

**(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 2022 WITH INDEPENDENT
AUDITORS' REPORT THEREON**

28 February 2023

This report contains independent audit report comprising
5 pages and consolidated financial statements and footnotes
comprising 97 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, 2022, 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, 2022, 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.



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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 3.365.812 thousand TRL as 31 December 2022 in the accompanying consolidated financial statements.

Capitalized development costs on the consolidated financial statements as of 31 December 2022 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.



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

We also:

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

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

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

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



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

- 1) Pursuant to Article 398 of the Turkish Commercial Code ("TCC") no. 6102, the auditor's report on early detection of risk system and the authorized committee is submitted to the Company's Board of Directors on 28 February 2023.
- 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 2022 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, 28 February 2023

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ASELSAN ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2022

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

	Note References	Audited	
		31 December 2022	31 December 2021
ASSETS			
Current Assets		38.299.445	23.175.142
Cash and Cash Equivalents	3	5.686.996	2.492.096
Trade Receivables	6	14.888.340	9.803.350
<i>From Related Parties</i>	5	6.242.612	4.255.114
<i>From Third Parties</i>		8.645.728	5.548.236
Other Receivables	7	1.026.644	722.508
<i>From Related Parties</i>	5	5.580	24.836
<i>From Third Parties</i>		1.021.064	697.672
Inventories	9	12.592.653	7.638.954
Prepaid Expenses	10	3.154.875	2.027.017
<i>From Related Parties</i>	5	1.199.891	939.613
<i>From Third Parties</i>		1.954.984	1.087.404
Other Current Assets	18	949.937	491.217
Non-Current Assets		37.744.396	23.238.156
Financial Investments	29	4.288.363	2.148.927
Trade Receivables	6	18.973.918	12.650.467
<i>From Related Parties</i>	5	14.301.569	9.329.141
<i>From Third Parties</i>		4.672.349	3.321.326
Other Receivables	7	5.983	2.104
<i>From Third Parties</i>		5.983	2.104
Equity Accounted Investments	8	298.477	219.833
Property, Plant and Equipment	11	6.327.444	3.432.149
Intangible Assets	12	3.531.910	2.267.610
Prepaid Expenses	10	761.483	817.736
<i>From Related Parties</i>	5	100.440	137.239
<i>From Third Parties</i>		661.043	680.497
Deferred Tax Assets	27	2.082.110	253.422
Other Non-Current Assets	18	1.474.708	1.445.908
TOTAL ASSETS		76.043.841	46.413.298

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 2022

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

	Note References	Audited	
		31 December 2022	31 December 2021
LIABILITIES			
Current Liabilities		29.651.397	16.749.927
Short-term Financial Liabilities	30	5.602.536	1.956.100
Short-term Portion of Long-term Financial Liabilities	30	4.161.402	3.114.088
Trade Payables	6	9.775.271	6.039.472
<i>To Related Parties</i>	5	2.654.902	1.919.239
<i>To Third Parties</i>		7.120.369	4.120.233
Employee Benefit Obligations	17	637.239	306.525
Other Payables	7	369.944	342.336
<i>To Related Parties</i>	5	306.989	301.608
<i>To Third Parties</i>		62.955	40.728
Government Grants and Incentives	13	69.856	27.291
Deferred Income	10	4.100.087	1.850.165
<i>To Related Parties</i>	5	1.661.385	413.389
<i>To Third Parties</i>		2.438.702	1.436.776
Corporate Tax Liability	27	182	2.401
Short-term Provisions		4.881.364	3.080.222
<i>For Employee Benefits</i>	17	871.333	170.902
<i>Other</i>	15	4.010.031	2.909.320
Other Current Liabilities	18	53.516	31.327
Non-Current Liabilities		6.531.475	3.828.161
Long-term Financial Liabilities	30	1.069.683	332.762
Trade Payables	6	72.720	25.467
<i>To Third Parties</i>		72.720	25.467
Other Payables	7	16.289	13.255
<i>To Third Parties</i>		16.289	13.255
Deferred Income	10	2.157.322	1.929.027
<i>To Related Parties</i>	5	1.320.021	1.035.264
<i>To Third Parties</i>		837.301	893.763
Long-term Provisions		3.210.595	1.513.317
<i>Long-term Provisions for Employee Benefits</i>	17	579.397	333.508
<i>Other</i>	15	2.631.198	1.179.809
Other Non-Current Liabilities		4.866	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 2022**

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

	Note References	Audited	
		31 December 2022	31 December 2021
EQUITY		39.860.969	25.835.210
Equity Attributable to Equity Holders of the Parent		39.636.982	25.563.442
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)		780.009	186.416
<i>Gain on Revaluation of Property, Plant and Equipment</i>		<i>1.100.324</i>	<i>309.535</i>
<i>Gain/ Loss on Remeasurement of Defined Benefit Plans</i>		<i>(320.315)</i>	<i>(123.119)</i>
Other Cumulative Comprehensive Income / (Expense) will be Reclassified to Profit/Loss		4.202.072	2.177.786
<i>Gain (Loss) on Financial Assets That Fair Value Difference</i>			
<i>Reflect in Other Comprehensive income</i>		<i>4.002.881</i>	<i>2.034.249</i>
<i>Cumulative Translation Adjustments</i>		<i>199.191</i>	<i>143.537</i>
Restricted Reserves	19	612.077	542.341
Retained Earnings		16.951.819	10.350.992
Net Profit for the Year		11.915.661	7.130.563
Non-Controlling Interests		223.987	271.768
TOTAL LIABILITIES AND EQUITY		76.043.843	46.413.298

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 2022

(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 2022	1 January- 31 December 2021
PROFIT OR LOSS			
Revenue	20	35.281.677	20.138.953
Cost of Sales (-)	20	(23.498.222)	(13.490.042)
GROSS PROFIT		11.783.455	6.648.911
General Administrative Expenses (-)	21	(1.205.514)	(576.057)
Marketing Expenses (-)	21	(877.661)	(670.136)
Research and Development Expenses (-)	21	(816.961)	(332.748)
Other Operating Income	22	12.294.318	10.754.188
Other Operating Expenses (-)	22	(9.087.645)	(6.405.990)
OPERATING PROFIT		12.089.992	9.418.168
Income From Investing Activities	23	6.782	10.599
Shares of Profit of Equity Accounted Investees	8	17.920	(2.820)
OPERATING PROFIT BEFORE FINANCIAL EXPENSE		12.114.694	9.425.947
Financial Income	24	698.147	514.051
Financial Expense (-)	25	(2.913.853)	(2.743.575)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		9.898.988	7.196.423
Tax Income from Continuing Operations		1.969.121	(69.082)
- Current Corporate Tax Expense(-)	27	(1.745)	(2.401)
- Deferred Tax Income	27	1.970.866	(66.681)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		11.868.109	7.127.341
Profit for the Period Attributable to		11.868.109	7.127.341
Non-Controlling Interest		(47.552)	(3.222)
Owners of the Company	28	11.915.661	7.130.563
		11.868.109	7.127.341
Earnings for per 100 Shares (in full kuruş)	28	522,62	312,74

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 2022**

(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 2022	1 January- 31 December 2021
PROFIT FOR THE YEAR		11.868.109	7.127.341
OTHER COMPREHENSIVE INCOME			
Items that will not to be Reclassified Subsequently in Profit or Loss		593.593	(61.687)
Gain on Remeasurement of Defined Benefit Plans	17	(246.496)	(77.108)
Gain on Revaluation of Property, Plant and Equipment	26	878.655	--
Deferred Tax Expense	26-27	(38.566)	15.421
Items that may be Reclassified Subsequently to Profit or Loss		2.024.286	1.012.805
Gain (Loss) on Financial Assets That Fair Value Difference Reflect in Other Comprehensive income	26	2.072.244	964.367
Cumulative Translation Adjustments	26	55.654	96.656
Deferred Tax Expense	26-27	(103.612)	(48.218)
OTHER COMPREHENSIVE INCOME		2.617.879	951.118
TOTAL COMPREHENSIVE INCOME		14.485.988	8.078.459
Total Comprehensive Income Attributable to Non-Controlling Interest Owners of the Company		(47.552)	(3.222)
		14.533.540	8.081.681
		14.485.988	8.078.459

