

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

REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN
1 JANUARY – 31 DECEMBER 2016

Content

Page Number

1. Principles of preparation.....	1
2. Commercial title and trade registration number of the company and contact information pertaining to its headquarters, branches and its website address.....	1
3. Organizational structure of the company.....	2
4. The Company's capital and partnership structure with the changes during the fiscal period	3
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 during the period, the term of office of the duties (with commence and end dates)	4
6. Main factors that affect the performance of the company, significant changes occurred in the environment where company is operating, policies implemented by the company with respect to these changes, investment and dividend policy of the company to strengthen its performance	5
7. Financial resources of the company	6
8. Risk management policies of the company	6
9. Other issues not included in the financial statements but which would be beneficial to the users	10
10. Significant events between 1 January – 31 December 2016 fiscal period and the Board of Directors Meeting date when the corresponding financial statements shall be negotiated	10
11. Expectations for the progress of the company, significant developments with respect to company activities and financial position, to observe whether past period targets were achieved or not, whether the general assembly resolutions were fulfilled, and in the event the targets were not achieved and the resolutions were not fulfilled, information regarding the reasons and explanations	10
12. Compliance Report on Corporate Governance Principles	11
13. Research and Development Activities Performed	12
14. Amendments to the Articles of Association during the period along with the reasons	13
15. The kinds of issued capital market instruments and their amounts, if any.....	14
16. The sector the Company operates in and its position within the sector	14
17. Progress in investments and degree of incentive utilization if any	16
18. Explanations 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 to activity, amounts, quality, circulation and the prices compared with the previous period figures	18
19. 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	18
20. 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 comparison basis with prior period and information about other matters and future expectations and risks that have been prepared in accordance with Capital Markets Board Communiqué Series: II and No:14.1	19

21. Measures planned to be taken to improve the financial structure of the company	20
22. Changes in the top management within the period and the names and surnames of whose are on duty	21
23. Total amounts of the financial benefits such as attendance fee, remuneration, premium, bonus payments, share profit provided to the managing members and senior executives.....	21
24. 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 benefits	22
25. Personnel and workers turnover, collective agreement implementations, rights and benefits provided to the personnel and workers	22
26. Information regarding the donations within the year and social responsibility.....	23
27. Information on Business Partnerships, Associates, Subsidiaries, Joint Ventures and Branches	23
28. Information regarding the shares of the companies subject to consolidation in the parent company ...	24
29. 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	24
30. Direct and indirect affiliates of the company and information regarding the share ratios	25
31. Information regarding the company's own shares acquired by itself	25
32. Comments with respect to the private audit and governmental audit realized within the activity period	25
33. Information regarding the lawsuits filed against the company which would have an impact on the financial position and activities of the Group and their possible outcomes.....	26
34. Explanations 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.....	26
35. If it is an affiliate company, the legal transactions carried out in favor 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 favor of the parent company or its affiliate in the previous activity year	26
36. 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 35 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	26
37. The determination and management's assessment with respect to the company's unpaid capital or whether the company is deeply in debt	26
38. 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	26
39. Related party transactions	26



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**Convenience Translation Into English of the Independent Auditors Report
Related to Annual Report Originally Issued in Turkish**

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

Report on the Audit of Board of Directors' Annual Report Based on Standards
of Auditing which is a component of The Turkish Auditing Standards Published
by The Public Oversight Accounting and Auditing Standards Authority ("POA")

We have audited the accompanying annual report of Aselsan Elektronik Sanayi
ve Ticaret Anonim Şirketi (the "Company") and its subsidiaries (the "Group"),
for the year ended 31 December 2016.

Board of Directors' Responsibility for the Annual Report

Pursuant to the article 514 of the Turkish Commercial Code numbered 6102
("TCC") and Communiqué on the Principles of Financial Reporting In Capital
Markets numbered II – 14.1 ("Communiqué"), management is responsible for
the preparation of the annual report fairly and consistent with the consolidated
financial statements and for such internal control as management determines
is necessary to enable the preparation of such annual report.

Auditors' Responsibility

Our responsibility is to express an opinion on the Group's annual report based
on our audit in accordance with article 397 of the TCC and Communiqué
whether the financial information included in the accompanying annual report
is consistent with the audited consolidated financial statements expressed in
the auditor's report of the Group dated 20 February 2017 and provides fair
presentation.

Our audit has been conducted in accordance with the Standards on Auditing
which is a component of the Turkish Auditing Standards ("TAS") published by
the POA. Those standards require that we comply with ethical requirements
and plan and perform the audit to obtain reasonable assurance about whether
the financial information included in the annual report is consistent with the
consolidated financial statements and provide fair presentation.

An audit also includes performing audit procedures in order to obtain audit
evidence about the historical financial information. The procedures selected
depend on the auditor's judgment. We believe that the audit evidence we
have obtained is sufficient and appropriate to provide a basis for our audit
opinion.



