TL	TL	TL
Macunköy	280.272	--	--	280.272
Akyurt	89.000	--	--	89.000
Gölbaşı	880	--	--	880
Oğulbey	41.928			41.928
Gölbek	380	--	--	380
Denizli	90	--	--	90
	412.550			412.550

	Fair value as of reporting date			
	31 December	Level 1	Level 2	Level 3
	2020	TL	TL	TL
Macunköy	280.272	--	--	280.272
Akyurt	89.000	--	--	89.000
Gölbaşı	880	--	--	880
Oğulbey	39.480	--	--	39.480
Gölbek	380	--	--	380
Denizli	90	--	--	90
	410.102			410.102

The fair value level action table as of 31 December 2021 are as follows:

	Fair Value Level as of Reporting Date		
	Level 1	Level 2	Level 3
	TL	TL	TL
1 January 2021	--	--	410.102
Additions (Net)	--	--	2.448
31 December 2021	--	--	412.550

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12. INTANGIBLE ASSETS

	Rights	Development Costs	Other intangible assets¹	Total
<u>Cost</u>				
Opening balance as of 1 January 2021	86.599	1.805.438	304.916	2.196.953
Additions	7.501	1.952.155	91.474	2.051.130
Disposals	(1.515)	(1.170.073)	(3.984)	(1.175.572)
Transfers	--	76	--	76
Closing balance as of 31 December 2021	92.585	2.587.596	392.406	3.072.587
<u>Accumulated Amortization</u>				
Opening balance as of 1 January 2021	65.159	360.743	215.733	641.635
Charge for the period	4.987	93.295	70.559	168.841
Disposals	(1.515)	--	(3.984)	(5.499)
Closing balance as of 31 December 2021	68.631	454.038	282.308	804.977
Net book value as of 31 December 2021	23.954	2.133.558	110.098	2.267.610

¹Other intangible assets include licences related to computer software and right of usage assets.

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12. INTANGIBLE ASSETS (continued)

	Rights	Development Costs	Other intangible assets¹	Total
<u>Cost</u>				
Opening balance as of 1 January 2020	80.797	1.475.337	225.092	1.781.226
Additions	5.802	1.135.700	79.824	1.221.326
Disposals	--	(805.599)	--	(805.599)
Closing balance as of 31 December 2020	86.599	1.805.438	304.916	2.196.953
<u>Accumulated Amortization</u>				
Opening balance as of 1 January 2020	51.765	282.578	170.305	504.648
Charge for the period	13.394	78.165	45.428	136.987
Closing balance as of 31 December 2020	65.159	360.743	215.733	641.635
Net book value as of 31 December 2020	21.440	1.444.695	89.183	1.555.318

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

	31 December 2021	31 December 2020
Research and development expenses	106.583	76.279
Cost of sales	34.357	26.045
Inventories	18.029	28.208
Marketing expenses	572	377
General administrative expenses	9.300	6.078
	168.841	136.987

¹Other intangible assets include licences related to computer software and right of usage assets.

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13. GOVERNMENT GRANTS AND INCENTIVES

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

	31 December 2021	31 December 2020
Current government grants and incentives	27.291	29.513

As part of the Decision on Government Incentives on Investments, there are 8 investment incentives taken from General Directorate of Turkish Undersecretariat of the Treasury. The incentives allow VAT exemption and customs tax exemption. VAT exemption is applied in both domestic and international purchases while customs tax exemption is applied for international purchases.

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

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

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

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

In accordance with Law on Technology Development Zones numbered 4691, Group utilizes withholding income tax incentive, social security premium incentive and stamp tax exceptions. Such incentives are utilized through not paying withholding income tax incentive, social security premium incentive and stamp tax exceptions calculated based on research and development and software personnel payroll. Income generated in accordance with law on Technology Development Zones numbered 4691 is exempt from corporate income tax until 31 December 2028.

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13. GOVERNMENT GRANTS AND INCENTIVES (continued)

The research and development expenditure deduction rate used as a tax benefit has been increased from 40 percent to 100 percent in accordance with the amended article 10 of the Tax Law numbered 5520, the amended article 89 of Law numbered 193 and 5746 with respect to the Support of Research and Development Activities. The aforementioned law was enacted of April 2008 after its issue in the Official Gazette dated 12 March 2008, numbered 26814. In accordance to the Law regarding the Incentive of Research and Development Activities numbered 6676 published on Official Gazettes numbered 29636 on 26 February 2016 and The Law Regarding the Amendments on Delegated Legislation, the content of the law and incentives has been broadened and additional exceptions has been given. Research and development expenditure may be used as a tax deduction in the determination of the taxable income. If taxable income levels are not sufficient to absorb all available tax deductions, any unused research and development tax deduction is allowed to be carried forward to the next tax period. The remaining amount from previous year is increased according to revaluation ratio defined at Tax Procedure Law. According to the item No. 8 of the related law, all the costs related with research and development can be subjected to deduction until 31 December 2028.

14. BORROWING COSTS

As of 31 December 2021, there is no borrowing cost regarding the qualifying assets. (31 December 2020: None).

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

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

Other short-term provisions	31 December 2021	31 December 2020
Provision for warranties ¹	1.241.627	1.045.215
Provision for onerous contracts	571.876	483.283
Provision for delay penalties ²	847.336	368.124
Sales commission	197.977	--
Provision for legal cases	22.418	27.990
Provision for cost expenses	12.264	11.820
Other	15.822	1.330
	2.909.320	1.937.762

The movement of the provision for warranties is as follows:

	1 January- 31 December 2021	1 January- 31 December 2020
Opening balance	1.045.215	731.395
Provision during the period	577.732	533.910
Realized during the period	(381.315)	(219.631)
Provision reversed during the period	(5)	(459)
Closing balance	1.241.627	1.045.215

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

	1 January- 31 December 2021	1 January- 31 December 2020
Opening balance	483.283	129.518
Provision during the period	656.815	372.432
Provision reversed during the period	(568.222)	(18.667)
Closing balance	571.876	483.283

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

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

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15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (continued)**a) Provisions (continued)**