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 2022

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

	Share Capital	Inflation Adjustments on Share Capital	Share Issuance Premiums/ (Discounts)	Other Comprehensive Income / Expense that will not to be Reclassified Subsequently to Profit or Loss		Other Comprehensive Income / Expense that may not to be Reclassified Subsequently to Profit or Loss			Retained Earnings		Equity Attributable to Owners of the Company	Non-Controlling Interests	Equity
				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			
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
Balance as of 1 January 2022	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
Transfers	--	--	--	--	--	--	--	69.736	6.600.827	(6.670.563)	--	--	--
Capital Increase	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Comprehensive Income	--	--	--	790.789	(197.196)	1.968.632	55.654	--	--	11.915.661	14.533.540	-47.552	14.485.988
Consolidation Effect of New Establishment	--	--	--	--	--	--	--	--	--	--	--	--	--
Dividends	--	--	--	--	--	--	--	--	--	(460.000)	(460.000)	(229)	(460.229)
Balance as of 31 December 2022 (Closing Balance)	2.280.000	98.621	2.796.723	1.100.324	(320.315)	4.002.881	199.191	612.077	16.951.819	11.915.661	39.636.982	223.987	39.860.969

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 2022

(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 2022	1 January- 31 December 2021
A.Cash Flows from Operating Activities		5.761.731	2.432.551
Profit for the Period		11.868.109	7.127.341
Adjustments to Reconcile Profit for the Period		6.784.134	6.098.771
- Adjustments for Depreciation and Amortization Expense	11-12	588.934	432.191
- Adjustments for Impairment Loss (Reversal of Impairment Loss)		204	41.086
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Receivables</i>	6	148	7.730
<i>Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories</i>	9	56	33.356
-Adjustments for Provisions		4.167.219	2.038.842
<i>Adjustments for (Reversal of) Provisions Related with Employee Benefits</i>	17	823.540	130.776
<i>Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions</i>	15	1.742.578	1.117.428
<i>Adjustments for (Reversal of) Warranty Provisions</i>	15	1.425.264	577.727
<i>Adjustments for (Reversal of) Other Provisions</i>	15	175.837	212.911
-Adjustments for Interest (Income) Expenses		81.432	346.941
<i>Adjustments for Interest Income</i>	22-24	(354.238)	(191.290)
<i>Adjustments for Interest Expense</i>	22-25	435.670	538.231
- Adjustments for Retained Profit of Equity Accounted Investees	8	(17.920)	2.820
- Adjustments for Tax (Income)/Expenses	27	(1.969.121)	69.082
-Other Adjustments for which Cash Effects are Investing or Financing Cash Flow		1.901.806	2.156.388
-Other Adjustments to Reconcile Profit (Loss)		2.031.580	1.011.421
Changes in Working Capital		(11.971.253)	(10.227.847)
- Decrease (Increase) in Trade Receivables		(10.773.874)	(6.489.832)
- Decrease (Increase) in Other Receivables Related with Operations		(308.015)	(50.986)
- Decrease (Increase) in Inventories		(4.842.704)	(2.094.115)
- Decrease (Increase) in Prepaid Expenses	10	(1.162.359)	(611.899)
- Increase (Decrease) in Trade Payables		4.128.176	1.961.552
- Increase (Decrease) in Employee Benefit Obligations		330.714	101.019
-Adjustments for Stage of Completion of Construction or Service Contracts in Progress		(1.824.833)	(1.479.884)
- Increase (Decrease) in Other Operating Payables		(276.347)	(78.433)
- Increase (Decrease) in Government Grants and Subsidies		42.565	(2.222)
- Increase (Decrease) in Deferred Income		3.232.665	(1.023.483)
- Other Increase (Decrease) in Working Capital		(517.241)	(459.564)
Cash Flows From Operations		6.680.990	2.998.265
Payments Related with Provisions for Employee Benefits	17	(123.716)	(77.292)
Payments Related with Other Provisions	15	(791.579)	(483.788)
Income Taxes Refund (Paid)		(3.964)	(4.634)
B.Cash Flows From Investing Activities		(6.199.345)	(3.505.944)
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		6.940	6.400
Purchase of Property, Plant and Equipment	11	(2.383.502)	(1.388.135)
Purchase of Intangible Assets	12	(3.788.655)	(2.051.206)
Proceeds from Derivative Instruments		--	--
Dividends Received	23	4.958	6.997
Other Cash Outflows		(39.086)	(80.000)
C.Cash Flows From Financing Activities		3.370.896	(754.301)
Proceeds from Borrowings		11.054.706	6.008.589
Repayments of Borrowings		(7.530.799)	(6.659.498)
Dividends Paid	19	(153.011)	(103.392)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		2.933.282	(1.827.694)
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		260.227	240.544
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		3.193.509	(1.587.150)
E.CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		2.491.606	4.078.756
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	3	5.685.115	2.491.606

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 2022

(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 Türkiye ("CMB") and its shares have been quoted in Borsa İstanbul Anonim Şirketi ("BİST") since 1990. As of 31 December 2022, 25,80 percent of the Company's shares are publicly traded (31 December 2021: 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 2022 is 10.948 (31 December 2021: 9.905).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(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 Qatar") 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 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 1177 on 28 February 2023. 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 Türkiye 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 2022

(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 2022	31 December 2021	
ASELSANNET	Türkiye	TL	100	100	Communication systems
ASELSAN Baku	Azerbaijan	AZN	100	100	Marketing and sales of the group products
ASELSAN GLOBAL	Türkiye	TL	100	100	Export
Mikro AR-GE	Türkiye	TL	85	85	Microelectronic R&D projects
ASELSAN Malaysia	Malaysia	MYR	100	100	Remote controlled weapon systems
ASELSAN Konya	Türkiye	TL	51	51	Weapon and weapon systems
BITES	Türkiye	TL	51	51	Defense, Aerospace, Space Technologies, Software
ASELSAN Ukraine	Ukraine	UAH	100	100	Marketing and sales of the group products
ULAK	Türkiye	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 2022

(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 2022 and 2021 are as follows:

Joint Ventures	Principal Activity	Country of establishment and operation	Group's proportion of ownership and voting power held (%)	
			31 December 2022	31 December 2021
ASELSAN Hassas Optik Sanayi ve Ticaret Anonim Şirketi ("ASELSAN Optik")	Sensitive optic technologies	Türkiye	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	Türkiye	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	Türkiye	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	Türkiye	13	13
EHSİM Elektronik Harp Sistemleri Müh. Tic. A.Ş. ("EHSİM")	Electronic Warfare and Tactical Command Systems	Türkiye	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.	Türkiye	35	35
DASAL Havacılık Teknolojileri A.Ş.	Aviation technologies	Türkiye	40	40
İstanbul Finans ve Teknoloji Merkezi	To establish infrastructure activities for the development of the financial technology ecosystem	Türkiye	44	--

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(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, 2022 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, 2022 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, 2022 are as follows:

Amendments to TFRS 3 - Reference to the Conceptual Framework

In July 2020, POA 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 amendment has no impact on the consolidated financial position and performance of the Group.

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

In July 2020, POA 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 amendment has no impact on the consolidated financial position and performance of the Group.

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

In July 2020, POA issued Property, Plant and Equipment - Proceeds before Intended Use, which made amendments to TAS 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.

(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)

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted. The amendment has no impact on the consolidated financial position and performance of the Group.

Annual Improvements to TFRS 2018–2020

IASB issued Annual Improvements to TFRSs - 2018–2020 Cycle for applicable standards in May 2020. The amendments are effective as of 1 January 2022. Earlier application is permitted. These improvements to TFRSs have no impact on the consolidated financial position and performance of the Group.

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 TFRS 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.

TAS 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 TAS 41 with those in TFRS 13 Fair Value Measurement. The amendments provide the flexibility to use either, as appropriate, in line with TFRS 13.

b) Standards Issued But Not Yet Effective and Not Early Adopted as of 31 December 2022

TFRS 17 – Insurance Contracts

POA 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 POA 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.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)**2.4 New and Revised Turkish Accounting Standards (continued)****Amendments to TAS 1 - Classification of Liabilities as Current or Non-current**

On January 15, 2021, POA 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 TAS 1.

Amendments to TAS 1 - Disclosure of Accounting Policies

In August 2021, POA issued amendments to TAS 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, POA 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 POA. 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 TAS 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 TAS1.

Amendments to TAS 8 - Definition of Accounting Estimates

In August 2021, POA issued amendments to TAS 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 TAS 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 TAS 8.

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

In August 2021, POA issued amendments to TAS 12, which narrow the scope of the initial recognition exception under TAS 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 TAS 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 TAS 12.