Opinion

In our opinion, the financial information included in the annual report is consistent, in all material respects, with the audited financial statements and provides a fair presentation.

Report on Other Regulatory Requirements

In accordance with the third clause of the article 402 of TCC, no material issue has come to our attention that shall be reported about the Group's ability to continue as a going concern in accordance with TAS 570 Going Concern.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member of KPMG International Cooperative



1. Principles of preparation

The annual period report of the Board of Directors is prepared on the basis of Communiqué Series II, No: 14.1 “Principles of Financial Reporting in Capital Markets” dated 13 June 2013.

Company and ASELSAN Bakü Şirketi (“ASELSAN Bakü”), Mikroelektronik Ar-Ge Tasarım ve Ticaret Limited Şirketi (“Mikro AR-GE”) and ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Limited Şirketi (“ASELSANNET”), which is a subsidiary of the Company operating in the same sector and whose financial statements are consolidated will be mentioned in the following notes as “Group” in the report.

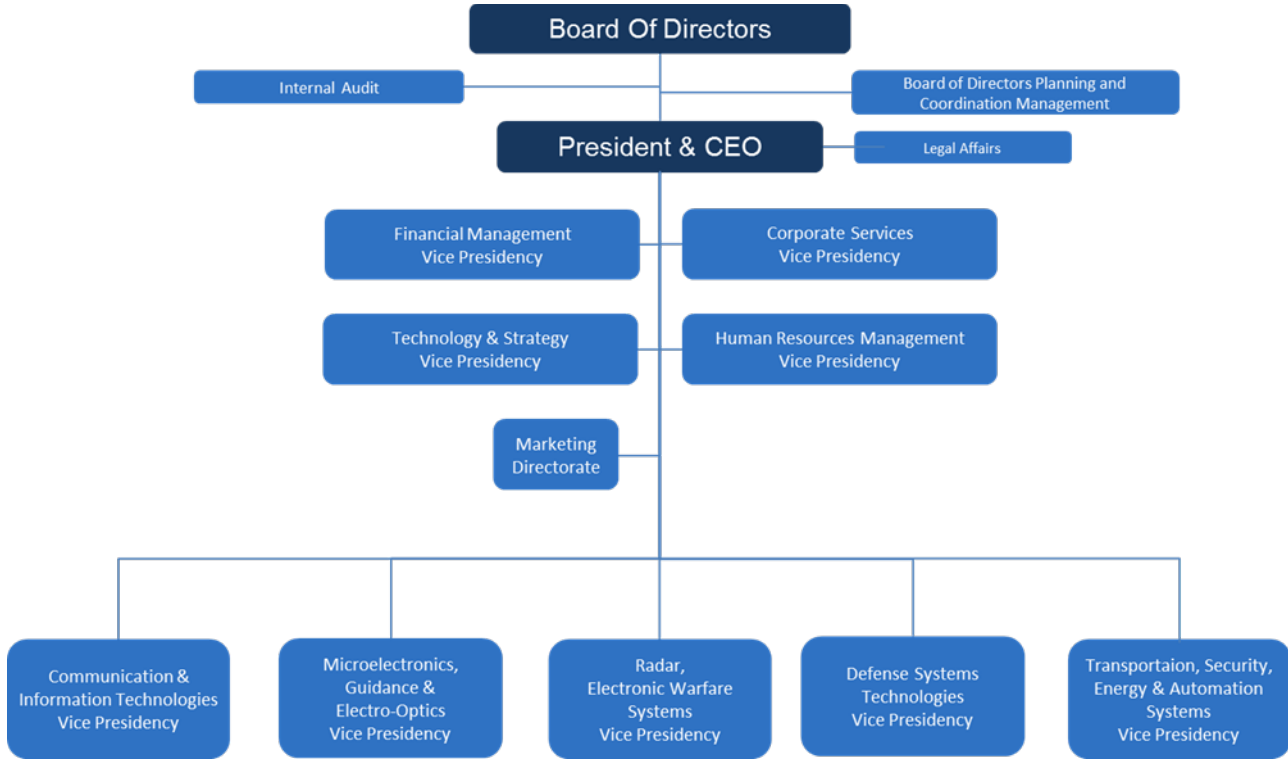
ASELSAN Hassas Optik Sanayi ve Ticaret Anonim Şirketi (“ASELSAN Optik”), ASELSAN Bilkent Mikro Nano Teknolojileri Sanayi ve Ticaret Anonim Şirketi (“ASELSAN Bilkent”), IGG ASELSAN Integrated Systems LLC (“IGG ASELSAN”), Kazakhstan ASELSAN Engineering LLP (“ASELSAN Kazakhstan”) and ASELSAN Middle East PSC LTD (“ASELSAN Jordan”) and Saudi Arabian Defense Electronics Corporation LLC (“SADEC LLC”) have been consolidated by equity method.