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

	1 January- 31 December 2021	1 January- 31 December 2020
Opening balance	368.124	100.508
Provision during the period	581.685	359.379
Realized during the period	(102.473)	(56.163)
Provision reversed during the period	--	(35.600)
Closing balance	847.336	368.124

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

	1 January- 31 December 2021	1 January- 31 December 2020
Opening balance	27.990	24.501
Provision during the period	--	7.406
Realized during the period	(5.572)	(3.917)
Closing balance	22.418	27.990

	31 December 2021	31 December 2020
Other long-term provisions		
Provision for delay penalties	138.822	66.357
Provision for onerous contracts	1.040.987	660.730
	1.179.809	727.087

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

	1 January- 31 December 2021	1 January- 31 December 2020
Opening balance	66.357	--
Provision during the period	72.465	66.357
Provision reversed during the period	--	--
Closing balance	138.822	66.357

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

	1 January- 31 December 2021	1 January- 31 December 2020
Opening balance	660.730	381.830
Provision during the period	380.257	373.249
Provision reversed during the period	--	(94.349)
Closing balance	1.040.987	660.730

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PROVISION, CONTINGENT ASSET AND LIABILITIES (continued)**b) Legal cases**

There has not been any final judicial decision against the Group due to the responsibility related with work accidents within 2021.

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

	Description	2021	2020
a)	Ongoing lawsuits filed by the Group	35.871	109.899
b)	Execution proceedings carried out by the Group	319.264	260.595
c)	Ongoing lawsuits filed against the Group	22.418	27.990
d)	Executions against the Group	5.875	2.888
e)	Lawsuits finalized against the Group within the period	102.542	3.294
f)	Lawsuits finalized in favor of the Group within the period	12.745	1.432

- 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.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

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

16. COMMITMENTS AND CONTINGENCIES**a) Guarantees received**

	31 December 2021	31 December 2020
Letters of guarantees received from the suppliers	4.167.423	2.545.759
Collaterals received from the customers	133.517	27.024
Letters of guarantees received from the customers	18.221	19.655
Collaterals received from the suppliers	284.535	106.909
Letters of guarantees received from the suppliers	35.907	25.818
Mortgages received from the customers	--	265
	4.639.603	2.725.430

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

The collaterals/pledges/mortgages ("CPM") given by the Group as of 31 December 2021 and 31 December 2020 is as follows:

In accordance with the terms of the Patrol and Anti-Submarine Warfare Ship Projects ("MİLGEM"), the Company is a guarantor if HAVELSAN cannot be able to fulfill the obligations in this project of an amount of USD 288.700.

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

31 December 2021	TL Equivalent	TL	USD	EURO	UAE Dirham	Polish Zloty	Indian Rupee	British Pound	Qatar Rial
A. Total amount of CPM given on behalf of the legal entity									
<i>-Collateral</i>	10.948.158	675.302	389.889	336.398	--	1.000	--	--	46
<i>-Pledge</i>	--	--	--	--	--	--	--	--	--
<i>-Mortgage</i>	--	--	--	--	--	--	--	--	--
B. Total amount of CPM given on behalf of the subsidiaries included in full consolidation									
<i>-Collateral</i>	--	--	--	--	--	--	--	--	--
<i>-Pledge</i>	--	--	--	--	--	--	--	--	--
<i>-Mortgage</i>	--	--	--	--	--	--	--	--	--
C. Total amount of CPM given to maintain operations and collect payables from third parties									
<i>-Collateral</i>	--	--	--	--	--	--	--	--	--
<i>-Pledge</i>	--	--	--	--	--	--	--	--	--
<i>-Mortgage</i>	--	--	--	--	--	--	--	--	--
D. Total amount of other CPM given									
i. Total Amount of CPM on behalf of the main partner									
<i>-Collateral</i>	--	--	--	--	--	--	--	--	--
<i>-Pledge</i>	--	--	--	--	--	--	--	--	--
<i>-Mortgage</i>	--	--	--	--	--	--	--	--	--
ii. Total amount of CPM given on behalf of other group companies that do not cover B and C ¹									
<i>-Collateral</i>	30.790	--	2.310	--	--	--	--	--	--
<i>-Pledge</i>	--	--	--	--	--	--	--	--	--
<i>-Mortgage</i>	--	--	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover									
<i>-Collateral</i>	--	--	--	--	--	--	--	--	--
<i>-Pledge</i>	--	--	--	--	--	--	--	--	--
<i>-Mortgage</i>	--	--	--	--	--	--	--	--	--
Total	10.978.948	675.302	392.199	336.398	--	1.000	--	--	46

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

¹ The ratio of the other CPM given by the Group to equity as of 31 December 2021 is 0,12 percent. TL 30.790 is the collateral amount pertaining to guarantee letter given on behalf of the entity's joint venture ASELSAN Bilkent.

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

31 December 2020	TL Equivalent	TL	USD	EURO	UAE Dirham	Polish Zloty	Indian Rupee	British Pound	Qatar Rial
A. Total amount of CPM given on behalf of the legal entity									
-Collateral	23.612.275	6.650.560	1.245.021	868.214	--	1.000	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	22.529	--	3.069	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover									
-Collateral	--	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--	--
Total	23.634.804	6.650.560	1.248.090	868.214	--	1.000	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 2020 is 0,12 percent. TL 22.529 is the collateral amount pertaining to guarantee letter given on behalf of the entity's joint venture ASELSAN Bilkent.

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

	31 December 2021	31 December 2020
Social security premiums payable	68.622	48.909
Taxes and funds payable	109.752	66.271
Due to personnel	128.151	90.326
	306.525	205.506

b) Short-term provisions for employee benefits

	31 December 2021	31 December 2020
Provision for vacation pay and overtime	170.902	108.854

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

	2021	2020
Opening balance	108.854	72.819
Provision for the period	105.863	63.365
Provision paid during the period	(38.608)	(21.904)
Provision realized during the period	(5.207)	(5.426)
Closing balance	170.902	108.854

c) Long-term provisions for employee benefits

	31 December 2021	31 December 2020
Provision for severance pay	333.508	245.256
Provision for retirement pay	--	19.708
	333.508	264.964

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

	2021	2020
Opening balance	264.964	225.731
Service cost	21.565	14.683
Interest cost	8.555	6.674
Actuarial gains/(loss)	77.108	36.348
Payments	(38.684)	(18.472)
Closing balance	333.508	264.964

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.