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

2.4 New and Revised Turkish Accounting Standards (continued)

Amendments to TAS 1 – Non-Current Liabilities with Covenants

On December 20, 2022, POA issued amendments to TAS 1 Non-Current Liabilities with Covenants. The amendments set out in 'Non-current Liabilities with Covenants (Amendments to TAS 1)' state that at the reporting date, the entity doesn't need to consider covenants to be complied with in the future, when considering the classification of the debt as current or non-current. Instead, the entity should disclose information about these covenants in the notes to the financial statements. With these changes, aims to help investors understand the risk that such debt could become repayable early and therefore, has improved the information being provided on the long-term debt.

The amendments are applicable for annual reporting periods beginning on or after 1 January 2024, with early application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments.

Amendments to IFRS 16 -Lease Liability in a Sale and Leaseback

On 20 December 2022, the POA issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) with amendments that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments are effective for annual periods beginning on or after 1 January 2024. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments.

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

In December 2017, POA 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.

(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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(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 Türkiye, 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)

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).

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).

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3. CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash	401	461
Bank		
- <i>Time deposit</i>	5.243.512	2.284.705
- <i>Demand deposit</i>	436.452	125.876
Lease Certificate (Sukuk)	--	78.970
Other	4.750	1.594
Cash and cash equivalents on the cash flow statement	5.685.115	2.491.606
Interest income accruals	1.881	490
	5.686.996	2.492.096

As of 31 December 2022, the Group has time deposits denominated in foreign currencies with maturities on January 2023 (31 December 2021: January 2022), with the interest rates between 0,75 percent and 3,00 percent (31 December 2021: 0,25 percent and 2,35 percent) amounting to TL 1.682.876 (31 December 2021: TL 74.795) in several banks.

As of 31 December 2022, the Group has time deposits denominated in TL terms with maturities on January 2023 (31 December 2021: January 2022) with the interest rates 20 percent (31 December 2021: 15,75 percent and 26 percent) amounting to TL 3.560.636 (31 December 2021: TL 2.209.910) in several banks.

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4. INTERESTS IN OTHER ENTITIES

a) Subsidiaries

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

Subsidiaries	Location	Functional Currency	Group's proportion of ownership and voting power held (%)		Main Activity
			31 December 2022	31 December 2021	
ASELSANNET	Türkiye	TL	100	100	Communication systems
ASELSAN Baku	Azerbaijan	AZN	100	100	Marketing and sales of the group products
ASELSAN GLOBAL	Türkiye	TL	100	100	Export
Mikro AR-GE	Türkiye	TL	85	85	Microelectronic R&D projects
ASELSAN Malaysia	Malaysia	MYR	100	100	Remote controlled weapon systems
ASELSAN Konya	Türkiye	TL	51	51	Weapon and weapon systems
BITES	Türkiye	TL	51	51	Defense, Aerospace, Space Technologies, Software
ASELSAN Ukraine	Ukraine	UAH	100	100	Marketing and sales of the group products
ULAK	Türkiye	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.

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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 year.

The trade payables to related parties generally arise from the purchase activities with maturities of 1-4 months.

Total amount of salaries and other short-term benefits paid for key management for the period ended 31 December 2022 is approximately TL 80.271 (The vast majority consists of paid wages and benefits.) (31 December 2021: TL 37.208).

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

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5. RELATED PARTY DISCLOSURES (continued)

	31 December 2022									
	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	65	--	--	--	--	--	22.044	227.771	--	--
Main shareholder's subsidiaries and associates										
Hava Elektronik San. ve Tic. Anonim Şirketi ("HAVELSAN")	12.295	103.679	--	14.842	615	548.575	--	--	--	3
HAVELSAN Teknoloji Radar San. ve Tic. Anonim Şirketi ("HTR")	20.875	35.787	--	--	--	53.541	281	--	--	--
İşbir Elektrik Sanayii Anonim Şirketi ("İŞBİR")	--	60.729	--	--	2.222	54.537	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	--	14.763	--	--	1.585	112.535	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	673.187	7.703	--	359.503	--	23.609	948	--	--	133.794
Türk Havacılık ve Uzay Sanayi ve Ticaret Anonim Şirketi ("TUSAŞ")	1.192.299	--	--	899.546	--	2.292	107.869	--	--	41.278
Financial Instruments										
Askeri Pil Sanayi ve Ticaret Anonim Şirketi ("ASPİLSAN")	223	24.544	--	--	--	39.846	--	--	--	--
Roket Sanayi ve Ticaret Anonim Şirketi ("ROKETSAN")	928.068	731.447	--	189.405	92.435	1.576.944	157.476	--	--	18.630
Joint ventures and its related parties										
ASELSAN Bilkent Mikro Nano	--	27.106	--	--	2.482	7.883	--	--	--	--
İhsan Doğramacı Bilkent Üniversitesi	--	276	--	--	--	9.729	--	--	--	--
ASELSAN Optik	41.049	105.420	5.580	--	--	49.316	--	--	--	--
IGG	156.850	--	--	4.236	--	--	--	--	--	--
IGG ASELSAN	16.068	2.774	--	--	--	14.466	--	--	--	--
ASELSAN Kazakistan	147.724	--	--	56.172	--	504	5.425	--	--	1.160
ASELSAN Jordan	26.424	565	--	--	--	21.433	--	--	--	--
TÜBİTAK BİLGEM	--	27.508	--	--	--	54.178	--	--	--	--
TÜBİTAK-UME	--	137	--	--	--	119	--	--	--	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	24.505	22.083	--	180.155	1.101	3.117	5.539	--	--	11.260
TÜBİTAK SAGE Savunma Sanayii	815	34.028	--	9.707	--	70.919	--	--	--	--
Savunma Sanayi Başkanlığı ("SSB")	3.002.165	--	--	12.588.003	--	--	1.279.411	--	--	1.026.656
SSTEK	--	--	--	--	--	413	82.392	--	--	87.240
EHSİM	--	1.342	--	--	--	7.749	--	--	--	--
DASAL	--	--	--	--	--	3.197	--	--	--	--
Shares Publicly traded	--	--	--	--	--	--	--	79.218	--	--
	6.242.612	1.199.891	5.580	14.301.569	100.440	2.654.902	1.661.385	306.989	--	1.320.021

¹ All other short term payable is 2022 dividend payments.

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5. RELATED PARTY DISCLOSURES (continued)

Balances with related parties	31 December 2021									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
	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	--	--	--	--
NETAŞ Telekomünikasyon Anonim Şirketi ("NETAŞ")	--	10.500	--	--	1.669	84.588	--	--	--	--
Savunma Teknolojileri Mühendislik ve Ticaret Anonim Şirketi ("STM")	448.434	3.116	--	494.820	--	12.226	21.676	--	--	117.547
Türk Havacılık ve Uzak 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.

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5. RELATED PARTY DISCLOSURES (continued)

	1 January- 31 December 2022	1 January- 31 December 2021
Transactions with related parties	Purchases	Purchases
<u>Main Shareholder</u>		
TSKGV	1.473	1.226
<u>Main shareholder's subsidiaries and associates</u>		
NETAŞ	150.594	102.073
STM	24.595	18.895
İŞBİR	187.551	109.049
HTR	187.918	126.080
TUSAŞ	2.405	1.377
HAVELSAN	672.875	72.472
MERCEDES-BENZ	--	2.174
<u>Financial Instruments</u>		
ROKETSAN	612.644	1.169.455
ASPILSAN	44.721	32.818
<u>Joint ventures and its related parties</u>		
İHSAN DOĞRAMACI BİLKENT ÜNİVERSİTESİ	36.862	15.580
TÜBİTAK BİLGEM	130.680	--
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	5.040	72.506
TÜBİTAK UME	1.356	--
TÜBİTAK SAGE SAVUNMA SANAYİİ	161.186	114.984
SSTEK	500	150
	2.220.400	1.838.839

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5. RELATED PARTY DISCLOSURES (continued)

	1 January- 31 December 2022	1 January- 31 December 2021
Transactions with related parties	Sales	Sales
<u>Main Shareholder</u>		
TSKGV	612	496
<u>Main shareholder's subsidiaries and associates</u>		
TUSAŞ	2.391.655	605.725
STM	1.541.450	517.682
HAVELSAN	47.495	20.055
HTR	45.549	14.333
NETAŞ	1.063	--
<u>Financial Instruments</u>		
ROKETSAN	785.142	654.590
ASPİLSAN	--	271
<u>Joint ventures and its related parties</u>		
TÜBİTAK BİLİMSEL TEKNOLOJİK ARAŞTIRMA	39.758	28.617
TÜBİTAK SAGE SAVUNMA SANAYİİ	4.909	--
TÜBİTAK UZAY TEKNOLOJİLERİ	--	152
SSB	19.947.533	10.991.600
SSTEK	171.807	30.870
	24.976.973	12.864.391