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

Company	Type	Country/City	Address	Telephone/Fax	Web site
ASELSAN Elektronik Sanayi ve Ticaret A.Ş.	Headquarters	Turkey/ Ankara	Mehmet Akif Ersoy Mahallesi 296. Cad. No:16 06370 Yenimahalle/Ankara	Telephone: +90 (312) 592 1000 Fax: +90 (312) 354 1302	www.aselsan.com.tr
ASELSAN South Africa Branch	Branch	Republic of South Africa/ Pretoria	Building 4, Room 005 CSIR Campus, Meiring Naude Drive, Pretoria Gauteng, 0001, South Africa	Telephone :+27 (0) 12 349 2613 Fax: +27 (0) 12 349 2544	--
ASELSAN Macedonia Branch	Branch	Macedonia/Skopje	Ankarska 29A, 1000 Skopje/Macedonia	--	--
BAE Contact Office	Contact Office	BAE/ Abu Dhabi	Industrial City of Abu Dhabi 1, Plot 22J1 PO Box: 133627 Abu Dhabi/UAE	Telephone: +971 2 550 8808 Fax: +971 2 550 8812	--

3. Organizational structure of the company

The Company's organizational structure has been reorganized on 30 May 2016. In accordance with the changes, the Board of Directors Planning and Coordination Management has been established and organized under the Board of Directors. Furthermore the Marketing Directorate has been established and organized under the General Directorate.



Within this scope, the Company has been restructured under five Vice Presidencies that will carry the production and engineering tasks, which are; Communication and Information Technologies (HBT), Microelectronics, Guidance and Electro-Optics (MGEO), Defense Systems Technologies (SST), Radar, Electronic Warfare and Intelligence Systems (REHİS) and Transportation, Security, Energy and Automation Systems (UGES).

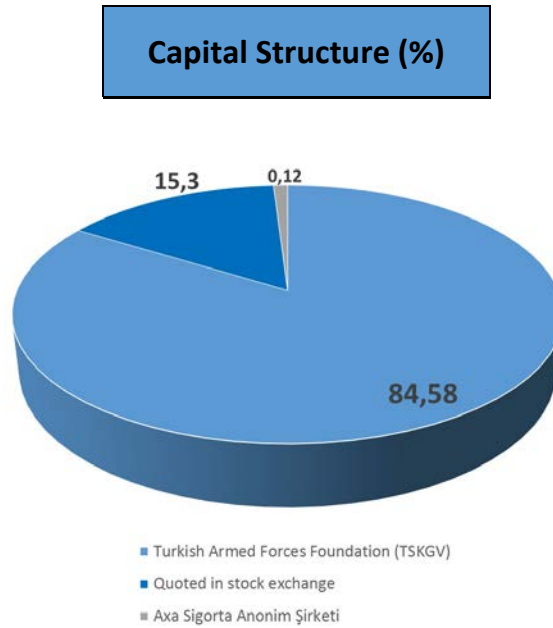
In order for General Management to fulfill planning at strategic level, pursuing and assessing functions in a more efficient way, four different Vice Presidencies have been constituted as Financial Management Vice Presidency, Corporate Services Vice Presidency, Technology and Strategy Vice Presidency and Human Resources Management Vice Presidency in addition to Marketing Directorate and Legal Affairs.

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

The Company maintains engineering operations in Ankara, METU Teknokent; production and engineering operations in Macunköy, Akyurt and Gölbaşı. General Management is located in Ankara Macunköy. Furthermore, SST and REHİS Sector Presidency management offices and Product Support Management of UGES Sector Presidency are located in Istanbul Teknopark.

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

The capital structure as of 31 December 2016 and 31 December 2015 are as follows:



Partners	Share (%)	31 December 2016 (Thousand TL)	Share (%)	31 December 2015 (Thousand TL)
Turkish Armed Forces Foundation (TAFF)	84,58	845.826	84,58	422.913
Quoted on BIST (Free float)	15,30	153.019	15,30	76.509
Axa Sigorta A.Ş.	0,12	1.155	0,12	578
Paid-in capital	100	1.000.000	100	500.000
Share capital adjustment	-	98.621	-	100.321
Inflation adjusted capital	-	1.098.621	-	600.321

Registered capital ceiling of the Company is TL 1.000.000 Thousand (TL one billion). The nominal capital of the Company is TL 1.000.000 Thousand (TL one billion) and is divided into 100.000.000.000 (one hundred billion) shares, each having a nominal value of 1 kuruş (1% of 1 Turkish Lira). 60.545.454.546 (sixty billion five hundred and forty five million four hundred and fifty four thousand five hundred and forty six) of the shares are Group A shares and 39.454.545.454 (thirty nine billion four hundred and fifty four million five hundred and forty five thousand four hundred and fifty four) 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 presented by them.

