ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
BETWEEN 1 JANUARY – 30 JUNE 2013

1. Principles on preparation

The annual report of the Board of Directors is prepared on the basis of Capital Markets Board of Turkey (CMB) Financial Reporting standards and Communiqué Series II, No: 14.1 "Principles of Financial Reporting in Capital Markets" dated 13 June 2013.

2. Commercial title and trade registry number of the company and contact information pertaining to its headquarters, branches and its website address

The commercial title of the Company is Aselsan Elektronik Sanayi ve Ticaret A.Ş. and its trade register number is 31177. It's registered address is Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle / Ankara. Phone: +90 (312) 592 10 00, Fax: +90 (312) 354 13 02, Internet address: www.aselsan.com.tr.

The Company has a branch in the Republic of South Africa, Pretoria with the contact address Building 4, Room 005 CSIR Campus, Meiring Naude Drive, Pretoria Gauteng, 0001, South Africa. Phone: +27 (0) 12 349 26 13, Fax: +27 (0) 12 349 25 44.

The Company has an office in United Arab Emirates, Abu Dhabi with the contact address Industrial City of Abu Dhabi 1, Plot 22J1 PO Box: 133627 Abu Dhabi/UAE.

3. Organizational structure of the company

In connection with the projects which require investment and manufacturing, the Company has been incorporated in four respective Divisions which are Communication and Information Technologies (HBT), Microelectronics, Guidance and Electro-Optics (MGEO), Defense Systems Technologies (SST) and Radar, Electronic Warfare and Intelligence Systems (REHİS). The Company carries on its manufacturing and engineering activities in two respective facilities located in Ankara Macunköy (Headquartes) and Akyurt. There has been no change in the Company's organizational structure within its activity period.

ASELSAN Elektronik Sanayi ve Ticaret A.Ş. (Company) and its affiliate companies Mikrodalga Elektronik Sistemler A.Ş. ("MİKES") and AselsanNet Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Ltd. Şti. ("AselsanNet") which are active in the same field as the Company and of which the financial statements are consolidated by the Company. They will jointly be referred to as the "Group".

4. The Company's capital and partnership structure with the changes during the accounting period

The capital structure as of 30 June 2013 and 31 December 2012 are as follows:

Partners	Share (%)	30 June 2013 (TL)	Share (%)	31 December 2012 (TL)
Turkish Armed Forces Foundation (TAFF)	84,58	422.912.812	84,58	422.912.812
Other shareholders	0,12	577.846	0,12	577.846
Quoted in stock exchange	15,30	76.509.342	15,30	76.509.342
Nominal capital	100	500.000.000	100	500.000.000
Share capital adjustment		98.620.780		98.620.780
Inflation adjusted capital		598.620.780		598.620.780

The nominal capital of the Company is TL 500.000.000 (TL fivehundredmillion) and is divided into 50.000.000.000 (fiftybillion) shares, each having a nominal value of 1 Kuruş (1% of 1 Turkish Lira). 30.272.727.273 (thirtybilliontwohundredandseventytwomillionsevenhundredandtwentyseventhousandtwohundredandseventythree) of the shares are Group A shares and 19.727.272.727 (nineteenthousandsevenhundredandtwentysevenmilliontwohundredandseventytwothousandsevenhundredandtwentyseven) of the shares are Group B Shares. All shares are in the name of the holder. Group A shares are nominative preferred shares and 6 of the Members of the Board of Directors are elected among the Group A preferred shareholders or among the candidates designated by them. Furthermore, while issuing a new share, the proportion of the Group A nominative shares in the capital is preserved.

No change has occurred in the shareholders' structure and the Company's capital during the period.

5. Reporting period, title of the partnership, names, surnames and jurisdiction of the chairman, members and the managing members who served in the board of directors and auditors during the period, the term of office of the duties (with commence and end dates)

Members of the Board of Directors

Pursuant to the provisions of the Company Articles of Association, the Board of Directors comprise 6 members to be elected among the Group A preferred shareholders or among the candidates designated by them along with the 3 independent members to be elected in scope of the CMB regulations which make 9 members in total. Information regarding the Members of the Board of Directors are as follows:

Members of the Board of Directors (*)			
Name and Surname	**Position**	**Date of General Assembly for Assignment**	**End of Term of Office**
Necmettin BAYKUL	Chairman/ Managing Member	March 2013	March 2014
Erhan AKPORAY	Vice Chairman/ Managing Member	March 2011	March 2014
Halil SARIASLAN	Independent Member (**)	March 2013	March 2014
Lamia Zeynep ONAY	Independent Member (**)	March 2013	March 2014
Cumhur Sait Şahin TULGA	Independent Member (**)	March 2013	March 2014
Hasan CANPOLAT	Member	BOD decision on 16.05.2013	Following First General Assembly
Orhan AYDIN	Member	BOD decision on 16.05.2013	Following First General Assembly
Mustafa Murat ŞEKER	Member	BOD decision on 16.05.2013	Following First General Assembly
Murat ÜÇÜNCÜ	Member	BOD decision on 16.05.2013	Following First General Assembly

(*) There is no executing member in the Board of Directors

(**) The independence statements of the Independent Members, which comply with the Corporate Governance Principles of Capital Market Board, are exist.

The Members of the Board of Directors are entitled with the authorizations stipulated in the Turkish Code of Commerce (TCC) and in article 13 of the Articles of Association of the Company.

There is no authorization granted to the ruling shareholders with regard to the Company Management, members of the board of directors, senior executives and to their spouses and relatives up to second degree and kins by marriage for them to perform acts which would cause conflict of interest with the Company or its affiliates or to compete.