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

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17. EMPLOYEE BENEFITS (continued)

Provision for severance pay (continued)

Certain provisions regarding services before retirement, has been annulled on 23 May 2002 during the revision of the related law. As of 31 December 2021 severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL 8.284,51 (31 December 2020: TL 7.117,17¹)

As of 1 January 2022, the ceiling for the severance payments is TL 10.848,59. ¹

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

Provision for retirement grant:

Retirement bonus provision is recognized for the employees with service of more than 20 years within the Group and has earned/will earn their retirement but has been terminated as at the end of 2021.

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

	31 December 2021	31 December 2020
	(%)	(%)
Interest rate	21,00	13,60
Inflation rate	16,95	9,90
Discount ratio	3,46	3,37
Estimation of probability of retirement ratio	96	97

¹ Amounts are shown in original Turkish Lira values.

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18. OTHER ASSETS AND LIABILITIES**a) Other current assets**

	31 December 2021	31 December 2020
VAT carried forward ¹	407.238	268.348
Other VAT	55.826	19.176
Other ²	28.153	76.830
	491.217	364.354

b) Other non-current assets

	31 December 2021	31 December 2020
VAT carried forward ¹⁷	1.378.045	1.024.221
Prepaid taxes and funds	50.139	43.316
Other ²	17.724	4.325
	1.445.908	1.071.862

c) Other short-term liabilities

	31 December 2021	31 December 2020
Taxes and funds payable	3.417	11.314
Other ²	27.910	6.092
	31.327	17.406

d) Other long-term liabilities

	31 December 2021	31 December 2020
Other	14.333	--
	14.333	--

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

² Mainly comprises of other assets and liabilities of consolidated subsidiaries.

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

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19. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

<u>Shareholders</u>	<u>Share (%)</u>	<u>31 December 2021</u>	<u>Share (%)</u>	<u>31 December 2020</u>
TSKGV	74,20	1.691.652	74,20	1.691.652
Publicly held	25,80	588.348	25,80	588.348
Nominal capital	100	2.280.000	100	2.280.000
Share capital adjustment		98.621		98.621
Inflation adjusted capital		2.378.621		2.378.621

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 31 December 2021, The Group's restricted reserves set aside from profit comprises legal reserves. The total of the Group's legal reserves are TL 542.341 (31 December 2020: TL 312.371).

Retained Earnings

Accumulated profits apart from net profit for the year and extraordinary reserves which is accumulated profit by nature are shown under retained earnings. As of 31 December 2021 the extraordinary reserves balance presented in retained earnings is TL 8.845.856 (31 December 2020: TL 5.164.028). According to the statutory records, the Company's profit for the period is TL 4.608.798 (31 December 2020: TL 3.947.820) and its other funds available for profit distribution is TL 8.535.408 (31 December 2020: TL 5.211.369) and the details are as followings.

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

Retained Earnings (continued)

Profit distribution

Publicly traded companies perform dividend distribution in accordance with Capital Markets Board's Communique Serial II No: 19.1 "Share of Profit", effective as of 1 February 2014.

Shareholders, distribute dividend with general assembly decision, within the context of profit distribution policies set by general assembly and related regulations. As part of the communique, no specific minimum distribution ratio is indicated. Companies pay dividend as defined in their articles of association or dividend distribution policies.

On 29 June 2021, in accordance with the consolidated financial statements, the General Assembly of the Company has decided to allocate legal reserve amounting to TL 225.991 of the TL 3.947.820 which is based on the profit distribution, and to distribute TL 400.000 in cash to shareholders for dividend payment, and the remaining TL 3.321.829 to be within the Group. Thus, the cash gross dividend amount for TL 1 nominal value per share is Kuruş 17,54 net (31 December 2020: Kuruş 14,69 net).

Within 2021, dividend amounting to TL 400.000 in gross, 17,54 Kuruş per share of TL 1 (net profit amounting to TL 340.000, 14,91 Kuruş per share of TL 1) will be paid to shareholders. (31 December 2020: TL 335.000 in gross, 14,69 Kuruş per share of TL 1 (TL 284.750 in gross, 12,49 Kuruş per share of TL 1) was paid).

On 31 August 2021, General Assembly of ASELSANNET has decided to distribute TL 10.000 as dividend payments to shareholders and reserve TL 3.979 as retained earnings from net profit of the year 2020. TL 30.000 is decided to be added on the capital in order to allocate capital issue by bonus to shareholders and remaining TL 21.175 is to decided to be allocated as extraordinary reserves (31 December 2020: 2.000).

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20. REVENUE AND COST OF SALES

	1 January- 31 December 2021	1 January- 31 December 2020
a) Revenue		
Domestic sales	18.009.611	14.591.151
Export sales	2.242.898	1.539.914
Other revenues	28.030	25.139
Sales returns (-)	(135.079)	(47.828)
Sales discounts (-)	(6.507)	(3.921)
	20.138.953	16.104.455

	1 January - 31 December 2021	1 January - 31 December 2020
Revenue Recognized Regarding Performance Obligation		
Over time	16.266.723	12.043.445
Point in time	3.872.230	4.061.010
	20.138.953	16.104.455

	1 January- 31 December 2021	1 January- 31 December 2020
b) Cost of sales(-)		
Cost of raw materials and supplies	9.750.965	9.793.088
Cost of merchandise goods sold	198.444	142.675
Cost of services sold	2.858.071	1.121.089
Cost of other sales	682.562	442.588
	13.490.042	11.499.440

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

	1 January - 31 December 2021	1 January - 31 December 2020
General administrative expenses (-)	576.057	399.590
Marketing expenses (-)	670.136	280.867
Research and development expenses (-)	332.748	282.580
	1.578.941	963.037