No change has occurred in the shareholders' structure and the Company's capital during the period. In the accounting year the operations regarding that the issued capital amounting to TL 500.000 Thousand has increased to TL 1.000.000 Thousand by bonus issue from domestic funding have been completed and the capital increased through bonus issue amounting to TL 1.000.000 Thousand was published in Official Journal No 9080 of 23 May 2016. The transactions with regard to capital contribution have been completed by performing representative share on 25 May 2016.

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 during the period, the term of office of the duties (with commence and end dates)

The report comprises the events took place during the period 1 January-31 December 2016. The title of the main shareholder in the report is ASELSAN Elektronik Sanayi ve Ticaret A.Ş.

Members of the Board of Directors

Within the frame of the provisions of the Company Articles of Association, the Board of Directors comprise of 6 members to be elected among the Group A preferred shareholders or among the candidates presented by them along with the 3 independent members to be elected in scope of the Capital Markets Board of Turkey (CMB) regulations which make 9 members in total.

Information regarding the Members of the Board of Directors elected during the General Assembly Meeting held on 31 March 2016 are as follows:

MEMBERS OF BOARD OF DIRECTORS			
Name and Surname	Position	Date of General Assembly for Assignment	End of Term of Office
Mustafa Murat ŞEKER	Chairman/ Managing Member	15 May 2013	March 2017
Murat ÜÇÜNCÜ	Vice Chairman/ Managing Member	15 May 2013	March 2017
Ziya AKBAŞ	Independent Member	31 March 2014	March 2017
Nazım ALTINTAŞ	Independent Member	31 March 2015	March 2017
Ercümend ARVAS	Independent Member	31 March 2016	March 2017
Turan EROL	Member	31 March 2016	March 2017
İsmail GÜMÜŞTEKİN	Member	31 March 2015	March 2017
Mehmet Celalettin LEKESİZ	Member	31 March 2016	March 2017
Sedat NAZLIBİLEK	Member	25 June 2014	March 2017

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.

Entitled shareholders, members of the board of directors, senior executives and to their spouses as well as relatives up to second degree are not authorized to perform transactions which may cause conflict of interest or competition with the Company and/or subsidiaries.

There is not any ban on trading for board members with the Company, which they performed on their own or on behalf of someone else. There is no operation regarding the non-compete obligation by the members of the board.

Changes of Members of the Board of Directors during the Period 1 January – 31 December 2016:

During the Ordinary General Assembly Meeting held on 31 March 2016, Mustafa Murat ŞEKER, Murat ÜÇÜNCÜ, İsmail GÜMÜŞTEKİN, Sedat NAZLIBİLEK, Turan EROL and Mehmet Celalettin LEKESİZ were elected as Member of Board of Directors for 1 year of service and Ziya AKBAŞ, Nazım ALTINTAŞ and Ercümen ARVAS were elected as Independent Member of Board of Directors for 1 year of service.

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

The Company carries on its business interests in defense sector. According to the latest data, the five countries which have the largest defense sector expenditures during 2015 are the USA, China Saudi Arabia, Russia and the United Kingdom. While resources the USA has allocated to defense has decreased within the last five years, resources allocated to defense has increased in China, Russia, Saudi Arabia and as a region Asia-Oceania. As of 2015 Turkey's annual defense expenditure has decreased from USD 17.1 Billion to USD 15.3 Billion due to the effect of foreign exchange rates within the last five years. Despite the decrease in the national defense expenditure, the number of Company's projects have increased by the years.

Due to the industry's nature defense projects are spread over years, furthermore a system project lasts approximately 4 to 5 years from its start to its delivery. As of 31 December 2016 long term plans which have been accordingly signed as contracts spread over years amounts to USD 6.2 Billion. The determination of target regions/countries and focusing on these markets for marketing and direct sales as well as engaging in joint productions, transfer of technology to/from international platform producers and strategic initiatives for sales to 3rd World Countries are concurrent to our sustainable growth objectives. Our structure coincides with our objective to operate in civilian electronic fields which require high technology.

The Company's revised profit distribution policy submitted to shareholders information during the General Board Meeting dated 31 March 2016, has been posted on www.aselsan.com.tr website under Investor Relations/ Corporate Governance/Policies.

At the Ordinary General Assembly Meeting made in 31 March 2016; from the remaining distributable profit obtained after subtracting taxes statutory obligation from Company's operating profit in 2015,

- In accordance with Article 519/(1) of the Turkish Commercial Code, General Legal Reserves amounting to TL 4.520.958,43 is going to be allocated,
- Net distributable profit to the shareholders for the period, calculated in the framework of the profit distribution regulations and decisions of the Capital Markets Board is proposed as:

Gross profit, TL 42.000.000 (Kurus 8,4 per share of TL 1 and 8,4 % on the basis of the capital) (net profit TL 35.700.000 – Kurus 7,14 per share of TL 1 and 7,14 % on the basis of the capital) as in the form of cash,

- In accordance with Article 519/(2) of the Turkish Commercial Code, General Legal Reserves amounting to TL 1.700.000 is going to be allocated,
- It has been decided that the remaining profit is going to be allocated as Extraordinary Legal Reserves, and distribution of the dividends to the shareholders are decreed in three equal installments on the dates of 10 June 2016, 26 September 2016 and 1 December 2016.