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<u>Changes of Members of the Board of Directors and Auditors During the Period 1 January – 30 June 2013:</u>

During the ordinary General Assembly Meeting held on 29 March 2013, Necmettin BAYKUL, Birol ERDEM, Ahmet ŞENOL, Osman Kapani AKTAŞ and Aykud Alp BERK were elected for 1 year of service, Erhan AKPORAY was decided to continue service for 1 year; Halil SARIASLAN, Lamia Zeynep ONAY ve Cumhur Sait Şahin TULGA were elected as independent members of the Board of Directors for 1 year of service.

The Vice Chairman of Board of Directors Birol Erdem and members of the Board of Directors Osman Kapani AKTAŞ, Ahmet ŞENOL and Aykud Alp BERK, have resigned as of 15 May 2013. For the vacant positions with the resignations Hasan CANPOLAT, Mustafa Murat ŞEKER, Orhan AYDIN and Murat ÜÇÜNCÜ were elected on the Board of Directors meeting held on 16 May 2013 according to the article 363 of Turkish Commercial Code and it was decided to be submitted to the approval on the upcoming General Assembly.

6. Main factors that affect the performance of the company, significant changes occurred in the environment where company is active, policies implemented by the company with respect to these changes, investment and dividend policy of the company to strengthen its performance

The Company operates in the field of defense industry. Regarding the uncertainty after the global crisis, the resources allocated for defense expenditures by the countries varies. During this period, Turkey has preserved the level of resources it has allocated in defense industry while it has increased share of domestic procurement.

As a matter of fact of the defense industry the project lifetime varies between 4-5 years on the average. In this context, the Group which takes actions for long-term and has signed contracts worth approximately 7,3 Billion TL (approximately 3,7 Billion US Dollars) as of 30 June 2013 was not affected adversely as a result of 2008 global crisis and fluctuations resulted from the crisis. The Group's aims are parallel to designating target regions/countries, focusing on these markets and concentrating on marketing projects, direct sale, joint productions, technology transfer, strategic expansions with international firms for sales to third countries.

Profit distribution proposal is prepared and submitted to General Assembly for approval.

The revised dividend distribution policy regarding 2012 operations that has been presented to shareholders' information on the General Assembly of 2013 is as follows:

The amount of dividends shall be calculated – by taking into consideration the pertinent legislation, the provisions of the articles of association, the equity capital ratio of the Company, the sustainable growth rate, market value and cash flows – as the distributable profit by referring to the annual profit that is indicated in the financial statements of the Company, which had been prepared according to the laws and regulations (after subtracting from the reserves that had to be set aside according to the law, tax, funds, financial liabilities and the losses from previous years and adding the donations). Then, the recommendation prepared by the Board of Directors on the way such dividends would be distributed, i.e. as cash on the set dates, or as bonus shares that represent the profit which would have been added to the capital, is submitted to the approval of the General Assembly.

Following the approval of the General Assembly, the designated profit distribution is made on the determined dates by General Asembly within the legal timelines to the shareholders. There are no privileges in the Company regarding entitlement to the Company's profit. The profits are distributed for all of the shares evenly without considering the acquisition or disposal dates of the shares.

According to the Capital Markets Law and the other legislation as well as the provisions of the articles of association, and as per the resolutions of the general assembly, in the year 2013 TL 78.500.000 (TL 0,157 per TL 1 share, 15,70% gross over capital) and (net TL 66.725.000 per TL 0,13345 - TL 1 share, 13,345% over capital) of the profit for 2012 has been distributed to shareholders as cash dividend.

7. Financial resources of the company

The most substantial financial resource of the Company is comprised by the advance / interim payments taken in scope of the executed agreements and by the profit gained by the main activities.

During the first half of 2013, the cash requirements was met with the existing cash, cash inflows and new loans received due to the decreasing interest rates. In the scope of Eximbank Loan Program, USD 24,5 Million and EUR 17,5 Million "Discount Foreign Currency Loans" with 180 days maturity was obtained in the first half of 2013.

8. Risk management policies of the Company

a. Corporate Risk Management

The Company's risk management policy is to develop and implement efficient and productive methods and systems in order to manage (define, rate, monitor, evaluate and form activity plans aimed at minimizing the effects) and anticipate the potential risks which it may be exposed to.

In the Corporate Risk Management studies, "top down" and "bottom up" approaches are applied together and the significant risks which are at a critical level to affect the Company to reach its long term targets are defined and classified under Strategic, Operational, Managerial, Financial and External Factors and are submitted to the Board of Directors with the measures to be taken.

In order to identify the potential risks beforehand and to enable the management of these risks in compliance with the Company's risk-taking approach, an Early Risk Detection and Management Committee was established in 2012.

In the scope of the operations carried out by the committee, the inventory related to the risks which could prevent the Company to reach its strategic targets were defined and prioritized pursuant to the opinions and proposals of the Company top management. The most significant risk factors defined in this scope are explained below.

Single Customer Dependency in Sales

The main customers of the Company are State Institutions such as Turkish Armed Forces. This brings about the steering of the Company's operations in accordance with the public demands.

The minimization of this risk is anticipated by the Company as the result of the studies carried out pursuant to the targets aimed at increasing export sales and moving the actual knowledge to the private sectors.

Cut-Backs in Defense Expense Budgets

The Company realizes its sales both domestic and abroad in particular to the armed forces and governmental institutions. Defense expenditures in these markets depend on political and economic factors and may vary from year to year. The Governments' substantial cut-backs in the defense budget equipment items shall have a significant impact on the Company's activities and sales.