	1 January - 31 December 2021	1 January - 31 December 2020
a) General administrative expenses (-)		
Personnel expenses	355.676	248.253
Depreciation and amortization expenses	87.342	60.834
Service procurement	17.908	9.674
Rent expenses	12.672	9.594
Personnel meal expenses	12.636	9.978
Expertise and consultancy expenses	12.334	8.582
Electricity expenses	10.332	6.910
IT repair and maintenance expenses	5.450	5.266
Subscription and publication expenses	5.294	1.049
Cleaning service expenses	5.236	1.748
Insurance expenses	4.763	4.011
Travel expenses	4.109	1.624
Personnel transportation expenses	3.727	3.326
Course and seminar expenses	2.784	3.375
Property and environmental cleaning tax	2.409	2.304
Legal expenses	1.690	1.854
Water expenses	605	622
Other	31.090	20.586
	576.057	399.590

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

	1 January- 31 December 2021	1 January- 31 December 2020
b) Marketing expenses (-)		
Commission expenses	361.757	64.923
Subcontractor service expenses	103.565	86.129
Personnel expenses	80.032	50.487
Exhibition expenses	30.103	15.351
Stamp duty expenses	26.558	9.861
Travel expenses	19.475	10.118
Packaging expenses	8.460	5.987
Shipping and delivery expenses	7.533	4.457
Samples expenses	6.838	2.935
Advertising expenses	5.347	3.514
Rent expenses	4.452	3.006
Expertise and consultancy expenses	3.414	3.464
Representation expenses	3.214	1.002
Depreciation and amortization expenses	1.910	1.266
Meal expenses	1.348	1.308
Security service	596	761
Other	5.534	16.298
	670.136	280.867
	1 January- 31 December 2021	1 January- 31 December 2020
c) Research and development expenses (-)		
Personnel expenses	121.494	98.418
Depreciation and amortization expenses	106.583	76.279
Equipment costs	64.545	55.950
Other	40.126	51.933
	332.748	282.580

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22. OTHER OPERATING INCOME AND EXPENSES**a) Other operating income**

	1 January- 31 December 2021	1 January- 31 December 2020
Foreign currency exchange gains	10.444.479	6.961.194
Rediscounted interest income	148.394	73.181
Granted fixed assets income ¹	14.765	6.035
Other income	146.550	58.927
	10.754.188	7.099.337

b) Other operating expenses (-)

	1 January- 31 December 2021	1 January- 31 December 2020
Foreign currency exchange losses (-)	5.957.097	5.276.151
Rediscounted interest expense (-)	328.679	122.330
Non-working part expenses and losses (-)	45.961	--
Other expense and losses (-)	74.253	66.445
	6.405.990	5.464.926

23. INCOME FROM INVESTING ACTIVITIES

	1 January- 31 December 2021	1 January- 31 December 2020
Gain/(loss) on sales profit of marketable securities	1.333	231
Dividend income	6.997	5.436
Gain/(loss) on sales profit of fixed assets	2.269	2.269
	10.599	7.936

24. FINANCIAL INCOME

	1 January- 31 December 2021	1 January- 31 December 2020
Interest income	195.998	75.022
TFRS 15 financial component effect	32.218	652.816
Foreign currency exchange gains on bank loans	285.835	329.751
	514.051	1.057.589

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

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25. FINANCIAL EXPENSES

	1 January- 31 December 2021	1 January- 31 December 2020
Foreign currency exchange losses from bank loans (-)	2.442.929	994.004
TFRS 15 financial component effect (-)	209.552	407.079
Interest cost related with employee benefits (-)	8.555	6.674
Interest cost of borrowings (-)	82.539	61.414
	2.743.575	1.469.171

26. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

	31 December 2021	31 December 2020
Gain from revaluation of financial assets that fair value reflect in other comprehensive income	2.034.249	1.118.100
Revaluation of property	309.535	309.535
Cumulative Translation Adjustments	143.537	46.881
Loss on remeasurement of defined benefit plans	(123.119)	(61.432)
	2.364.202	1.413.084

	1 January- 31 December 2021	1 January- 31 December 2020
Gain from revaluation of financial assets that fair value reflect in other comprehensive income:		
Opening balance	1.118.100	933.298
Gain from revaluation of financial assets that fair value reflect in other comprehensive income	964.367	194.528
Deferred tax liability arising from revaluation	(48.218)	(9.726)
Closing balance	2.034.249	1.118.100

Gain from revaluation of financial assets that fair value reflect in other comprehensive income arises due to revaluation of financial investments. When available for sale financial assets are sold, any related amount included in revaluation reserve is transferred to profit or loss.

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26. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS (continued)

	1 January- 31 December 2021	1 January- 31 December 2020
Revaluation of property		
Opening balance (Previously reported)	309.535	207.431
Increase arising from revaluation of property	--	113.449
Current period value increase deferred tax effect	--	(11.345)
Closing balance	309.535	309.535

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

The fair value of the lands owned by the Group is revalued on 5 November 2020 by Açık Kurumsal Gayrimenkul Değerleme ve Danışmanlık Anonim Şirketi ("Açık Değerleme"), an independent appraisal company.

	1 January- 31 December 2021	1 January- 31 December 2020
Foreign currency exchange differences:		
Opening balance	46.881	35.442
Currency differences from net asset currency translation investent in foreign operations	96.656	11.439
Closing balance	143.537	46.881

	1 January- 31 December 2021	1 January- 31 December 2020
Gain/Loss on remeasurement of defined benefit plans		
Opening balance	(61.432)	(32.354)
Gain/Loss on remeasurement of defined benefit plans	(61.687)	(36.348)
Deferred tax on gain/loss on remeasurement of defined benefit plans	--	7.270
Closing balance	(123.119)	(61.432)

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27. INCOME TAXES

	31 December 2021	31 December 2020
<u>Corporate tax liabilities:</u>		
Current corporate tax provision	2.401	4.635
Less: Prepaid taxes and funds	--	--
	2.401	4.635

	1 January- 31 December 2021	1 January- 31 December 2020
<u>Tax income:</u>		
Current corporate tax (expense)	(2.401)	(4.635)
Deferred tax income / (expense)	(66.681)	(419.250)
	(69.082)	(423.885)