All of the gross profit share amounting to TL 42.000.000 to be distributed has been paid to the shareholders as of 31 December 2016.

7. Financial resources of the company

The most substantial financial resources of the Company comprise the advance and interim payments taken within the scope of the contracts signed and profits generated by the main activities.

During 1 January-31 December 2016 period, the cash requirements were met with the available cash inflow, cash inflows from other operating and use of Türk Eximbank export discounted foreign currency loan because of low cost. Within the scope of the Eximbank Loan Program, during 1 January-31 December 2016 period, “Discounted Foreign Currency Loan” was used with the following maturities respectively: USD 80 Million with 240 days of maturity and “Discounted TL Loan” was used with the following maturities respectively: TL 60 Million with 240 days of maturity. As of 31 December 2016, the credit balance borrowed from Türk Eximbank has been amounted to USD 87 Million.

Furthermore, DISF Loan obtained from Defense Industry Support Fund (DISF) in accordance with Defense Industry Execution Committee’s Decision Risk is USD 52,4 Million as of 31 December 2016.

The loan amounting to TL 54.595 Thousand of business finance loans obtained from commercial banks has been paid and the company has no loan used from commercial banks as of 31 December 2016.

8. Risk management policies of the company

The Company’s Board of Directors performs in a transparent, accountable, impartial and responsible manner. The President and Vice President are elected from the Board of Directors members furthermore Board of Directors Committee Presidents and committee members are elected as well.

a. Corporate Risk Management

Company's Corporate Risk Management Policy; aims to have the appropriate risk reaction against uncertainties threatening the corporate existence of the Company and protect the Company's corporate identity, its employees, shareholders and parties' interests. Risk management has been an integrated part of corporate management. Information produced within the context of risk management activities is integrated into decision mechanisms.

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 targets are defined and classified under Strategic, Operational, Managerial, Financial and External Factors and are submitted to the Board of Directors and Independent Audit Company along 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 Detection and Management of Risk Committee which consists of the members of Board of Directors was established in 2012.

The risks which have been defined and prioritized in accordance with the opinion and suggestion companywide and in the scope of the operations carried out by the committee are explained below.

Difficulty to Increase The Number and Variety of Customers

The main customers of the Company are State Institutions, especially Turkish Armed Forces. It brings about the steering of the Company’s operations in accordance with the public demands.

Efforts to increase export sales and transferring the existing know-how to the private sector, is aimed to minimize this risk.

Insufficiency in the Number of Qualified Subcontractors and Suppliers

Providing the sustainability of supply and the quality of material for the company which collaborates a large number of domestic and foreign suppliers and subcontractors has been capital of importance.

Furthermore, the issue of possessing the substructure of powerful subordinate industry has been placed emphasis with the purpose of mitigation of the risk arised from inability to achieve intended technical competence, expertise and performance. Within this framework, the number of subcontractors collaborated has been increased.

Changes In The Global Economy and Decrease In The Defense Spending

Changes in the global economy have an impact on the economic activities of the countries and cause changes in their defense budgets. This situation may bring along the risks of the demands of domestic or foreign customers lower from the expected level and also may have an impact on operational and functional indicators.

The current and potential economic developments, particularly the economic and politic condition of the countries which have collaborated and exported and the effect of these on the company have been followed and the projection regarding global development have been planned. Strategies and financial precaution to minimize current and possible economic developments negative effects and financial precautions have been evaluated constantly, and implemented.

b. Financial Risk Management

The financial risk in the financial risk management model of the Company have been identified as foreign exchange risk, interest risk, liquidity risk, credit risk and capital risk.

Within the scope of the financial risk management, exchange risk, interest risk, liquidity risk, credit risk and capital risk which shall affect the assets and liabilities of the Company are defined, measured, managed and reported. Therefore, the adverse effects 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. Furthermore, financial risk management techniques have put to use in order that the return on the project is not affected from the inconsistency of cash inflows and outflows on the basis of currency which was formed within the projects and the deviation of the planned cash flow dates.

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

i. 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 short or long positions.

To define foreign exchange risks, taking the periodical foreign exchange position into consideration, 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 interim financial periods are considered and the foreign currency position is estimated.