The modernization of the army in our country is a topic which has been on the agenda lately. For this reason, the probable cut-backs in the defense expenses may be expected to be for the personnel and logistics items instead of equipment. As these kinds of developments shall increase the requirement for the equipment produced with advanced technology, new opportunities might arise for the Company.

Supplier and Subcontractor Risks

As for the Company which works with various number of local and foreign suppliers and subcontractors, provision of material quality and sustainable supply is essential in terms of operational results.

The probable inter-country political or economic developments constitute a supply risk for the critical materials supplied from abroad. In order to minimize this risk, importance is given to the domestic supply of these critical materials.

Compliance with Technological Developments

An important feature of defense sector is high level technology and continious progress in the technology utilized. This situation leads changes in demands of the customers with regards to the product, systems, services and etc. Investing in and utilizing new technologies in the products is necessary to increase the Company's power of competition and success. Effective and systematical technology management and timely investment of value added technology is a priority for the profitability and sustainability of the Company. Relations developed with the armed forces and related procurement authorities support the predetermination of the demands. The engineering directorates and "Technology Supreme Board" are compatible with the developments in technologies which shape the future.

Fixed Price and Fixed Term Contracts

The products and systems produced by the Company have a complex structure when their technology, high quality and performance requirements, tough working conditions and sales contract stages are considered. This complexity, being a general feature of the sector in which the activities are carried out, is an element to cause the design, development and production cost estimations and contract terms to go above their initial planned status. In the present cases, as the contracts include hard performance and delivery terms, meeting with unenvisaged risks shall cause interruptions in the fulfillment of the contract and make it more difficult to comply with the contract terms.

Global Economic Slowdown and Financial Crisis

Recession and crisis in global economy have an adverse impact on the economic activities of the countries and as a result may cause cut-backs in the defense budgets. This situation brings along the risks of decrease or cancellation in local or foreign customer requests, pressure of the customers regarding price and profitability, slowdown of investments with respect to the Company. Another impact of the global crisis is the increase of costs in connection with the vagueness caused by the fluctuation in financial markets. When the economic situation of Turkey is considered, it is anticipated that the possibility of the mentioned risks for 2012 and the prospective period shall be low, yet the markets are still monitored very closely.

b. Financial Risk Management

In forming the financial risk management model of the Company, "Asset- Liability Management (ALM) Model" has been taken as the basis and foreign exchange risk, interest risk and liquidity risk have been defined as financial risks.

In the in-balance-sheet financial risk management, exchange risk, interest risk and liquidity risk which shall affect the assets and liabilities of the Company are defined, measured, managed and reported. Therefore, the adverse affects of the changes in financial markets on the Company's financial performance are minimized. In order to minimize the risks, the derivative financial tools are also utilized.

Off-balance-sheet financial risks arise from the inconsistency of cash inflows and outflows on the basis of currency or the deviation of the cash flow dates. Pursuant to off-balance-sheet financial risk management, financial risk management techniques aimed at protecting the targeted profitability of the projects.

Financial risk management is also applied by the Company's subsidiaries and affiliates pursuant to the policies approved by its own managing bodies.

(1) Foreign Exchange Risk and Management Policy

The main principle in foreign exchange management is to minimize the impact of the foreign exchange fluctuations by preventing foreign exchange long or short positions.

In defining foreign exchange risks, the periodical foreign exchange position is considered, loss and profits which would arise from upwards or downwards changes are calculated and the possible impacts of the foreign exchange risk incurred are measured. In this scope, the possible changes in foreign currency sensitive assets and liabilities for prospective financial periods are considered and the foreign currency position is estimated. The open foreign currency position of the Company is monitored in balance sheet and off balance sheet. The Company finances its activities mainly with the advance payments taken in return for foreign currency and the advances taken are subject to assessment as they are foreign currency indexed. Although substantial part of the advances taken is used in material purchasing in terms of foreign currency, when the purchased material is included in the balance sheet and monitored in terms of TL, this causes the Company to be in the short position. Such open position is structural as it is obligatory that the stocks and research and development costs are monitored in terms of TL and no derivative tools which are possible for cash portfolio are utilized in its management.

Within the periods when foreign currency increases, net foreign exchange loss is incurred but the sales revenues and operating margin increase due to the reason that the 82% of the Company's backlog is in terms of foreign currency. Therefore, the adverse impact of the net foreign exchange loss is balanced with the increase in the operating margin.

As of 30 June 2013, as per the financial statements of the Company prepared pursuant to the General Notification of Accounting System Application, there is an open position of TL 1.113.565.886 (31 December 2012: 839.601.463 TL).

The mentioned amount's 74% is US Dollars and 26% is Euros (31 December 2012: 80% US Dollars and 20% Euros).

The foreign currency gain and loss noted in the financial statements are comprised of the informations indicated in the financial statements of the subsidiaries Mikes and AselsanNet, prepared in accordance with the General Notification of Accounting System Application.

Foreign Exchange Sensitivity Analysis Table of the Company Prepared According to General Notification of Accounting System Application		
As of 30 June 2013		
Profit/Loss		
	Foreign currency gaining value	Foreign currency losing value
In the event USD changes by 10% against TL:		
1- USD Net Assets/Liabilities	(82.289.480)	82.289.480
In the event EURO changes by 10% against TL:		
2- Euro Net Assets/Liabilities	(29.622.294)	29.622.294

(2) Interest Risk and Management Policy

The interest risk is defined by using the difference between the assets sensitive to interest in a certain term and liabilities sensitive to interest (gap analysis) and such difference is calculated by the help of the maturity ladder of the balance sheet. In the scope of fund management, a sensitivity test is carried out to measure the interest risk of the interest sensitive assets in the portfolio.