1 January-31 December 2021

	Amount before tax	Tax income/expense	Net of tax amount
Tax effects related to components of other comprehensive income			
Defined benefit plan revaluation gains/losses	(77.108)	15.421	(61.687)
Cumulative Currency Translation Adjustments	--	--	--
Gain from revaluation of financial assets that fair value reflect in other comprehensive income	96.656	--	96.656
Other comprehensive income in the period	964.367	(48.218)	916.149
	983.915	(32.797)	951.118

1 January-31 December 2020

	Amount before tax	Tax income/expense	Net of tax amount
Tax effects related to components of other comprehensive income			
Defined benefit plan revaluation gains/losses	(36.348)	7.270	(29.078)
Cumulative Currency Translation Adjustments	113.449	(11.345)	102.104
Gain from revaluation of financial assets that fair value reflect in other comprehensive income	11.439	--	11.439
Other comprehensive income in the period	194.528	(9.726)	184.802
	283.068	(13.801)	269.267

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27. INCOME TAXES (continued)

	1 January- 31 December 2020	1 January- 31 December 2021
Tax recognized directly in equity		
Deferred tax:		
- Revaluation of property	--	(11.345)
- Gain from revaluation of financial assets that fair value reflect in other comprehensive income	(48.218)	(9.726)
- Actuarial gain/loss	15.421	7.270
Deferred tax recognized directly in equity	(32.797)	(13.801)

Corporate tax

The Group is subject to Turkish corporate taxes. The corporate income tax is declared until the relevant accounting period-end's following fourth month, twenty-fifth day's evening and it is batch paid until the end of the related month. In accordance with the tax legislation, quarterly 25 percent (31 December 2020: 22 percent) on profits of advance tax is being calculated and paid. The amounts paid in this way are deducted by the tax on annual earning.

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

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

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

The tax rate in 2021 is 25 percent (31 December 2020: 22 percent).

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27. INCOME TAXES (continued)

Deferred Tax

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

In Turkey, the corporate tax rate is 25 percent as of 31 December 2021 (2020: 22 percent). In accordance with the Communiqué Amending the Corporate Tax General Communiqué (Serial No: 1) prepared to the Ministry of Treasury and Finance Revenue Administration, annual/temporary corporations that must be submitted as of July 1, 2021 for the taxation periods starting from January 1, 2021 for corporate taxpayers 25% corporate tax/provisional tax will be applied to the tax bases declared in the tax returns. On the other hand, 23% corporate tax will be applied on corporate earnings for the 2022 accounting period.

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

The dividend income (excluding the participation certificates of investment funds and profit shares derived from the share certificates of investment trusts) derived by entities from the participation in the capital of another resident entity is exempt from corporate tax. Furthermore, 75 percent of the income derived by entities from the sale of participation shares and real estates (immovable property) preferential rights, founders' shares and redeemed shares which are carried in assets at least for two years is exempt from corporate tax as of 31 December 2021. However, according to the amendments by Law numbered 7061, this rate is reduced from 75 percent to 50 percent with regard to immovable properties and tax declarations starting from 2019 will be calculated using 50 percent for immovable properties. In order to be able to benefit from the exemption, the relevant income should be kept under a fund account in the liabilities and should not be withdrawn from the enterprise for 5 years. The sales amount should be collected by the end of the second calendar year following the year of sale.

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

27. INCOME TAXES (continued)

Deferred Tax (continued)

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

	31 December 2021	31 December 2020
Deferred Tax Assets/Liabilities:		
Discount on receivables	68.031	23.386
Adjustment to costs and provision for expected losses of construction contracts	3.209.561	2.180.101
Capitalized research-development expense	45.535	--
Allowance for impairment on inventories	768	(930)
Provision for delay penalties	226.816	86.896
Provision for copyright	114	--
Provision for warranties	287.401	210.441
Provision for severance pay	65.290	48.621
Provision for retirement bonus pay	--	3.942
Provision for annual leave	39.175	21.771
Provision for doubtful receivables	8.836	2.932
Other	248	--
Accumulated research and development incentive	760.905	587.234
Discount on payables	(7.469)	(6.786)
Adjustment of progress payments for long- term construction projects	(4.366.804)	(2.641.171)
Depreciation of fixed assets / amortization of intangible assets	102.773	(70.052)
Fixed assets revaluation fund	(34.384)	(34.384)
Gain on revaluation of available for sale financial assets	(107.066)	(58.847)
Other	(46.308)	(254)
Deferred tax assets	4.815.453	3.165.324
Deferred tax liabilities	(4.562.031)	(2.812.424)
Deferred tax assets – net	253.422	352.900

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27. INCOME TAXES (continued)

Deferred tax (continued)

	1 January- 31 December 2021		1 January- 31 December 2020	
<u>Movement of deferred tax assets/(liabilities):</u>				
Opening balance as of 1 January		352.900		785.951
Charged to statement of profit or loss		(66.681)		(419.250)
Charged to equity		(32.797)		(13.801)
		253.422		352.900
	Effective Tax Rate (%)	1 January- 31 December 2021	Effective Tax Rate (%)	1 January- 31 December 2020
<u>Tax reconciliations:</u>				
Profit before tax from continuing operations		7.196.423		4.885.151
Income tax rate		%25		%22
Tax at the domestic income tax rate	25	1.799.106	22	1.074.733
Tax effects of:				
- revenue that is exempt from taxation	(1)	(106.894)	(1)	(58.549)
- expenses that are not deductible in determining taxable profit	2	128.549	1	53.462
- R&D incentives and other income exempt from taxation	(19)	(1.368.825)	(13)	(649.372)
- Change effect of determining statutory tax rate as 20 percent to 22 percent for 3 years	(5)	(383.144)	--	16.697
- effect of other adjustments	--	290	--	(13.086)
Tax income / expense recognized in profit or loss	2	69.082	9	423.885

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28. EARNINGS PER SHARE

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

For the years ended 31 December 2021 and 2020, earnings per share calculations are as follows:

	1 January- 31 December 2021	1 January- 31 December 2020
Number of shares outstanding (in thousands)	2.280.000	2.280.000
Net profit – TL	7.130.563	4.449.106
Earnings per 100 shares	312,74	195,14
Diluted earnings per 100 shares	312,74	195,14