The agreements signed between the company and the clients are heavily outside of the functional currency which is Turkish Lira. In the agreements, in order to do business, it is possible to take out advances during different periods of the agreements and these advances may be currencies outside of the functional currency. Within the framework of TAS 21 "The Effects of Changes in Foreign Exchange Rates Standard", all order advances taken and given outside of the functional currency are not subject to valuation.

Throughout the duration of the agreements, it is unavoidable to have changes in the exchange rates. As a result of these exchange rates, there could be exchange rate difference profits/losses due to delivery on a foreign currency type agreement, advance offsetting or collection.

Methods which are used to manage the exchange rate risk are on-balance sheet (structural) methods. The use of fixed rate of TL denominated credits instead of foreign currency loans in order to keep the foreign exchange position at desired levels and to ensure currency compatibility, determining the contract currency according to the currency, which is predominant in the cost of the contract and such as the signing of the contract in terms of the main contract currency with the subcontractors within the scope of the contracts.

ii. Interest Risk and Management Policy

The interest risk is analyzed by calculating the difference between the assets sensitive to interest in a certain term and liabilities sensitive to interest. 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 31 December 2016, the balance of credit obtained from the Defence Industry Support Fund has been amounted to USD 52.4 Million. It is assessed that the relevant credit have not posed the interest risk due to fixed rate credit.

Company has a USD 87 Million credit balance from Türk Eximbank as of 31 December 2016; which contains USD 70 Million and TL 60 Million. The interest rate of the loans is fixed during the maturity of 240 days. The Company does not have loans with variable interest rates therefore interest risk is considered to be low.

iii. 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 that the Company finances its activities without using any loans and the resources of funding are varied by keeping the commercial bank credit limits ready for any cash requirement. As of 31 December 2016, 49% of the short-term and long-term liabilities comprise of advance payments received therefore as there is no discrepancy in maturity dates, liquidity risk is considered to be low.

iv. Credit Risk and Management Policy

The substantial part of the Company's current credit balance comprises of the performance quarantees and advance payment guarantees (letter of guarantees) granted to the customers in scope of agreements and which are showed off balance sheet. Within this scope to manage the credit limits at the banks, risk balances are monitored periodically 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.

v. Capital Risk Management

In the capital management of the Company, enabling a debt-equity balance that would minimize the financial risks and costs to the lowest level is taken care of. The objective of the Company is to guarantee a consistent growth by means of the funds gained through its activities while providing its shareholders a regular dividend income.

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

- As of 31 December 2016, the Company has a backlog of USD 6,2 Billion and these orders include the period until 2025.
- No Extraordinary General Assembly was held during the period 1 January and 31 December 2016.

10. Significant events between 1 January – 31 December 2016 fiscal period and the Board of Directors Meeting date when the corresponding financial statements shall be negotiated

- The amount of contracts signed after the balance date by the Group approximately USD 105 Million.

11. Expectations for the progress of the company, significant developments with respect to company activities and financial position, to observe whether past period targets were achieved or not, whether the general assembly resolutions were fulfilled, and in the event the targets were not achieved and the resolutions were not fulfilled, information regarding the reasons and explanations

Expectations of Group under normal circumstances regarding Group's consolidated financial results of 2016 shown below were disclosed to public on March 7th 2016 :

Year 2016 Financial Goals	Ratio/ Amount	2016 Realization Rate/Amount
Consolidated income growth (TL)	16-20 %	36%
EBITDA Consolidated and adjusted without foreign exchange rate differences	18-20 %	19%
Consolidated investment (property, plant and equipment and intangible assets) expenditure	~ TL 340 Million	TL 352 Million
Ratio of the consolidated R&D expenses financed by Company resources to the consolidated sales	6%	7%

The expectations of Group on consolidated financial results for 2017 under normal circumstances are as follows:

Financial Targets 2017	Ratio/ Amount
Consolidated income growth (TL)	≥ 25%
EBITDA (Consolidated and adjusted without foreign exchange rate differences)	18-20 %
Consolidated investment (property, plant and equipment) expenditure	~ 500 Million TL
Ratio of the consolidated R&D expenses financed by Company resources to the consolidated sales	7%

These expectations are based on the yearly average of USD/TL parity to be 3,45 and EURO/TL parity to be 3,79.

The Company, which has been in the most prestigious list since 2006, “Defense News Top 100”, published by “Defense News” magazine, aims to increase its ranking in the list in following years.