As of 30 June 2013, the Company has loan balance obtained from the Defense Industry Support Fund, for the first portion worth USD 40 Million with no repayment for 3 years, with a maturity for 5 years (18 August 2016) and with 2,1% fixed interest rate and for the second portion worth USD 25 Million with no prepayment for 3 years, with maturity with 5 years (21 March 2018) and with 2.1% fixed interest rate, which sum up to USD 65 Million. When the interest rates of mentioned loans are compared with the market rates, no interest risks deemed to exist. The Company has used spot-loan amounting to TL 50 Million as of 30 June 2013 with 45 days maturity in order to benefit from margin between loan and deposit interest rates and also to meet the cash need. In addition, as of 30 June 2013 the Company has USD 24,5 Million and EUR 17,5 Million outstanding loan balance obtained from Turkish Eximbank. The loans have a maturity of 180 days and indexed to LIBOR. Since LIBOR levels have been low and Türk Eximbank demands 1,25% additional spread rate in order to Support export, the Company's sensitivity to floating rate loans is at minimum.

(3) Liquidity Risk and Management Policy

Liquidity Risk comprises the risks when the matured liabilities cannot be fulfilled, when the increase in assets cannot be funded and the risks which arise due to the transaction realized in non-liquid markets.

Liquidity risk is managed by considering short term liabilities, assets with high liquidity, anticipated cash flows and balance sheet maturity ladder. In this scope, sufficient level of cash and assets which may be convertible to cash is maintained, attention is paid for the Company to finance its activities without using any loans and the funding resources are varied by keeping the bank credit limits ready for any instant cash requirement. As of 30 June 2013, 35% of the total resources are comprised by the advance payments taken and when this is considered, the liquidity risk is at low levels as no maturity inconsistencies are experienced in the working capital management.

(4) Credit Risk and Management Policy

The substantial part of the Company’s present credit balance are comprised by the performance securities and advance payment guarantees (letter of guarantees) granted to the customers in scope of agreements and which are monitored off balance sheet. Pursuant to the management of credit limits at the banks within this scope, the periodical risk balances are monitored and necessary transactions are done for the letter of guarantees related to the agreements of which the liabilities are fulfilled to be deducted from the risk.

(5) Capital Risk Management

In the capital management of the Company, enabling the debt-equity balance is paid attention to by minimizing the financial risks and costs to the lowest level. The objective of the Company is to provide its shareholders a regular dividend income and to guarantee a consistent growth by means of the funds gained through its activities.

The Company aims to keep its capital structure by means of dividend payments as cash or in return for shares and by means of issuing new shares.

10. Other issues not included in the financial statements but which would be beneficial to the users

As of 30 June 2013, the Company has a backlog of TL 7,3 Billion (approximately USD 3,7 Billion) and these orders include the period until 2020.

11. Significant events between the end of 1 January – 30 June 2013 accounting period and the General Assembly Meeting date when the relevant financial statements shall be negotiated

a) Two contracts were signed between the Company and STM regarding Purchase of Electro Optical System. The total contract values are equal to USD 5.979.930. The deliveries will be made in 2014 and 2015.

b) The Multi Purpose Phase Indexed Radar Project-Concept Phase (ÇAFRAD Faz-1 Project) contract, amounting to TL 200.000.000 was signed between the Company and Undersecretary of Defense Industry. The deliveries will be made between 2014 and 2018 regarding the contract.

c) A contract was signed amounting to TL 10.302.845 between the Company and Havelsan regarding Shore Surveillance Radar System (SSRS).The deliveries will be made in 2015-2016.

d) A new contract was signed between Aselsan and Undersecretary of Defense Industry regarding electronic warfare system on 15.08.2013 amounting to USD 38.603.175. The deliveries will be made in 2013-2015.

12. Anticipations for the development of the company, significant developments with respect to company activities and financial status, to observe whether past period targets were reached or not, whether the general assembly resolutions were fulfilled or not, and in the event the targets were not reached and the resolutions were not fulfilled, information regarding the grounds and assessments

The projections regarding the consolidated financial results of 2013 which have been presented with the operation results of 2012 have not been changed under normal circumstances and the expectations are as follows:

- Increase in consolidated income (in terms of TL): 15-17%
- Consolidated EBITDA margin: 18-20%.
- Consolidated investment expenses: Approximately TL 150 Million
- Ratio of the consolidated Research and Development (R&D) expenses to the consolidated sales: At the level of 7%

The expectations are based on the assumption that USD/TL rate to be around 1,85 and EUR/TL rate to be around 2,33.

The vision of the Company is “to become one of the leading 50 defense industry companies”. In scope of this vision, 5 year strategy plans are being prepared. All activities are realized in compliance with the strategy plans in order to reach the defined targets. The Company, pursuant to these targets has continued to produce technology with qualified human resource which is the basis of efficiency, matured processes, resources reserved for R&D and with its infrastructure and organization at the level of worldwide companies.

The Company has been in the most prestigious list, “Defense News Top 100”, which is published by “Defense News” magazine since 7 years and is aimed to increase its revenue to USD 1 Billion and continue to increase its ranking in the list.