29. FINANCIAL INVESTMENTS**Financial Investments****Short-term Financial Investments**

	31 December 2021	31 December 2020
Eurobond	--	17.914
Realization of derivative instruments(forward)	--	--
	--	17.914

Non-Current Financial Investments

	31 December 2021	31 December 2020
a) Available for sale financial investments	2.146.455	1.182.088
b) Financial investments valued at cost that do not have a quoted market value	2.472	1.127
	2.148.927	1.183.215

a) Fair Value Difference Reflect in Other Comprehensive income

	31 December 2021	31 December 2020
Fair value difference reflect in other comprehensive income that are not traded in an active market	2.148.927	1.183.215
	2.148.927	1.183.215

ROKETSAN which is Group's equity investment is revalued and stated at fair value. As of 31 December 2020, the revaluation was performed by Oyak Yatırım Menkul Değerler Anonim Şirketi which is an independent valuation company. The fair value was determined according to "Discounted Cash Flow", "Similar Company Comparison" and "Realized Company Mergers and Acquisitions" methodologies. Discount ratio used in "Discounted Cash Flow" method is 25,5 percent (31 December 2020: 18,5 percent).

Company Name	Ratio(%)	31 December 2021	Ratio (%)	31 December 2020
ROKETSAN	14,897	2.146.455	14,897	1.182.088

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

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29. FINANCIAL INVESTMENTS (continued)**a) Available for sale financial investments (continued)****Financial Investments (continued)**

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

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

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

Company Name	Ratio (%)	31 December 2021	Ratio (%)	31 December 2020
ASPILSAN	1	2.472	1	1.127
		2.472		1.127

The above available-for-sale equity investment amounting to TL 2.472 (31 December 2020: TL 1.127) does not have a quoted market value and the fair value cannot be reliably measured due to a wide range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. For this reason they are stated at cost less provision for diminution in value, if any.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

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30. FINANCIAL LIABILITIES**Financial Liabilities**

		31 December 2021	31 December 2020
Short-term financial liabilities	Unsecured loan	1.841.901	1.521.433
Other short-term financial liabilities	Unsecured loan	114.199	96.742
Current portion of long-term financial liabilities	Unsecured loan	3.114.088	1.388.850
Total short-term financial liabilities		5.070.188	3.007.025
Other long-term financial liabilities	Unsecured loan	332.762	883.448
Total long-term financial liabilities		332.762	883.448
Total financial liabilities		5.402.950	3.890.473

As of 31 December 2021, TL 1.825.096 of the short term financial borrowings are EUR rediscount credits, which have maturity dates due between February 2022 - July 2022 and interest rates between 0,70 – 2,85 percent. As of 31 December 2021, TL 16.805 of the short term financial borrowings are Investment Credits that has interest rate of 17,50 percent from Development Bank. As of 31 December 2021, other short term financial liabilities TL 114.199 consist of credit card debt for social security payments with 45 days maturity and interest rate of 0,70 percent from Ziraat Bank. Current portions of long-term financial liabilities are EUR credits which have amounted to TL 2.681.504 with interest rates between 0,75 - 2,10, which have maturity dates due between April 2022 – August 2022. Moreover, TL 432.584 is consisted of Dollar credit which has maturity date due between February 2022 - August 2022 with interest rate 2,16 percent for now that is indexed to LIBOR.

As of 31 December 2021, TL 302.278 of the long term financial borrowings are EUR credits, which have maturity date of December 2023 with interest rate 3,35 percent. Also, other long-term financial liabilities, TL 30.484, is consisted of investment credits with interest rate of 17,50 percent from Development Bank.

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30. FINANCIAL LIABILITIES (continued)**Financial Liabilities (continued)**

As of 31 December 2020, TL 1.221.433 of the short term financial borrowings are EUR rediscount credits, which have maturity dates due between May 2021 -August 2021 and interest rates between 0,50 – 2,00 percent. As of 31 December 2020, TL 300.000 is TL Rediscount Credits, which have maturity dates due between May 2021 -June 2021 and has interest rate between 7,08 -7,25 percent. The remaining of the short term other financial liabilities consist of loans borrowed for social security payments with 45 days maturity and interest rate of 0,79 percent from Ziraat Bank. Current portions of long-term financial liabilities are consist of EUR rediscount credits which have amounted to TL 1.266.508 with interest rates between 0,60 - 0,80. Moreover, TL 122.342 is consisted of Dollar credit which has maturity date due August 2021 with interest rate 2,29 percent.

As of 31 December 2020, TL 638.765 of the long term financial borrowings are EUR rediscount credits, which have maturity dates due between April 2022 - August 2022 with interest rates 0,75 percent. Also, TL 244.683 is consisted of USD rediscount credits which have maturity date due August 2022 with floating interest rates depended on LIBOR.

Bank Loans

Currency	31 December 2021		
	Weighted average interest rate (%)	Short-term	Long-term
Euro	1,26	4.458.600	302.278
TL	14,18	166.488	30.484
USD	2,22	445.100	--
		5.070.188	332.762

Currency	31 December 2020		
	Weighted average interest rate (%)	Short-term	Long-term
Euro	0,70	2.468.164	630.553
TL	7,17	416.519	8.212
USD	2,29	122.342	244.683
		3.007.025	883.448

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

	31 December 2021	31 December 2020
Within 1 year	5.070.188	3.007.025
Between 1-2 years	332.762	883.448
	5.402.950	3.890.473

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31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS**a) Capital risk management**

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

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

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

Net debt and share capital as of 31 December 2021 and 2020 is as follows:

	31 December 2021	31 December 2020
Total liabilities	5.402.950	3.890.473
Less: Cash and cash equivalents	(2.492.096)	(4.081.654)
Net debt (asset)	2.910.854	(191.181)
Total equity	25.835.210	18.098.103

b) Financial Risk Factors:

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

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

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

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

Credit Risk

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

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

Credit risk (continued)