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

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

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

	31 December 2022	31 December 2021
Short-term trade receivables		
Trade receivables	8.577.307	5.521.251
Trade receivables from related parties (Note 5)	6.242.612	4.255.114
Notes receivable	68.421	26.985
Doubtful trade receivables	30.320	30.172
Allowance for doubtful trade receivables (-)	(30.320)	(30.172)
	14.888.340	9.803.350

	31 December 2022	31 December 2021
Long-term trade receivables		
Unbilled receivables from contracts with customers	4.210.491	2.943.086
Trade receivables	461.858	378.240
Unbilled receivables from contracts with customers - Related party (Note 5)	14.283.122	9.316.338
Trade receivables from related parties (Note 5)	18.447	12.803
	18.973.918	12.650.467

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

	31 December 2022	31 December 2021
Opening balance	30.172	22.442
Provision for the period	148	7.730
Provisions no longer required	--	--
Closing balance	30.320	30.172

The sectorial distribution of trade receivables is as follows:

	31 December 2022	31 December 2021
Public sector	20.238.741	13.678.347
Private sector	8.413.331	5.149.539
Receivables from companies operating abroad	5.210.186	3.625.931
Total receivables	33.862.258	22.453.817

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 2022	31 December 2021
Short-term trade payables		
Trade payables	5.865.798	3.570.663
Due to related parties (Note 5)	2.654.902	1.919.239
Notes Payable	1.149.890	521.675
Other trade payables	104.681	27.895
	9.775.271	6.039.472
Long-term trade payables		
Other trade payables	72.720	25.467
	72.720	25.467

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

	31 December 2022	31 December 2021
Short-term other receivables		
Receivables from tax office ¹	899.007	614.554
Deposits and guarantees given	13.542	9.016
Other receivables from related parties (Note 5)	5.580	24.836
Other ²	108.515	74.102
	1.026.644	722.508
Long-term other receivables		
Deposits and guarantees given	5.983	2.104

b) Other payables

	31 December 2022	31 December 2021
Short-term other payables		
Short-term other payables	43.448	27.064
Deposits and guarantees received	16.978	3.334
Leasing Liabilities	2.529	10.330
Short-term other payables to related parties (Note 5)	306.989	301.608
	369.944	342.336
Long-term other payables		
Deposits and guarantees received	4.237	3.342
Other payables	7.018	3.596
Leasing Liabilities	5.034	6.317
	16.289	13.255

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.

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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 2022	Ownership Rate (%)	Current Assets	Non-current Assets	Total Assets	Short-term Liabilities	Long-term Liabilities	Total Liabilities
ASELSAN KAZAKHSTAN	49	258.880	282.418	541.298	215.187	52.865	268.052
ASELSAN JORDAN	49	127.977	77.082	205.059	50.395	17.709	68.104
ASELSAN OPTİK	50	193.759	151.004	344.763	180.234	101.526	281.760
IGG ASELSAN	49	19.889	137	20.026	(38.168)	920	(37.248)
ASELSAN BİLKENT	50	114.997	192.497	307.494	63.422	244.072	307.494
TEKNOHAB	13	53.717	3.781	57.498	508	--	508
EHSİM	50	363.609	12.669	376.278	150.761	214.661	365.422
DASAL	40	23.520	60.629	84.149	78.713	--	78.713
TÜYAR	51	14.844	5.041	19.885	536	--	536
TR EĞİTİM	35	22.122	1.792	23.914	3.407	--	3.407
		1.193.314	787.050	1.980.364	704.995	631.753	1.336.748

31 December 2022	Ownership Rate (%)	Revenue	Expenses	Net Profit/(Loss)	Group Share of Net Assets	Group Share of Profit/(Loss)
ASELSAN KAZAKHSTAN	49	142.647	(149.056)	(6.409)	133.891	(3.140)
ASELSAN JORDAN	49	106.843	(99.653)	7.190	67.108	3.523
ASELSAN OPTİK	50	241.268	(227.533)	13.735	31.502	6.868
IGG ASELSAN	49	31.109	(26.444)	4.665	28.064	2.286
ASELSAN BİLKENT	50	176.147	(196.222)	(20.075)	--	--
BARQ QSTP LLC.	48	--	--	--	834	--
TEKNOHAB	13	4.952	(1.945)	3.007	7.431	392
EHSİM	50	85.255	(74.398)	10.857	5.428	5.429
DASAL	40	23.462	(29.911)	(6.449)	2.174	(2.581)
TÜYAR	51	3.492	(2.251)	1.241	9.868	633
TR EĞİTİM	35	34.374	(21.487)	12.887	7.177	4.510
İSTANBUL FİNANS	44	--	--	--	5.000	--
		849.549	(828.900)	20.649	298.477	17.920

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8. EQUITY ACCOUNTED INVESTMENTS (continued)

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

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

9. INVENTORIES

	31 December 2022	31 December 2021
Raw materials	5.836.075	3.433.812
Work in progress	4.345.877	2.791.484
Goods in transit ¹	874.879	482.050
Finished goods	1.163.383	783.826
Other inventories	214.540	153.212
Trade goods	212.466	49.081
Allowance for impairment on inventories (-)	(54.567)	(54.511)
	12.592.653	7.638.954

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:

	2022	2021
Opening balance	54.511	21.155
Provision for the period	56	33.356
Closing balance	54.567	54.511

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.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

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10. PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2022	31 December 2021
Short-term prepaid expenses		
Order advances given for inventory purchases	1.506.649	748.103
Short-term order advances given to related parties for inventory purchases (Note 5)	1.199.891	939.613
Work advances	5.426	1.101
Prepaid expenses	442.909	338.200
	3.154.875	2.027.017

	31 December 2022	31 December 2021
Long-term prepaid expenses		
Long-term order advances given to related parties for inventory purchases (Note 5)	100.440	137.239
Order advances given for inventory purchases	452.022	440.988
Order advances given for fixed assets purchases	124.642	215.397
Prepaid expenses	84.379	24.112
	761.483	817.736

	31 December 2022	31 December 2021
Short-term deferred income		
Order advances received	498.529	198.093
Order advances received from related parties (Note 5)	1.661.385	413.389
Deferred income	1.940.173	1.238.683
	4.100.087	1.850.165

Short-term order advances received comprises advances received from 104 customers (31 December 2021: 78 customers) of which first 10 customers constitutes 97 percent of the total (31 December 2021: 94 percent).

	31 December 2022	31 December 2021
Long-term deferred income		
Order advances received	516.637	322.350
Order advances received from related parties (Note 5)	1.320.021	1.035.264
Deferred income	320.664	571.413
	2.157.322	1.929.027

Long-term order advances received comprises advances received from 36 customers (31 December 2021: 26 customers) of which the first 10 customers constitutes 99 percent of the total (31 December 2021: 98 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 2022	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
Additions ⁴	--	--	22.242	714.531	7.304	333.157	1.285	6.753	1.750	1.373.962	2.460.984
Revaluation fund	878.655	--	--	--	--	--	--	--	--	--	878.655
Disposals	--	--	--	(32.394)	(169)	(3.838)	(1.961)	--	--	(4.543)	(42.905)
Transfers	--	--	90.151	12.929	--	60	78.000	755	--	(181.895)	--
Closing balance as of 31 December 2022	1.291.205	43.632	727.346	2.404.366	20.778	959.909	286.499	244.484	46.859	2.210.663	8.235.741
<u>Accumulated depreciation</u>											
Opening balance as of 1 January 2022	--	18.523	112.354	831.436	4.140	346.327	109.224	62.160	22.694	--	1.506.858
Charge for the period	--	2.493	26.898	221.765	2.079	129.423	29.839	14.643	11.961	--	439.101
Disposals	--	--	--	(31.704)	(169)	(3.828)	(1.961)	--	--	--	(37.662)
Transfers	--	--	--	--	--	--	--	--	--	--	--
Closing balance as of 31 December 2022	--	21.016	139.252	1.021.497	6.050	471.922	137.102	76.803	34.655	--	1.908.297
Net book value as of 31 December 2022	1.291.205	22.616	588.094	1.382.869	14.728	487.987	149.397	167.681	12.204	2.210.663	6.327.444

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

² As of December 31,2022 and December 31,2021, Group has two land that leased for 49 years and 46 years and motor-vehicle rentals.

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

⁴ TL 77.482 of additions are free of charge investment income (31 December 2021: TL 14.765).