In order to achieve sustainable growth:

- The new facility investment continues in line with the plan in the field of Radar and Electronic Warfare in Ankara province, Gölbaşı District It is planned to begin operations in 2014.
- Technology development and conversion investments have been continued in Macunköy facility with the new Printed Circuit Facility with a closed area of 6.587 m^2 in where production started in 2012.
- After the joint ventures with United Arab Emirates, Kazahistan and the branch in South Africa in 2011, the investments to the facilities of “ASELSAN Middle East PSC Ltd” established in 2012 in Jordan, 49% belonging to the Company continues. The joint venture established in United Arab Emirates started to operate in July 2013. The joint ventures in Kazakhistan and Jordan are expected to begin operations in the fourth quarter 2013.
- The quality and technological perspectives of the cooperations formed with the universities have been increased.
- The efforts to form an eco-system with the sub-industry companies and SME’s have continued.
- Since the entity is the biggest R&D center of the country, it is strategically important to have matured processes with technological depth and concentration. All Group Directorates have completed the certification process of Capability Maturity Model Integration-L3.
- The Company has signed a new research and development contract to be developed with domestic resources, in order to develop base stations on the basis of 4^{th} generation (4G) communication Technologies and domestic manufacturing of the digital tachograph aiming to be used in civil fields apart from the defense sector.

Pursuant to the decisions taken in the Ordinary General Assembly Meeting dated 29 March 2013,

- The upper limit of registered capital of the Company was increased to TL 1.000.000.000 from TL 500.000.000 .
- The profit distribution payments for 2012 period began in 31 May 2013.
- The amendment on 6^{th} article regarding the upper limit of registered capital in the Company’s Articles of Association’s and amendments on decisions 1., 3., 4., 5., 9., 11., 12., 13., 14., 15., 16., 17., 18., 19., 21., 23., 24., 25., 26., 27., 28., 29., 30., 31., 32., 33., 34., 35., 36., and 37 in order to comply with Turkish Commercial Code numbered 6102 and Capital Market Law numbered 6362, was registered on 4 April 2013 and announced on 9 April 2013 by the Ordinary General Assembly Meeting Decisions, and copies of the related Trade Registry Gazette was sent to CMB and the Ministry of Customs and Trade .

13. Corporate Governance Principles Compliance Report

Will be announced in year end annual report.

14. Research and Development Activities Realized

The Group, being a leading defense industry establishment developing advanced technology system solutions on land, air, naval and aerospace platforms, has given importance to R&D activities and technological gains and targets to spend approximately 7% of the annual turnover to its R&D activities financed with its own resources.

By monitoring all kinds of technological developments with respect to product/technology systems for land, air, naval and aerospace platforms, the design, development and production of product/technology which includes advanced technology on the basis of not only using the technology but also having a structure to transfer/sell the technology it develops in national and international cooperation environments.

In order to increase the national contribution share in the projects, great effort is being paid for utilizing the existing local technological possibilities. For this purpose, cooperations with universities and some R&D institutions are formed and using of local subcontractors and sub-industry have become significant.

As for the projects carried out within the Group, the R&D discount in compliance with the provisions of the Law on Corporate Tax numbered 5520 and R&D central application pursuant to the Law regarding the support of R&D activities numbered 5746 are being implemented together. For the R&D projects which are not aimed for public, the approval of TEYDEB (Technology and Innovation Support Programs Presidency) is taken and they are supported by this institution. Within the Company, there are 4 R&D centers namely SST, REHİS, MGEO and HBT. MİKES, which is an affiliate subject to consolidation, also has 1 R&D center. 2.259 people are employed at the Group R&D centers.

The Company also is active in Teknokent facility within Middle East Technical University in scope of the Law numbered 4691 on Technology Development Regions. 165 people are employed within this region.

15. Amendments to the Articles of Association during the period along with the grounds

The amendment on 6th article regarding the upper limit of registered capital in the Company's Articles of Association's and amendments on decisions 1., 3., 4., 5., 9., 11., 12., 13., 14., 15., 16., 17., 18., 19., 21., 23., 24., 25., 26., 27., 28., 29., 30., 31., 32., 33., 34., 35., 36., and 37 in order to comply with Turkish Commercial Code numbered 6102 and Capital Market Law numbered 6362, was registered in the Trade Registry and noticed in the Turkish Trade Registry Gazette.

The increase of capital ceiling from TL 500.000.000 to TL 1.000.000.000 which is decided with the Board of Directors meeting on 31 October 2012 was approved on the general assembly meeting dated 29 March 2013 and registered and noticed with the general assembly decisions.

Between 1 January- 30 June 2013 period, no extraordinary General Assembly meeting was held.

16. The kinds of issued capital market tools and their amounts, if any

None.

17. The sector the Company operates in and its position within the sector

The Company is a leading defense industry institution developing advanced technology system solutions in land, air, naval and aerospace platforms.

The Company being an institution of the TAFF is in a position of a technology center in the fields of design, development, manufacturing, system integration, modernization and after sales services of military and civil communication systems, avionic systems, electronic warfare and intelligence systems, radar systems, command and control systems, naval warfare systems, electro-optic systems and products.

The Company has increased its rankings to 74th in 2012 from 76th in 2011 in the “Defense News Top 100” list. In addition Aselsan has increased its rankings to 82th in 2011 in the “SIPRI Top 100” List from 88th in 2010 in which the Company is the first Turkish firm that has taken place within 7 consecutive years.

The Company is 46th in ISO 500 from-production-to-sale list and 41st in the category of privately owned companies in 2012. Also, the Company is 63rd of “Fortune 500 Turkey” list where it was 69th in 2011 and 33rd in “The Companies to Increase their Exports the Most” 76th of “Capital 500 Turkey” list in 2012 rankings where is was 79th in 2011.

The Company became 128th in 2012 from 527th in 2011 in Turkish Exporters Council’s “First 1000 Exporter Firms”.

The Company became the second in “2013 Defense Industry Awards”, organized by Undersecretary of Defense Industry, based on the financial and performance results.

The company has increased its rankings to 35 in 2012 from 38th in 2011, Brand-Finance "published by the Turkey's Most Valuable Brands - 100 Company" list. In addition, Company has achieved to take a place in "Turkey 159 Super Brand" ranking published by British-based brand assessment firm Superbrands.