In order to achieve the sustainable growth:

- The registration of SADEC LLC was completed on 27 December 2016 as part of our efforts to establish a joint venture with TAQNIA DST in Saudi Arabia. The capital of the company is SAR 22.500.000 (approximately TL 21 Million) and the share of ASELSAN in the partnership is 50%. SADEC LLC's main field of activity is going to be the production and sales of radar, electronic warfare and electro-optical systems.
- Gölbaşı Facility investment has been substantially completed. As of the end of 2016, the level of machinery-equipment investment is summarized below:
 - The USD 75,6 Million worth of machinery and equipment have been acquired.
 - Orders worth USD 2,5 Million have been ordered to provide the remaining machinery and equipment.
 - Approximately USD 9,5 Million worth of machinery and equipment will be ordered.
- Optic production plant in Sivas Organized Industrial Site has been completed in the end of the February 2016. Furthermore the construction of the R&D Building located at the Cumhuriyet University Technopark has been completed. The plant has commenced the mass production on 1 March 2016. The official launch of the plant was practiced on 28 May 2016 and the production activities of optical lens and binoculars has been progress with three shifts.
- ASELSAN Bilkent Micro Nanotechnology Industry and Trade Inc. titled company, which belongs 50% to ASELSAN and 50% to İhsan Doğramacı Bilkent University, was established with the purpose of producing every kind of semiconductor and micro and nano dimensional instruments including similar materials. The construction of facility was completed in January 2016. The Company signed its first contract on December 2016 in order to produce GaN transistors/integrated circuit for the usage of ASELSAN.
- The quality and technological perspectives of the cooperation formed with the universities have been increased.
- The efforts to form an eco-system with the sub-industry companies and SME's have continued.
- Company is going to continue its operations in civil electronic areas which demand high technology.
- Inorganic expansion will be also evaluated as well as organic expansion.

12. Compliance Report on Corporate Governance Principles

The report is provided with Annex-1.

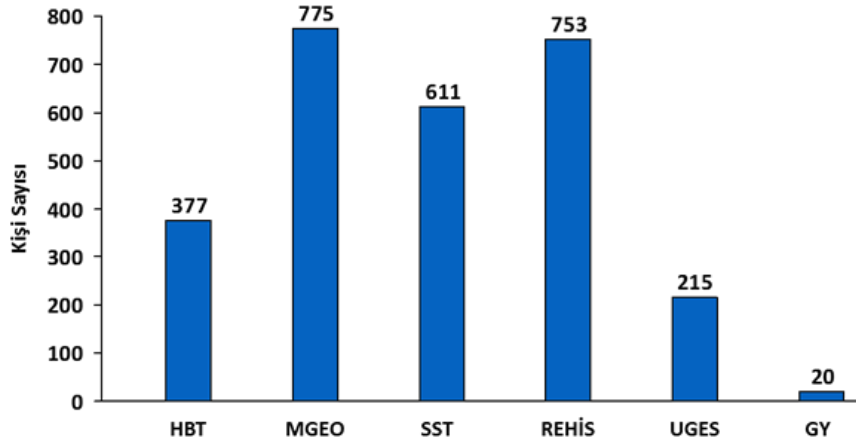
13. Research and Development Activities Performed

The Group, being a leading defense industry establishment developing advanced technology system solutions on land, air, naval and aerospace platforms, has given importance to Research and Development activities and technological gains and targets since it was founded. Besides, it aims to spend approximately 6% of the annual turnover to its Research and Development activities financed with its own resources.

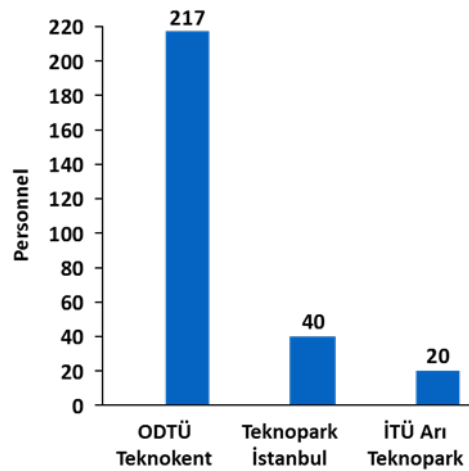
By following up on all kinds of technological developments pertaining to land, air, naval and aerospace platform product/system technologies, the Company not only applies technology but also designs, develops and produces product/system technologies in order to share or sell with/to national and international collaborations.

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 Research and Development institutions and using of local subcontractors and sub-industry have been placed importance.

As for the projects carried out within the Group, the Research and Development discount in compliance with the provisions of the Law on Corporate Tax numbered 5520 and Research and Development central application pursuant to the Law regarding the support of Research and Development activities numbered 5746 are being implemented together. For the Research and Development projects which are not aimed for public, the approval of TEYDEB (Technology and Innovation Support Programs Directorate) is received and they are supported by this institution. Within the Company, there are 6 Research and Development centers namely Defense System Technologies (SST), Radar Electronic Warfare and Intelligence Systems (REHİS), Microelectronics, Guidance and Electro-optics (MGEO), Communication and Information Technologies (HBT), Transportation, Security, Energy & Automation Systems Business Sector (UGES) and ASELSAN Research Center (GY) within the scope of Vice President of Technology and Strategy Management. 2.751 people are employed at the Group Research and Development centers.