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES
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11. PROPERTY, PLANT AND EQUIPMENT (continued)

	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

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

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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 2022	31 December 2021
Cost of sales	268.940	201.999
General administrative expenses	129.316	78.042
Inventories	39.620	27.463
Marketing expenses	1.225	1.338
	439.101	308.842

There is no collateral, pledges, and mortgages on tangible assets as of 31 December 2022 and 2021.

There is no capitalized interest expense as of 31 December 2022 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 2022. The fair value of the lands owned by the Group is revalued on 3 November 2022 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 1.215.829 (31 December 2021: TL 337.174).

Change in Revaluation	2022
Opening balance as of 31 December 2022:	337.174
Appreciation (Other Comprehensive Income)	878.655
Depreciation (Profit / Loss)	--
TOTAL	1.215.829

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
	2022	TL	TL	TL
Macunköy	800.000	--	--	800.000
Akyurt	368.095	--	--	368.095
Gölbaşı	2.640	--	--	2.640
Oğulbey	119.350	--	--	119.350
Gölbek	830	--	--	830
Denizli	290	--	--	290
	1.291.205	--	--	1.291.205

	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

The fair value level action table as of 31 December 2022 are as follows:

	Fair Value Level as of Reporting Date		
	Level 1	Level 2	Level 3
	TL	TL	TL
1 January 2022	--	--	412.550
Additions (Net)	--	--	878.655
31 December 2022	--	--	1.291.205

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

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

12. INTANGIBLE ASSETS

	Rights	Development Costs	Other intangible assets¹	Total
<u>Cost</u>				
Opening balance as of 1 January 2022	92.585	2.587.596	392.406	3.072.587
Additions	32.922	3.650.743	104.990	3.788.655
Disposals	(2.802)	(2.313.636)	(1.036)	(2.317.474)
Transfers	--	--	--	--
Closing balance as of 31 December 2022	122.705	3.924.703	496.360	4.543.768
<u>Accumulated Amortization</u>				
Opening balance as of 1 January 2022	68.631	454.038	282.308	804.977
Charge for the period	14.916	104.853	90.950	210.719
Disposals	(2.802)	--	(1.036)	(3.838)
Closing balance as of 31 December 2022	80.745	558.891	372.222	1.011.858
Net book value as of 31 December 2022	41.960	3.365.812	124.138	3.531.910

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

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

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

12. INTANGIBLE ASSETS (continued)

	Rights	Development Costs	Other intangible assets ¹	Total
<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

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

	31 December 2022	31 December 2021
Research and development expenses	172.346	106.583
Cost of sales	6.560	34.357
Inventories	21.266	18.029
Marketing expenses	694	572
General administrative expenses	9.853	9.300
	210.719	168.841

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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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 2022	31 December 2021
Current government grants and incentives	69.856	27.291

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 Türkiye via Undersecretariat of Foreign Trade's consent. The Scientific and Technological Research Council of Türkiye ("TÜBİTAK") and Technology Development Foundation of Türkiye ("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.

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

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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 2022, there is no material borrowing cost regarding the qualifying assets. (31 December 2021: None).

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

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

Other short-term provisions	31 December 2022	31 December 2021
Provision for warranties ¹	1.991.973	1.241.627
Provision for onerous contracts	280.121	571.876
Provision for delay penalties ²	1.302.732	847.336
Sales commission	332.443	197.977
Provision for legal cases	33.305	22.418
Provision for cost expenses	52.881	12.264
Other	16.576	15.822
	4.010.031	2.909.320

The movement of the provision for warranties is as follows:

	1 January- 31 December 2022	1 January- 31 December 2021
Opening balance	1.241.627	1.045.215
Provision during the period	1.425.264	577.732
Realized during the period	(674.918)	(381.320)
Closing balance	1.991.973	1.241.627

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

	1 January- 31 December 2022	1 January- 31 December 2021
Opening balance	571.876	483.283
Provision during the period	--	656.815
Provision reversed during the period	(291.755)	(568.222)
Closing balance	280.121	571.876

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.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

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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 2022	1 January- 31 December 2021
Opening balance	847.336	368.124
Provision during the period	579.171	581.685
Realized during the period	(116.661)	(102.473)
Provision reversed during the period	(7.114)	--
Closing balance	1.302.732	847.336

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

	1 January- 31 December 2022	1 January- 31 December 2021
Opening balance	22.418	27.990
Provision during the period	14.269	--
Realized during the period	(3.382)	(5.572)
Closing balance	33.305	22.418

	31 December 2022	31 December 2021
Other long-term provisions		
Provision for delay penalties	334.056	138.822
Provision for onerous contracts	2.297.142	1.040.987
	2.631.198	1.179.809

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

	1 January- 31 December 2022	1 January- 31 December 2021
Opening balance	138.822	66.357
Provision during the period	195.234	72.465
Closing balance	334.056	138.822

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

	1 January- 31 December 2022	1 January- 31 December 2021
Opening balance	1.040.987	660.730
Provision during the period	1.414.791	380.257
Provision reversed during the period	(158.636)	--
Closing balance	2.297.142	1.040.987

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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 2022.

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	2022	2021
a)	Ongoing lawsuits filed by the Group	28.956	35.871
b)	Execution proceedings carried out by the Group	415.690	319.264
c)	Ongoing lawsuits filed against the Group	33.305	22.418
d)	Executions against the Group	6.454	5.875
e)	Lawsuits finalized against the Group within the period	18.576	102.542
f)	Lawsuits finalized in favor of the Group within the period	5.380	12.745

- 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.

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(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 2022	31 December 2021
Letters of guarantees received from the suppliers	5.603.873	4.167.423
Collaterals received from the customers	332.725	133.517
Letters of guarantees received from the customers	237.857	18.221
Collaterals received from the suppliers	665.103	284.535
Letters of guarantees received from the suppliers	26.891	35.907
	6.866.449	4.639.603

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

The collaterals/pledges/mortgages ("CPM") given by the Group as of 31 December 2022 and 31 December 2021 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 292.967.

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

31 December 2022	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>	13.006.559	1.296.779	346.937	261.893	--	--	--	--	359
<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>	39.640	--	2.120	--	--	--	--	--	--
<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	13.046.199	1.296.779	349.057	261.893	--	--	--	--	359

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 2022 is 0,10 percent. TL 39.640 is the collateral amount pertaining to guarantee letter given on behalf of the entity's joint venture ASELSAN Bilkent.

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

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

<u>31 December 2021</u>	<u>TL Equivalent</u>	<u>TL</u>	<u>USD</u>	<u>EURO</u>	<u>UAE Dirham</u>	<u>Polish Zloty</u>	<u>Indian Rupee</u>	<u>British Pound</u>	<u>Qatar Rial</u>
A. Total amount of CPM given on behalf of the legal entity									
-Collateral	10.948.158	675.302	389.889	336.398	--	1.000	--	--	46
-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	30.790	--	2.310	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--	--
iii. Total amount of CPM on behalf of third parties that do not cover									
-Collateral	--	--	--	--	--	--	--	--	--
-Pledge	--	--	--	--	--	--	--	--	--
-Mortgage	--	--	--	--	--	--	--	--	--
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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17. EMPLOYEE BENEFITS**a) Obligations for employee benefits**

	31 December 2022	31 December 2021
Social security premiums payable	152.362	68.622
Taxes and funds payable	212.080	109.752
Due to personnel	272.797	128.151
	637.239	306.525

b) Short-term provisions for employee benefits

	31 December 2022	31 December 2021
Provision for vacation pay and overtime	281.372	170.902
Bonus provision	589.961	--
	871.333	170.902

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

	2022	2021
Opening balance	170.902	108.854
Provision for the period	204.207	105.863
Provision paid during the period	(78.949)	(38.608)
Provision realized during the period	(14.788)	(5.207)
Closing balance	281.372	170.902

c) Long-term provisions for employee benefits

	31 December 2022	31 December 2021
Provision for severance pay	579.397	333.508
	579.397	333.508

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

	2022	2021
Opening balance	333.508	264.964
Service cost	34.971	21.565
Interest cost	9.189	8.555
Actuarial gains/(loss)	246.496	77.108
Payments	(44.767)	(38.684)
Closing balance	579.397	333.508

Provision for severance pay:

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

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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 2022 severance payments are calculated on the basis of 30 days' pay, limited to a ceiling of TL 15.371,40 (31 December 2021: TL 8.284,51¹)

As of 1 January 2023, the ceiling for the severance payments is TL 19.982,83. 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.

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

	31 December 2022	31 December 2021
	(%)	(%)
Interest rate	12,70	21,00
Inflation rate	9,50	16,95
Discount ratio	2,92	3,46
Estimation of probability of retirement ratio	95	96

¹ Amounts are shown in original Turkish Lira values.