The Company took the first ranking in “Electronic Machinery and Technology Sectors-2012 Most Successful Exporters- Other Durable Consumption Goods Category” which is organized by İstanbul Electronic Machinery and Technology Exporters Association.

The Company is 11^{th} in the research of Bloomberg Businessweek Turkey and Realta Consultancy amongst 96 Universities: "Most Anticipated 50 Companies".

18. Progress in invesments, and degree of incentive utilization if any

Progress in investments

Directing the Company resources to profitable fields with high added value where advanced technology is used is anticipated in the first place by considering the global tendencies, technological developments and the actual and prospective requirements of all customers in particular the Turkish Armed Forces. The investments in the Company are realized by considering the technological plans, strategic plans and project requirements. Below are the leading investments in scope of these:

- A new facility investment is being made in the field of Radar and Electronic Warfare in Ankara province, Gölbaşı district. The construction works continue pursuant to the project plan and the activities are planned to be initiated in the second half of the year 2014. Upon the realization of this investment in scope of a structural growth, the product range of engineering, production, test and logistics support services in the field of Radar and Electronic Warfare shall be extended.
- Investments to meet the infrastructure and equipment requirements to be used with the R&D projects within the year are being carried out in compliance with the investment plan prepared pursuant to the efficient resource utilization principle.

Degree of incentive utilization if any

The 1501 Industrial R&D Projects Support Programme has been formed in order to encourage the R&D operations of the companies creating added values at company level and to contribute to the enhancement of the R&D ability of the Turkish industry by this means. Within this scope, applications were filed to The Scientific and Technological Research Council of Turkey (TÜBİTAK) for 93 projects and the projects found appropriate for the incentive benefited from the allocated incentive amount.

5 new projects within the scope of 1511-Prioritized fields research Technologies development and innovation program were signed in 2013 and started being executed.

The 1007 Public Institutions R&D Project Support Program has been formed in order to meet the requirements of the Public Institutions with R&D or to support the projects aimed at solving their problems. In scope of this support, 4 R&D projects have been completed and 4 R&D projects are still ongoing.

Within the scope of the European Commission 7^{th} Cooperation Framework Programs, 2 integration projects were executed and went into effect in 2011 and 1 project which was initiated in 2008 was completed in June 2012 with success. In the "Circulation of the

Researchers, Return Grants; Individual Support Private Programme" within the scope of the European Commission 7th Cooperation Framework Programmes, incentive applications for 4 projects were accepted and implied in the years 2010 and 2011. The support process of the 3 projects have been initiated as of July 2010 by EUREKA-International Industrial R&D Projects Support Program where market oriented projects for developing products and processes to be commercialized in short term are supported. Within the financial support mechanism for the European Commission nominee and potential nominee countries, namely IPA - Instrument for Pre-accession Assistance, 1 out of 2 border security projects was executed at the end of 2010 and the other was executed in March 2012 and came into effect.

20 projects were executed in the year 2011, 2012, 2013 and came into effect within the SAN-TEZ R&D support programme aimed at supporting the postgraduate and/or doctorate thesis works which shall contribute to increasing the competitiveness in international markets by means of commercializing the scientific studies at the universities and institutionalizing the University - Industry cooperation.

Expenses regarding the foreign market research travels realized with respect to the products and the foreign office expenses are used up by the rate and amount of subsidies implemented within the scope of Governmental Grants for Export.

Within the Decision Regarding the Governmental Grant in Investments, there are 4 Investment Incentive Certificates taken from the Turkish Republic Prime Ministry Undersecretariat for Treasury General Directorate of Incentives and Implementation. With such incentive certificates, VAT exemption and customs tax exclusion are utilized. VAT exemption is applied in domestic and foreign purchases and customs tax exemption is used in foreign purchases.

Income tax withholding incentive, insurance premium support, stamp tax exemption and R&D discount are utilized within the scope of the Law numbered 5746. Income tax withholding incentive, insurance premium support and stamp tax exemption are utilized by being calculated over the salaries of the R&D personnel and not being paid to the relevant institution and the R&D discount is utilized by means of applying a discount on the corporate tax return.

19. Comments including the qualities of the production units of the company along with the capacity utilization rates and their developments, general capacity utilization rate, developments in the manufacturing of the products and services which are subjects of activity, amounts, quality, circulation and the prices compared with the previous period figures

The capacity utilization rate for the period between 1 January - 30 June 2013 was realized at the level of 95%.

Substantial part of the production is realized as order based production. R&D activities are carried out for the products designed to be tailored for the customer requirements and the qualities of the system and products alone with their quantities and prices may be subject to change. Upon the usage of Enterprise Resource Planning (ERP) system, the production processes have been managed more efficiently.

20. The prices, sales revenues, sales conditions of the products and services which are subjects of activity with their improvements within the year, developments in the yield and productivity parameters and the reasons of the substantial changes in these compared to the previous years

The Company carries out its operations in the basic fields of: "Communication and Information Technologies", "Defense System Technologies", "Radar, Electronic Warfare and Intelligence Systems" and "Microelectronics Guidance and Electro-Optics."

The Company's project revenues comprise, according to the relevant sales agreement terms and conditions, order based production, mass production product sales, services, commodities and progress billing sales. Sales terms and conditions are subject to change as for the respective agreements.

As of 30 June 2013, the use of capacity was approximately 95%.

As for the consolidated net sales amount of the Group realized during the period 1 January – 30 June 2013, TL 768 Million of this realized as the domestic sales and TL 213 Million of it realized as the foreign sales.