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

31 December 2021	Receivables				Bank Deposits	Other
	Trade Receivables		Other Receivables			
	Related party	Third party	Related party	Third party		
Maximum net credit risk as of the reporting date (A+B+C+D) ¹	13.584.255	8.869.562	24.836	699.776	2.490.041	1.594
- The part of maximum risk under guarantee with collateral etc. ²	--	18.221	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	13.584.255	8.869.562	24.836	699.776	2.490.041	1.594
B. Net book value of financial assets that are past due but not impaired	--	--	--	--	--	--
C. Net book value of impaired assets	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	30.172	--	--	--	--
- Impairment (-)	--	(30.172)	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
- Undue (gross carrying amount)	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
D. Factors that include off balance sheet credit risks	--	--	--	--	--	--

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

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

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

Credit risk (continued)

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

31 December 2020	Receivables				Bank Deposits	Other
	Trade Receivables		Other Receivables			
	Related party	Third party	Related party	Third party		
Maximum net credit risk as of the reporting date (A+B+C+D) ¹	9.379.965	5.235.934	75.181	598.445	4.127.325	25.064
- The part of maximum risk under guarantee with collateral etc. ²	--	19.655	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	9.379.965	4.015.042	75.181	598.445	4.127.325	25.064
B. Net book value of financial assets that are past due but not impaired	--	1.220.892	--	--	--	--
C. Net book value of impaired assets	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	22.442	--	--	--	--
- Impairment (-)	--	(22.442)	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
- Undue (gross carrying amount)	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
D. Factors that include off balance sheet credit risks	--	--	--	--	--	--

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

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

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

Credit Risk (continued)

The aging of the overdue receivables is as follows:

	31 December 2021	31 December 2020
Overdue by 1-30 days	--	98.638
Overdue by 1-3 months	--	82.013
Overdue by 3-12 months	--	430.569
Overdue by 12 months	--	609.672
Total receivables	--	1.220.892

No collateral has been received for the overdue receivables.

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

Liquidity risk

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

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

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

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 31 December 2021 is as follows:

Contractual Maturity Analysis	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Financial liabilities	5.402.950	5.402.950	669.792	4.400.396	332.762	--

Expected Maturity	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Trade payables	6.064.939	6.096.854	6.053.940	15.105	27.809	--
Other payables	355.591	355.591	331.673	5.663	18.255	--

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

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 31 December 2020 is as follows:

Contractual Maturity Analysis	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Financial liabilities	3.890.473	3.890.473	--	3.007.025	883.448	--

Expected Maturity	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Trade payables	4.251.780	4.284.876	3.218.461	1.066.104	311	--
Other payables	137.416	137.416	--	101.022	36.394	--

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

Market risk management

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

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

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

Foreign currency risk management

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

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

FOREIGN EXCHANGE POSITION						
31 December 2021	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other¹
1. Trade receivables	6.583.031	195.853	2.610.529	263.311	3.972.502	--
2a. Monetary financial assets (including cash, bank)	87.352	5.219	69.564	717	10.822	6.966
2b. Non- monetary financial assets	1.189.643	49.371	658.069	57.443	866.619	218.699
3. Other	42.813	3.140	41.849	61	913	51
4. Current assets (1+2+3)	7.902.839	253.583	3.380.011	321.532	4.850.856	225.716
5. Trade receivables	9.736.372	447.344	5.962.648	250.136	3.773.724	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	370.892	1.040	13.866	80.284	1.211.222	14.896
7. Other	78.840	2.451	32.664	2.753	41.540	4.636
8. Long-term assets (5+6+7)	10.186.104	450.835	6.009.178	333.173	5.026.486	19.532
9. Total assets (4+8)	18.088.943	704.418	9.389.189	654.705	9.877.342	245.248
10. Trade payables	2.635.083	79.501	1.061.580	100.479	1.518.631	54.872
11. Financial liabilities	4.903.700	33.333	445.100	295.000	4.458.600	--
12a. Other monetary financial liabilities	2.480	154	2.061	28	419	--
12b. Other non-monetary financial liabilities	132.236	118.601	1.583.681	118.521	1.791.308	--
13. Current liabilities (10+11+12)	7.673.499	231.589	3.092.422	514.028	7.768.958	54.872
14. Trade payables	--	--	--	--	--	--
15. Financial liabilities	302.278	--	--	20.000	302.278	--
16a. Other monetary financial liabilities	2.439	155	2.069	25	370	--
16b. Other non-monetary financial liabilities	2.350.122	153.537	2.050.177	161.787	2.445.227	--
17. Non-current liabilities (14+15+16)	2.654.839	153.692	2.052.246	181.812	2.747.875	--

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

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

FOREIGN EXCHANGE POSITION						
31 December 2021	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other
18. Total liabilities (13+17)	10.328.338	385.281	5.144.668	695.840	10.516.833	54.872
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)	7.760.605	319.137	4.244.521	-41.135	-639.491	190.376
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10- 11-12a-14-15-16a)	8.560.775	535.273	7.131.931	98.632	1.476.750	(47.906)
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	2.242.898	78.453	750.653	30.981	344.947	1.147.298
26. Imports	5.968.381	303.405	4.044.085	104.378	1.574.727	349.569

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

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

FOREIGN EXCHANGE POSITION						
31 December 2020	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other¹
1. Trade receivables	5.218.519	451.080	3.311.153	210.535	1.896.476	10.890
2a. Monetary financial assets (including cash, bank)	708.690	69.039	506.782	21.985	198.044	3.864
2b. Non- monetary financial assets	575.245	52.316	384.026	28.905	260.371	60.099
3. Other	78.674	3.370	24.735	5.985	53.911	28
4. Current assets (1+2+3)	6.581.128	575.805	4.226.696	267.410	2.408.802	74.881
5. Trade receivables	5.449.954	487.910	3.581.501	207.424	1.868.453	0
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	339.959	1.362	10.000	82.297	741.323	7.591
7. Other	8.933	679	4.981	438	3.945	7
8. Long-term assets (5+6+7)	5.798.846	489.951	3.596.482	290.159	2.613.721	7.598
9. Total assets (4+8)	12.379.974	1.065.756	7.823.178	557.569	5.022.523	82.479
10. Trade payables	1.292.674	92.035	675.581	65.310	588.305	28.788
11. Financial liabilities	2.590.506	16.667	122.342	274.000	2.468.164	--
12a. Other monetary financial liabilities	965	121	889	8	76	--
12b. Other non-monetary financial liabilities	425.925	89.316	655.625	115.665	1.041.903	--
13. Current liabilities (10+11+12)	4.310.070	198.139	1.454.437	454.983	4.098.448	28.788
14. Trade payables	--	--	--	--	--	--
15. Financial liabilities	875.236	33.333	244.683	70.000	630.553	--
16a. Other monetary financial liabilities	1.128	150	1.101	3	27	--
16b. Other non-monetary financial liabilities	1.459.314	179.532	1.317.856	126.717	1.141.458	--
17. Non-current liabilities (14+15+16)	2.335.678	213.015	1.563.640	196.720	1.772.038	--