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

	31 December 2022	31 December 2021
VAT carried forward ¹	523.337	407.238
Other VAT	395.667	55.826
Other ²	30.933	28.153
	949.937	491.217

b) Other non-current assets

	31 December 2022	31 December 2021
VAT carried forward ²¹	1.331.695	1.378.045
Prepaid taxes and funds	123.394	50.139
Other ²	19.619	17.724
	1.474.708	1.445.908

c) Other short-term liabilities

	31 December 2022	31 December 2021
Taxes and funds payable	1.774	3.417
Other ²	51.742	27.910
	53.516	31.327

d) Other long-term liabilities

	31 December 2022	31 December 2021
Other	4.866	14.333
	4.866	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.

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19. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

<u>Shareholders</u>	<u>Share (%)</u>	<u>31 December 2022</u>	<u>Share (%)</u>	<u>31 December 2021</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 2022, The Group's restricted reserves set aside from profit comprises legal reserves. The total of the Group's legal reserves are TL 612.077 (31 December 2021: TL 542.341).

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 2022 the extraordinary reserves balance presented in retained earnings is TL 12.543.861 (31 December 2021: TL 8.845.856). According to the statutory records, the Company's profit for the period is TL 10.266.705 (31 December 2021: TL 4.608.798) and its other funds available for profit distribution is TL 12.663.316 (31 December 2021: TL 8.535.408) 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 25 May 2022, in accordance with the consolidated financial statements, the General Assembly of the Company has decided to allocate legal reserve amounting to TL 65.209 of the TL 4.608.798 which is based on the profit distribution, and to distribute TL 460.000 in cash to shareholders for dividend payment, and the remaining TL 4.083.589 to be within the Group. Thus, the cash gross dividend amount for TL 1 nominal value per share is Kuruş 20,18 net (31 December 2021: Kuruş 17,54 net).

Within 2022, dividend amounting to TL 460.000 in gross, 20,18 Kuruş per share of TL 1 (net profit amounting to TL 400.000, 17,54 Kuruş per share of TL 1) will be paid to shareholders. (31 December 2021: TL 400.000 in gross, 17,54 Kuruş per share of TL 1 (TL 340.000 in gross, 14,91 Kuruş per share of TL 1) was paid).

On 9 June 2022, General Assembly of ASELSANNET has decided to distribute TL 10.000 as dividend payments to shareholders and reserve TL 4.528 as retained earnings from net profit of the year 2021. TL 45.000 is decided to be added on the capital in order to allocate capital issue by bonus to shareholders and remaining TL 16.532 is to decided to be allocated as extraordinary reserves (31 December 2021: TL 10.000).

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20. REVENUE AND COST OF SALES

	1 January- 31 December 2022	1 January- 31 December 2021
a) Revenue		
Domestic sales	29.397.555	18.009.611
Export sales	6.196.989	2.242.898
Other revenues	50.944	28.030
Sales returns (-)	(355.610)	(135.079)
Sales discounts (-)	(8.201)	(6.507)
	35.281.677	20.138.953

	1 January - 31 December 2022	1 January - 31 December 2021
Revenue Recognized Regarding Performance Obligation		
Over time	26.755.302	16.266.723
Point in time	8.526.375	3.872.230
	35.281.677	20.138.953

	1 January- 31 December 2022	1 January- 31 December 2021
b) Cost of sales(-)		
Cost of raw materials and supplies	16.159.682	9.750.965
Cost of merchandise goods sold	2.691.405	198.444
Cost of services sold	3.857.961	2.858.071
Cost of other sales	789.174	682.562
	23.498.222	13.490.042

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

	1 January - 31 December 2022	1 January - 31 December 2021
General administrative expenses (-)	1.205.514	576.057
Marketing expenses (-)	877.661	670.136
Research and development expenses (-)	816.961	332.748
	2.900.136	1.578.941

	1 January - 31 December 2022	1 January - 31 December 2021
a) General administrative expenses (-)		
Personnel expenses	807.250	355.676
Depreciation and amortization expenses	139.169	87.342
Service procurement	48.462	17.908
Rent expenses	25.409	12.672
Personnel meal expenses	21.158	12.636
Expertise and consultancy expenses	16.497	12.334
Electricity expenses	37.900	10.332
IT repair and maintenance expenses	6.872	5.450
Subscription and publication expenses	8.915	5.294
Cleaning service expenses	7.467	5.236
Insurance expenses	7.291	4.763
Travel expenses	17.796	4.109
Personnel transportation expenses	8.456	3.727
Course and seminar expenses	4.718	2.784
Property and environmental cleaning tax	3.783	2.409
Legal expenses	5.242	1.690
Water expenses	1.498	605
Other	37.631	31.090
	1.205.514	576.057

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

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

	1 January- 31 December 2022	1 January- 31 December 2021
b) Marketing expenses (-)		
Commission expenses	114.482	361.757
Subcontractor service expenses	206.602	103.565
Personnel expenses	169.710	72.823
Exhibition expenses	120.221	30.103
Stamp duty expenses	15.217	26.558
Travel expenses	48.565	19.475
Packaging expenses	9.868	8.460
Shipping and delivery expenses	29.620	7.533
Samples expenses	16.702	6.838
Advertising expenses	8.386	5.347
Rent expenses	7.112	4.452
Expertise and consultancy expenses	4.065	3.414
Representation expenses	3.612	3.214
Depreciation and amortization expenses	1.919	1.910
Meal expenses	3.627	1.348
Security service	1.164	596
Sponsorship expenses	12.159	7.209
Other	104.630	5.534
	877.661	670.136
	1 January- 31 December 2022	1 January- 31 December 2021
c) Research and development expenses (-)		
Personnel expenses	316.847	121.494
Depreciation and amortization expenses	172.346	106.583
Equipment costs	164.334	64.545
Other	163.434	40.126
	816.961	332.748

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

	1 January- 31 December 2022	1 January- 31 December 2021
Foreign currency exchange gains	11.793.993	10.444.479
Rediscounted interest income	345.125	148.394
Granted fixed assets income ¹	101.418	14.765
Other income	53.782	146.550
	12.294.318	10.754.188

b) Other operating expenses (-)

	1 January- 31 December 2022	1 January- 31 December 2021
Foreign currency exchange losses (-)	8.523.719	5.957.097
Rediscounted interest expense (-)	435.670	328.679
Non-working part expenses and losses (-)	31.648	45.961
Other expense and losses (-)	96.608	74.253
	9.087.645	6.405.990

23. INCOME FROM INVESTING ACTIVITIES

	1 January- 31 December 2022	1 January- 31 December 2021
Gain/(loss) on sales profit of marketable securities	127	1.333
Dividend income	4.958	6.997
Gain/(loss) on sales profit of fixed assets	1.697	2.269
	6.782	10.599

24. FINANCIAL INCOME

	1 January- 31 December 2022	1 January- 31 December 2021
Interest income	125.978	195.998
TFRS 15 financial component effect	--	32.218
Foreign currency exchange gains on bank loans	572.169	285.835
	698.147	514.051

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 2022	1 January- 31 December 2021
Foreign currency exchange losses from bank loans (-)	2.337.387	2.442.929
TFRS 15 financial component effect (-)	--	209.552
Interest cost related with employee benefits (-)	9.189	8.555
Interest cost of borrowings (-)	567.277	82.539
	2.913.853	2.743.575

26. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

	31 December 2022	31 December 2021
Gain from revaluation of financial assets that fair value reflect in other comprehensive income	4.002.881	2.034.249
Revaluation of property	1.100.324	309.535
Cumulative Translation Adjustments	199.191	143.537
Loss on remeasurement of defined benefit plans	(320.315)	(123.119)
	4.982.081	2.364.202

	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	2.034.249	1.118.100
Gain from revaluation of financial assets that fair value reflect in other comprehensive income	2.072.244	964.367
Deferred tax liability arising from revaluation	(103.612)	(48.218)
Closing balance	4.002.881	2.034.249

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 2022	1 January- 31 December 2021
Revaluation of property		
Opening balance (Previously reported)	309.535	309.535
Increase arising from revaluation of property	878.655	--
Current period value increase deferred tax effect	(87.866)	--
Closing balance	1.100.324	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 3 November 2022 by Açık Kurumsal Gayrimenkul Değerleme ve Danışmanlık Anonim Şirketi ("Açık Değerleme"), an independent appraisal company.