21. The basic ratios regarding profitability and liabilities, as calculated on the basis of the financial statements, sales, efficiency, income generation capacity, profitability and liabilities/equity ratios in comparative basis with prior period and information about other matters and future expectations and risks that has been prepared in accordance with Capital Markets Board Communiqué Series:II and No:14.1

BASIC RATIOS / CONSOLIDATED BALANCE SHEET	**30 June 2013**	**31 December 2012**
Current Ratio (Current Assets/Current Liabilities)	2,20	2,50
Liquidity Ratio (Cash and Cash Equivalents+Financial Investments+Trade Receivables+Other Receivables /Current Liabilities)	0,92	1,18
Equity /Total Liabilities	0,38	0,38
Current Liabilities/Total Liabilities	0,26	0,23
Non-Current Liabilities/Total Liabilities	0,36	0,39

BASIC RATIOS / CONSOLIDATED PROFIT TABLE	30 June 2013	31 December 2012
Operating Profit/Sales Revenue	0,25	0,27
Profit for the Period (Parent Company Shares) / Sales Revenue	0,10	0,23

As of June 2013, based on Group's financial statements prepared in accordance with the Communique Series II, No:14.1 "Communiqué on Capital Market Financial Reporting Standards" issued by Capital Market Board, the net sales amount has increased 23% compared to the same period of prior year. The profit for period amounts to TL 100 Million, with a decrease of 46%. Shareholders equity has increased by 2% compared to December 2012. The liabilities of the Group are mainly consist of the long term order advances received. The Group's liquidity ratio is above the acceptable levels.

22. Measures planned to be taken to improve the financial structure of the company

The Group and the Company, as for their annual budgets and implementations for the period 2012 - 2014, have adopted the principles as the basis to take care of savings in all kinds expenditures, to closely follow up the advances and receivables, to pay attention to the proportion of the term and currency in purchasing and sales agreements with the risk status of the domestic/foreign sellers.

USD 40 Million portion of the credit line allocated to the company by the decision of Defense Industry Executive Committee in order to finance the Gölbaşı investment was used in the third quarter of 2011 while USD 25 Million of the second portion amounting to USD 47 Million was used in March 2013 and USD 22 Million is planned to be used in 2014.

23. Changes in the top management within the period and the names and surnames of the ones who are on duty and their professional experience

Changes in the top management within the period 1 January – 30 June 2013 and information regarding the ones on duty are given in the below table.

ASELSAN A.Ş. LIST OF SENIOR EXECUTIVES ON DUTY			
No	**Name Surname**	**Duty**	**Date of Appointment**
1	Necmettin BAYKUL	Chairman/Managing Member	29 March 2013
2	Erhan AKPORAY	Vice Chairman / Managing Member	31 March 2011
3	Cumhur Sait Şahin TULGA	Member of the Board of Directors	29 March 2013
4	Lamia Zeynep ONAY	Member of the Board of Directors	29 March 2013
5	Halil SARIASLAN	Member of the Board of Directors	29 March 2013
6	Hasan CANPOLAT	Member of the Board of Directors	16 May 2013
7	Orhan AYDIN	Member of the Board of Directors	16 May 2013
8	Mustafa Murat ŞEKER	Member of the Board of Directors	16 May 2013
9	Murat ÜÇÜNCÜ	Member of the Board of Directors	16 May 2013
10	Cengiz ERGENEMAN	CEO/President	02 January 2006
11	Ahmet DEMİR	CEO/Vice President	01 February 2005
12	Özcan KAHRAMANGİL	Division CEO/Vice President	05 January 2006
13	Faik EKEN	Division CEO/Vice President	21 January 2006
14	Fuat AKÇAYÖZ	Division CEO/Vice President	01 February 2006
15	Ergun BORA	Division CEO/Vice President	01 January 2008

24. Total amounts of the financial benefits such as attendance fee, remuneration, premium, bonus payments, share profit provided to the managing members and senior executives

The total amount of the remuneration and similar benefits paid to the senior executives by the Company as for the period 30 June 2013 is TL 2.225.164. (30 June 2012: TL 2.131.572). A monthly payment of net TL 2.200 is effected to the Member of the Board of Directors and Managing Members.

25. Information regarding the allowances granted to the managing members and the senior executives with the travel, accommodation and representation expenses and financial benefits in kind, insurances and total amounts of the similar guarantees

Information regarding the domestic and foreign allowances, travel, accommodation and representation expenses and financial benefits in kind and total amounts of insurances granted to the senior executives and members of the board of directors of the Company for the year 2012 and 2013 are summarized as follows:

	January-June 2013 (TL)		January-June 2012 (TL)	
	Senior Executives - Member of the Board of Directors	Other Senior Executives	Senior Executives - Member of the Board of Directors	Other Senior Executives
Travel Expenses	14.529	98.244	-	171.609
Entertainment Expenses	-	13.480	-	-
TOTAL	**14.529**	**111.724**	-	**171.609**

	January-June 2013 (TL)	January-June 2012 (TL)
	Health Insurance Amount	
Senior Executives - Member of the Board of Directors	599	669
Other Senior Executives	5.940	5.687
TOTAL	**6.539**	**6.356**

The expenses of 2012 involves the insurances paid for the audit committee. However, the expenses of 2013, since their services have ended as of the regular General Assembly held on 29 March 2013, involves the insurances expenses for the first three months.

26. Personnel and workers turnover, collective agreement implementations, rights and benefits provided to the personnel and workers

The Group recruited a total number of 187 people as the personnel including nominated engineers, temporary personnel, disabled and terror-stricken personnel during the period 1 January - 30 June 2013 and the number of people quit for the same period is 81.