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

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

FOREIGN EXCHANGE POSITION						
31 December 2020	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other
18. Total liabilities (13+17)	6.645.748	411.154	3.018.077	651.703	5.870.486	28.788
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)	5.734.226	654.602	4.805.101	(94.134)	(847.963)	53.691
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10- 11-12a-14-15-16a)	6.616.654	865.723	6.354.840	30.623	275.848	(14.034)
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	979.056	110.916	785.769	21.995	189.286	4.001
26. Imports	3.825.534	351.887	2.583.028	118.337	1.065.972	176.534

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

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

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

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

Foreign currency sensitivity

The Group is exposed to foreign currency risk with respect to USD and EURO.

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

Foreign currency sensitivity table				
31 December 2021				
	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)	713.193	(713.193)	713.193	(713.193)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	713.193	(713.193)	713.193	(713.193)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	147.675	(147.675)	147.675	(147.675)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	147.675	(147.675)	147.675	(147.675)
Change of other currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	(4.791)	4.791	(4.791)	4.791
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	(4.791)	4.791	(4.791)	4.791

¹ Comprises of profit/loss effect.

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

31. NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)**Foreign currency sensitivity (continued)**

Foreign currency sensitivity table				
31 December 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)	635.484	(635.484)	635.484	(635.484)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	635.484	(635.484)	635.484	(635.484)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	27.585	(27.585)	27.585	(27.585)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	27.585	(27.585)	27.585	(27.585)
Change of other currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	(1.403)	1.403	(1.403)	1.403
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	(1.403)	1.403	(1.403)	1.403

Interest rate risk management

As of 31 December 2021 and 31 December 2020, since all of the loans obtained by the Group are fixed-rate loans, the Group is not exposed to significant interest rate risk.

As of 31 December 2021, the Group does not have interest bearing financial assets, therefore there is no exposure to interest risk (31 December 2020: None).

Price risk

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

Hierarchy of fair value

As of 31 December 2021 and 31 December 2020, the Group's financial assets at their fair values are as in the following page:

¹ Comprises of profit/loss effect.

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

31 December 2021	Financial assets at fair value P/L	Financial assets at amortized cost	Financial assets at fair value through OCI	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
Cash and cash equivalents	--	2.492.096	--	--	2.492.096	3
Financial investments	2.472	--	2.146.455	--	2.148.927	29
Equity accounted investments	219.833	--	--	--	219.833	8
Trade receivables	--	22.453.817	--	--	22.453.817	6
<u>Financial liabilities</u>						
Borrowings	--	--	--	5.402.950	5.402.950	30
Trade payables	--	--	--	6.064.939	6.064.939	6
Other payables	--	--	--	355.591	355.591	7
31 December 2020	Financial assets at fair value P/L	Financial assets at amortized cost	Financial assets at fair value through OCI	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>						
Cash and cash equivalents	--	4.081.654	--	--	4.081.654	3
Financial investments	19.041	--	1.182.088	--	1.201.129	29
Equity accounted investments	150.210	--	--	--	150.210	8
Trade receivables	--	14.615.899	--	--	14.615.899	6
<u>Financial liabilities</u>						
Borrowings	--	--	--	3.890.473	3.890.473	30
Trade payables	--	--	--	4.251.780	4.251.780	6
Other payables	--	--	--	137.416	137.416	7

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

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

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

- **Level 1:** The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- **Level 2:** The fair value of other financial assets and financial liabilities are determined in accordance with data which can be observed by directly or indirectly and which excludes the registered prices described in Level 1 ; and
- **Level 3:** The fair value of the financial assets and financial liabilities are determined where there is no observable market data.

Fair value hierarchy of financial assets that are measured at fair value:

ROKETSAN has presented under Group's financial assets that fair value reflect in other comprehensive income as of 31 December 2021. The fair value of ROKETSAN as of 31 December 2021 is TL 2.146.456 and was determined according to "Discounted Cash Flow", "Similar Company Comparison" and "Realized Company Mergers and Acquisitions" methodologies and its fair value hierarchy is Level 3.

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

Available for sale financial assets	31 December 2021	31 December 2020
	Marketable Equity Shares	Marketable Equity Shares
Opening balance	1.182.088	987.560
Total gain/loss - transferred to other comprehensive income	964.367	194.528
Closing balance	2.146.455	1.182.088

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

31 December 2021	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
Financial Investments	--	--	2.146.455
	--	--	2.146.455

31 December 2020	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
Financial Investments	--	--	1.182.088
	--	--	1.182.088

The movement of the fair value level as of 31 December 2021 is as follows:

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
1 January 2021	--	--	1.182.088
Additions	--	--	964.367
31 December 2021	--	--	2.146.455

33. EXPLANATIONS RELATED TO THE STATEMENT OF CASH FLOW

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

	31 December 2020	Cash Movements	Non-cash movements			31 December 2021
			Additions	Exchange rate change	Other non-cash movements	
Financial Liabilities (Note 30)	3.890.473	(673.592)	22.684	2.163.385	--	5.402.950
Total liabilities arising from financing activities	3.890.473	(673.592)	22.684	2.163.385	--	5.402.950

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

34. FEES FOR SERVICES RENDERED FROM INDEPENDENT AUDIT FIRMS

For the period ended on 31 December 2021, fee for independent audit is TL 209 of the Group (31 December 2020: TL 196).

For the period ended on 31 December 2021, there is no different services rendered from the independent audit firms except fee for independent audit of the Group.

35. EVENTS AFTER THE REPORTING PERIOD

After the reporting period, the Group have signed contracts amounting to USD 39,6 Million.