	1 January- 31 December 2022	1 January- 31 December 2021
Foreign currency exchange differences:		
Opening balance	143.537	46.881
Currency differences from net asset currency translation investent in foreign operations	55.654	96.656
Closing balance	199.191	143.537

	1 January- 31 December 2022	1 January- 31 December 2021
Gain/Loss on remeasurement of defined benefit plans		
Opening balance	(123.119)	(61.432)
Gain/Loss on remeasurement of defined benefit plans	(246.496)	(61.687)
Deferred tax on gain/loss on remeasurement of defined benefit plans	49.300	--
Closing balance	(320.315)	(123.119)

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

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27. INCOME TAXES

	31 December 2022	31 December 2021
<u>Corporate tax liabilities:</u>		
Current corporate tax provision	1.745	2.401
Less: Prepaid taxes and funds	(1.563)	--
	182	2.401

	1 January- 31 December 2022	1 January- 31 December 2021
<u>Tax income:</u>		
Current corporate tax (expense)	(1.745)	(2.401)
Deferred tax income / (expense)	1.970.866	(66.681)
	1.969.121	(69.082)

1 January-31 December 2022

	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	(246.496)	49.300	(197.196)
Revaluation of property	878.655	(87.866)	790.789
Cumulative Currency Translation Adjustments	55.654	--	55.654
Gain from revaluation of financial assets that fair value reflect in other comprehensive income	2.072.244	(103.612)	1.968.632
Other comprehensive income in the period	2.760.057	(142.178)	2.617.879

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

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27. INCOME TAXES (continued)

	1 January- 31 December 2022	1 January- 31 December 2021
Tax recognized directly in equity		
Deferred tax:		
- Revaluation of property	(87.866)	--
- Gain from revaluation of financial assets that fair value reflect in other comprehensive income	(103.612)	(48.218)
- Actuarial gain/loss	49.300	15.421
Deferred tax recognized directly in equity	(142.178)	(32.797)

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 23 percent (31 December 2021: 25 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 Türkiye, 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 2022 is 23 percent (31 December 2021: 25 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 Türkiye, the corporate tax rate is 23 percent as of 31 December 2022 (2021: 25 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 Türkiye, 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 2022. 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.

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27. INCOME TAXES (continued)**Deferred Tax (continued)**

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

	31 December 2022	31 December 2021
Deferred Tax Assets/Liabilities:		
Discount on receivables	80.731	68.031
Adjustment to costs and provision for expected losses of construction contracts	4.617.464	3.209.561
Capitalized research-development expense	66.489	45.535
Allowance for impairment on inventories	573	768
Provision for delay penalties 327.358	327.358	226.816
Provision for copyright	--	114
Provision for warranties	398.699	287.401
Provision for severance pay	111.689	65.290
Provision for annual leave	174.267	39.175
Provision for doubtful receivables	29	8.836
Other	--	248
Accumulated research and development incentive	1.456.416	760.905
Discount on payables	(9.889)	(7.469)
Adjustment of progress payments for long- term construction projects	(5.772.528)	(4.366.804)
Depreciation of fixed assets / amortization of intangible assets	962.689	102.773
Fixed assets revaluation fund	(122.249)	(34.384)
Gain on revaluation of available for sale financial assets	(210.678)	(107.066)
Other	1.050	(46.308)
Deferred tax assets	8.197.454	4.815.453
Deferred tax liabilities	(6.115.344)	(4.562.031)
Deferred tax assets – net	2.082.110	253.422

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27. INCOME TAXES (continued)

Deferred tax (continued)

	1 January- 31 December 2022		1 January- 31 December 2021	
<u>Movement of deferred tax assets/(liabilities):</u>				
Opening balance as of 1 January		253.422		352.900
Charged to statement of profit or loss		1.970.866		(66.681)
Charged to equity		(142.178)		(32.797)
		2.082.110		253.422
	Effective Tax Rate (%)	1 January- 31 December 2022	Effective Tax Rate (%)	1 January- 31 December 2021
<u>Tax reconciliations:</u>				
Profit before tax from continuing operations		9.898.990		7.196.423
Income tax rate		%23		%25
Tax at the domestic income tax rate	23	2.276.767	25	1.799.106
Tax effects of:				
- revenue that is exempt from taxation	(2)	(155.279)	(1)	(106.894)
- expenses that are not deductible in determining taxable profit	3	255.014	2	128.549
- R&D incentives and other income exempt from taxation	(48)	(4.799.597)	(19)	(1.368.825)
- Change effect of determining statutory tax rate as 20 percent to 22 percent for 3 years	--		(5)	(383.144)
- effect of other adjustments	5	453.974	--	290
Tax income / expense recognized in profit or loss	(20)	(1.969.121)	2	69.082

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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 2022 and 2021, earnings per share calculations are as follows:

	1 January- 31 December 2022	1 January- 31 December 2021
Number of shares outstanding (in thousands)	2.280.000	2.280.000
Net profit – TL	11.915.661	7.130.563
Earnings per 100 shares	522,62	312,74
Diluted earnings per 100 shares	522,62	312,74

29. FINANCIAL INVESTMENTS**Financial Investments****Non-Current Financial Investments**

	31 December 2022	31 December 2021
a) Available for sale financial investments	4.259.008	2.146.455
b) Financial investments valued at cost that do not have a quoted market value	29.355	2.472
	4.288.363	2.148.927

a) Fair Value Difference Reflect in Other Comprehensive income

	31 December 2022	31 December 2021
Fair value difference reflect in other comprehensive income that are not traded in an active market	4.259.008	2.148.927
	4.259.008	2.148.927

ROKETSAN which is Group's equity investment is revalued and stated at fair value. As of 31 December 2022, 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 17,00 percent (31 December 2021: 25,5 percent).

Company Name	Ratio(%)	31 December 2022	Ratio (%)	31 December 2021
ROKETSAN	14,897	4.259.008	14,897	2.146.455

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

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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 2022	Ratio (%)	31 December 2021
Girişim Sermayesi Yatırım Fonu		25.585		--
ASPILSAN	1	3.770	1	2.472
		29.355		2.472

The above available-for-sale equity investment amounting to TL 29.355 (31 December 2021: TL 2.472) 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.

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30. FINANCIAL LIABILITIES

Financial Liabilities

		31 December 2022	31 December 2021
Short-term financial liabilities	Unsecured loan	5.324.537	1.841.901
Other short-term financial liabilities	Unsecured loan	277.999	114.199
Current portion of long-term financial liabilities	Unsecured loan	4.161.402	3.114.088
Total short-term financial liabilities		9.763.938	5.070.188
Other long-term financial liabilities	Unsecured loan	1.069.683	332.762
Total long-term financial liabilities		1.069.683	332.762
Total financial liabilities		10.833.621	5.402.950

As of 31 December 2022, 3.142.537 TL of the financial debts included in short-term borrowings consists of EUR Rediscount Foreign Currency Loans, which have maturity dates due between January 2023 and December 2023 and the interest rates between 1,00 percent and 7,50 percent. As of 31 December 2022, 140.237 TL of financial debts within short-term borrowings consist of USD Rediscount Foreign Currency Loans, which have maturity dates due October 2023 and the interest rate is 7,50 percent.

As of 31 December 2022, there are 1.720.000 TL Rediscount TL Loans within the short-term borrowings, which have maturity dates due between February 2023 and June 2023, and the interest rates between 14,75 percent and 21,00 percent. As of 31 December 2022, 285.090 TL of short-term financial debts have been taken within the scope of business loans and their maturity dates due between February and October 2023, and the interest rates between 14,16 and 21,11 percent.

As of December 31, 2022, TL 3.168.127 of the short-term portion of long-term financial debts consists of EUR Rediscount Foreign Exchange loans, which have maturity dates due between January 2023 and December 2023, and the interest rates between 2,40 percent and 6,95 percent. In addition, 1.028.407 TL of these financial debts consists of USD Rediscount Foreign Exchange loans, which have maturity dates due between August 2023 and October 2023, and the interest rates between 7,75 percent and 7,90 percent.

As of 31 December 2022, all of the remaining short-term financial debts consist of Ziraat Bank credit card debts with a maturity of 45 days with 0,79 percent interest rate to pay social security payments. As of 31 December 2022, 327.220 TL of the financial debts included in the long-term borrowings consists of USD Rediscount Foreign Currency Loans, which have maturity dates due between January 2024 – February 2024 and the interest rate varies according to LIBOR. As of 31 December 2022, there are 500.000 TL Rediscount TL Loans within the long-term borrowings, which have maturity dates due between October 2024 – November 2024 and the interest rate is 10,50 percent. TL 60.890 consists of investment loans, which have maturity dates due between October 2025 – November 2026 and the interest rate is between 6.6 percent and 18,50 percent.