The rights and benefits provided to the personnel by the Company are bonus payments, meal allowances, marriage benefits, maternity benefits, death allowances, transportation, private health insurance, childcare and kindergarten benefits.

The average number of personnel employed by the Group as of 30 June 2013 is 5.301 (31 December 2012: 5.088).

There is no collective bargaining agreement in the Company.

27. Information regarding the donations realized within the year and social responsibility

There is no donations made by the Group between the period 1 January- 30 June 2013.

In May 2013, Republic of Turkey Ministry of Health, Public Health Agency of Turkey Institution had given the Company a plaquet named "Baby Friendly Workplace" because of fulfilling the criteria for the promotion of breastfeeding and babies receive breast milk. In addition, a tree has been planted for each new personnel since the beginning of 2013.

28. The Existence of Organizations outside the Center

-Branch in Republic of South Africa; Pretoria
-Office in United Arab Emirates; Abu Dhabi

29. Information regarding the shares of the companies subject to consolidation in the parent company

There is no cross ownership relation between the companies subject to consolidation (MİKES and AselsanNet) and the Company.

30. As for the preparation process of the consolidated financial statements; comments with respect to the principal factors of the internal audit, internal control and risk management systems of the Group and opinion of the managing body

The controls are carried out by the Internal Audit and Assessment Board (IAAB), Audit Committee and members of the Board of Auditors within the parent company in order to minimize the substantial error risk on the financial statements of the Group. IAAB and Audit Committee carry out their duties independent from each other but within the direction of common objectives and targets by means of maintaining an internal control system which provides required controls in matters such as the reliability of the financial reporting system, the efficiency of the activities in order to eliminate the operational risks and compliance with the law. Furthermore, the efficiency and sufficiency of the internal control are supported with the directives in effect.

In order to determine the potential risks which may affect the Company and to govern them, in 2012 a Committee for Early Determination and Management of Risks was established. The committee meets on a periodical basis and reports in every two months to the Board of Directors.

31. Direct and indirect affiliates of the Company and information regarding the share ratios

The affiliated partnerships, subsidiaries subject to joint management and affiliates of the Group recorded as financial investments with their participation ratios and amounts are as follows;

Company Name	Share (%)	30 June 2013 (TL)
Aselsan Baku	100	3.059.234
Roketsan A.Ş.	14,897	5.141.213
Mikroelektronik Ar-Ge Tasarım ve Ticaret Ltd. Şti.	85	624.714
Aspilsan A.Ş.	1	147.462
Havaalanı İşletme ve Havacılık End. A.Ş.	0,051	86.953
Kazakhstan Aselsan Engineering LLP	49	388.023
IGG Aselsan Integrated Systems LLC	49	42.837
Aselsan Middle East PSC LTD	49	2.527.126
TOTAL		**12.017.562**

The above mentioned investments of the shares valuing TL 12.017.562 which are ready to be sold and which do not have quoted market value and of which the realistic value cannot be reliably estimated due to the reason that the estimated value ranges are wide and that the probabilities related to the estimated values cannot be measured reliably and which are not traded in the stock exchange

32. Information regarding the Company's own shares acquired by itself

No such event occurred within the activity period.

33. Comments with respect to the private audit and governmental audit realized within the activity period

No private or govermental audit was realized at the Companys within the activity period.

34. Information regarding the lawsuits filed against the Company which would have an impact on the financial status and activities of the Group and their probable outcomes

The lawsuits and execution proceedings filed by or against the Group as of 30 June 2013 are summarized below:

	Explanation	30 June 2013 (TL)
a)	Ongoing lawsuits filed by the Group	4.563.988
b)	Execution proceedings carried on by the Group	3.403.848
c)	All types of ongoing lawsuits filed against the Group	831.568
d)	Lawsuits finalized in favor of the Group within the period	60.628
e)	Lawsuits finalized against the Group within the period	-

35. Comments with respect to the administrative and judicial sanctions applied to the company and the managing members due to the acts contrary to the legislation provisions

No penalties with substantial amounts were paid in 2013 by the Group.

36. If it is an affiliate company, the legal transactions carried out in favour of the parent company or its affiliate with the parent company, with an affiliate company connected to the parent company with the direction of the parent company and all other measures taken or avoided to be taken in favour of the parent company or its affiliate in the previous activity year

No such event occurred within the activity period.

37. If it is an affiliate company, whether any counter performance was realized for each legal transaction according to the known status and conditions at the time the legal transaction mentioned in article 33 was realized or at the time the measures were taken or avoided to be taken and whether the company incurred losses due to the taken or avoided measure and if the company incurred losses to observe whether this was equalized or not

No such event occurred within the activity period.

38. The determination and management assessment with respect to the Company's unpaid capital or whether the Company is deeply in debt

No such event occurred in the Company within the activity period.

39. The status of owning directly or indirectly five, ten, twenty, twenty five, thirty three, fifty, sixty seven or one hundred percent of the shares representing the capital of an equity company or in the event that the proportions go below these percentages and ground for this

No such event occurred in the Company within the activity period.

40. Related Party Transactions

The detailed information is disclosed as Note: 17 of the condensed consolidated financial statements as of 30 June 2013.

Necmettin BAYKUL
Chairman of the Board of Directors

Erhan AKPORAY
Vice President of the Board of Directors

Hasan CANPOLAT
Member of the Board of Directors

Mustafa Murat ŞEKER
Member of the Board of Directors

Orhan AYDIN
Member of the Board of Directors

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Member of the Board of Directors

Lamia Zeynep ONAY
Member of the Board of Directors

Cengiz ERGENEMAN
CEO