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

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.

Bank Loans

Currency	31 December 2022		
	Weighted average interest rate (%)	Short-term	Long-term
Euro	3,54%	5.932.992	--
TL	13,93%	2.660.196	718.203
USD	7,72%	1.170.750	351.480
		9.763.938	1.069.683

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

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

	31 December 2022	31 December 2021
Within 1 year	9.763.938	5.070.188
Between 1-2 years	1.036.300	332.762
Between 2-3 years	33.383	--
	10.833.621	5.402.950

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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 2022 and 2021 is as follows:

	31 December 2022	31 December 2021
Total liabilities	10.833.621	5.402.950
Less: Cash and cash equivalents	(5.686.996)	(2.492.096)
Net debt (asset)	5.146.625	2.910.854
Total equity	39.860.969	25.835.210

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 2022	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	20.544.181	13.318.077	5.580	1.027.047	5.681.845	4.750
- The part of maximum risk under guarantee with collateral etc. ²	--	237.857	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	20.544.181	13.318.077	5.580	1.027.047	5.681.845	4.750
B. Net book value of financial assets that are past due but not impaired	--	807.373	--	--	--	--
C. Net book value of impaired assets	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	30.320	--	--	--	--
- Impairment (-)	--	(30.320)	--	--	--	--
- 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 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)

The aging of the overdue receivables is as follows:

	31 December 2022	31 December 2021
Overdue by 1-30 days	505.285	--
Overdue by 1-3 months	641	--
Overdue by 3-12 months	74.069	--
Overdue by 12 months	227.378	--
Total receivables	807.373	--

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 2022 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	10.833.621	10.833.621	3.836.618	5.927.320	1.069.683	--

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	9.847.991	9.897.435	9.774.935	49.780	72.720	--
Other payables	386.233	386.233	369.944	--	16.289	--

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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)

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 2022	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other¹
1. Trade receivables	9.224.935	356.034	6.657.231	128.804	2.567.704	--
2a. Monetary financial assets (including cash, bank)	1.858.656	54.010	1.009.897	41.987	837.015	11.744
2b. Non- monetary financial assets	1.599.079	43.955	821.880	58.011	1.156.418	271.151
3. Other	3.116	99	1.844	60	1.201	71
4. Current assets (1+2+3)	12.685.786	454.098	8.490.852	228.862	4.562.338	282.966
5. Trade receivables	14.358.138	457.640	8.557.090	291.000	5.801.048	--
6a. Monetary trade receivables	--	--	--	--	--	--
6b. Non-monetary trade receivables	941.907	1.096	20.488	72.369	1.442.672	6.983
7. Other	54.479	974	18.209	1.687	33.637	2.633
8. Long-term assets (5+6+7)	15.354.524	459.710	8.595.787	365.056	7.277.357	9.616
9. Total assets (4+8)	28.040.310	913.808	17.086.639	593.918	11.839.695	292.582
10. Trade payables	3.744.940	98.333	1.841.967	88.978	1.776.964	126.009
11. Financial liabilities	7.103.742	62.500	1.170.750	297.083	5.932.992	--
12a. Other monetary financial liabilities	42.318	1.041	19.504	1.142	22.814	--
12b. Other non-monetary financial liabilities	1.704.554	168.328	3.153.120	144.134	2.878.465	--
13. Current liabilities (10+11+12)	12.595.554	330.202	6.185.341	531.337	10.611.235	126.009
14. Trade payables	--	--	--	--	--	--
15. Financial liabilities	351.480	18.764	351.480	--	--	--
16a. Other monetary financial liabilities	4.170	155	2.902	64	1.268	--
16b. Other non-monetary financial liabilities	2.618.765	190.131	3.561.534	67.091	1.339.868	--
17. Non-current liabilities (14+15+16)	2.974.415	209.050	3.915.916	67.155	1.341.136	--

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 2022	TL Equivalent (Functional currency)	USD	TL equivalent by using closing rates	EURO	TL equivalent by using closing rates	Other
18. Total liabilities (13+17)	15.569.969	539.252	10.101.257	598.492	11.952.371	126.009
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)	12.470.341	374.556	6.985.382	(4.574)	(112.676)	166.573
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10- 11-12a-14-15-16a)	14.195.079	686.891	12.837.615	74.524	1.471.729	(114.265)
22. Fair value of derivative financial instruments used in foreign currency hedge	--	--	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--	--	--
25. Exports	6.196.989	212.754	3.610.941	183.642	2.586.048	--
26. Imports	8.073.937	297.823	5.568.786	125.639	2.504.592	559

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 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.

(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 2022				
	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)	1.283.762	(1.283.762)	1.283.762	(1.283.762)
2- Hedged amount against USD risk (-)	--	--	--	--
3- Net effect of USD (1+2)	1.283.762	(1.283.762)	1.283.762	(1.283.762)
Change of EURO against TL by 10%:				
4- EURO denominated net assets/(liabilities)	147.173	(147.173)	147.173	(147.173)
5- Hedged amount against EURO risk (-)	--	--	--	--
6- Net effect of EURO (4+5)	147.173	(147.173)	147.173	(147.173)
Change of other currencies against TL by 10%:				
7- Other currencies denominated net assets/(liabilities)	(11.426)	11.426	(11.426)	11.426
8- Hedged amount against other currencies risk (-)	--	--	--	--
9- Net effect of other currencies (7+8)	(11.426)	11.426	(11.426)	11.426

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 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

Interest rate risk management

As of 31 December 2022 and 31 December 2021, 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 2022, the Group does not have interest bearing financial assets, therefore there is no exposure to interest risk (31 December 2021: 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 2022 and 31 December 2021, 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 2022	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	--	5.686.996	--	--	5.686.996	3
Financial investments	29.355	--	4.259.008	--	4.288.363	29
Equity accounted investments	298.477	--	--	--	298.477	8
Trade receivables	--	33.862.258	--	--	33.862.258	6
<u>Financial liabilities</u>						
Borrowings	--	--	--	10.833.621	10.833.621	30
Trade payables	--	--	--	9.847.991	9.847.991	6
Other payables	--	--	--	386.233	386.233	7
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

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 2022. The fair value of ROKETSAN as of 31 December 2022 is TL 4.259.008 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 2022	31 December 2021
	Marketable Equity Shares	Marketable Equity Shares
Opening balance	2.146.455	1.182.088
Total gain/loss		
- transferred to other comprehensive income	2.072.244	964.367
Capital increase	40.309	--
Closing balance	4.259.008	2.146.455

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

31 December 2022	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
Financial Investments	--	--	4.259.008
	--	--	4.259.008

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

The movement of the fair value level as of 31 December 2022 is as follows:

	Fair value level as of reporting date		
	Level 1	Level 2	Level 3
	TL	TL	TL
1 January 2022	--	--	2.146.455
Additions	--	--	2.112.553
31 December 2022	--	--	4.259.008

33. EXPLANATIONS RELATED TO THE STATEMENT OF CASH FLOW

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

	31 December 2021	Cash Movements	Non-cash movements			31 December 2022
			Additions	Exchange rate change	Other	
Financial Liabilities (Note 30)	5.402.950	3.254.388	269.519	1.906.764	--	10.833.621
Total liabilities arising from financing activities	5.402.950	3.254.388	269.519	1.906.764	--	10.833.621

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 2022, fee for independent audit is TL 238 of the Group (31 December 2021: TL 209).

For the period ended on 31 December 2022, there is no different services rendered from the independent audit firms except fee for independent audit of the Group.

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35. EVENTS AFTER THE REPORTING PERIOD

After the reporting period, the Group have signed contracts amounting to USD 237 Million.

It has been resolved in our Company's Board of Directors meeting that was held on January 17, 2023 that; The registered capital upper limit of our company shall be increased from 2 Billion TL to 10 Billion TL, the 6th article of our Articles of Association shall be amended as per the annex, Authorization shall be given to General Management to apply to Capital Markets Board for the increase in the registered capital upper limit and amendment in our Company's Articles of Association.

With the resolution of our Board of Directors, which was taken in consideration of the resolution of the Capital Markets Board Decision Making Body dated February 9, 2023 and numbered 8/174; due to the earthquake disaster, the epicenter of which is Kahramanmaraş and affecting ten provinces, it has been resolved to donate 100.000.000,00 TL in kind and/or in cash to earthquake victims directly and/or through organizations that are legally authorized to collect donations. The said Board of Directors resolution will be submitted to the approval of the shareholders at the first General Assembly Meeting to be held.