The Number of Personnel Employed at R&D Centers (2.751 People)

The Group also have activities in Teknokent facility within Middle East Technical University, in İstanbul Technology Development Area Teknopark and in İTÜ Arı Teknopark in scope of the Law numbered 4691 on Technology Development Regions. 277 people are employed within this region.

The Number of Personnel Employed at Technopark (277 People)**14. Amendments to the Articles of Association during the period along with the reasons**

Company's master agreement's article 6 entitled as "company's authorized capital" in the scope of capital increase within fiscal period has been changed and registered at 17 May 2016 and announced in Turkish Trade Registry Gazette no 9080 at 23 May 2016 .

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15. The kinds of issued capital market instruments and their amounts, if any

Within the fiscal year, with regard to the Company's registered upper limit capital of TL 1.000.000 Thousand, transactions to increase the Company's capital to TL 1.000.000 Thousand through the 100% increase of TL 500.000 Thousand issued capital has been realized via internal resources and accordingly registered on 17 May 2016 and published in the Turkish Trade Registry Gazette No 9080 dated 23 May 2016. The rights entitled to registered shares issued during the above mentioned capital increase transaction have been completed on 25 May 2016 finalizing the capital increase transaction.

16. 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 TSKGV 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, avionics systems, electronic warfare and intelligence systems, radar systems, command and control systems, naval warfare systems, electro-optic systems and products.

Ranking of Company international, country-wide, sectorial rating systems is showed at table below:

Corporation	Research/Study	Related Period ¹	Ranking	
			Current	Prior
International Ranking				
Defense News Dergisi	Defense News Top 100	2016	58	62
SIPRI	SIPRI Top 100	2016	69	74
European Commission	World R&D Expense Top 2500 Company	2016	1.228	1.178
Mentor Graphics	PCB Technology Leadership Awards (TLA)-2015 - Printed Wiring Board Technology The category of Defence, Aviation and Space	2016	2	--
League of American Communication Professionals	Annual Report – World Ranking	2015	11	--
	Annual Report- The Category of the World Defence Industry and Aerospace	2015	1	--
National Ranking				
Istanbul Chamber of Industry	İCI 500 Top Industry Companies	2016	23	33
	İCI 500 - Private Companies	2016	21	30
Fortune Magazine	The Top 500 Companies	2016	54	51
Capital Magazine	The Top 500 Private Companies	2016	65	66
BIST (Borsa Istanbul)	Sustainability Index	2016	No Ranking	
BIST (Borsa Istanbul)	Corporate Management Index	2016	No Ranking	
BIST (Borsa Istanbul)	First Backup In The BIST Top 30 Sequence	2016	1 st Standby	
TEA (Turkey Exporters' Assembly)	Top 1000 Exporters	2016	101	107
Turkish Time Journey	Study of Research and Development Top 100	2016	1	1
Deloitte	Technology Fast 50 / Big Star Category	2016	1	-
Istanbul International Inventions Fair (ISIF-16)	Digital Tacograph	2016	2 Gold	-
	ATLAS Vehicular Radio	2016	Silver	-
	MRG Device Multi Channel Transmitter System	2016	Bronze	-
Brand Finance	Most Valuable Firms (100 Brands)	2016	46	47
Bloomberg Businessweek	Top 50 Firms (Between Universities)	2016	9	8
Universum	Ideal Employers (Engineering and Information Technologies- 100 Companies)	2016	4	1
Ministry of Science, Industry and Technology	Top of the Private Sector R&D Centers / R&D Centers Performance Index / Defence Industry Sector	2016	1	1
TTGV (Technology Development Foundation of Turkey)	Dr. Akın ÇAKMAKCI Academic Thesis Studies Applied in Industry	2016	1	-
CDP (Carbon Disclosure Project)	Firms Which Have Well Management of Climate Changes and Highest Greenhouse Gas Emission Performance (Turkey)	2016	No ranking	
TESİD	Innovativeness and Creativeness Awards, Innovative Product Awards Between Big Firms	2017	No ranking	

¹ "Related period" has been the year which has been explained.

17. Progress in investments 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.

In current period, the investments, which will meet the need of substructure and equipment in order to be used research and development project have been sustained in compliance with the investment scheme in accordance with the policy of efficient use of resource.

Incentives that Company has benefitted

Income tax withholding incentive, insurance premium support, stamp tax exemption and Research and Development discount are utilized within the scope of the Law numbered 5746. 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. Income tax withholding incentive, insurance premium support and stamp tax exemption is utilized by being calculated over the salaries of the Research and Development personnel and not being paid to the relevant institution and the Research and Development discount is utilized by means of applying a discount on the corporate tax return. Aforesaid law is valid until the date of 31 December 2023.

Within the scope of the Teknokent Law numbered 4691, incentive on withholding income tax, insurance premium support and stamp tax exception is applied. These are utilized by making calculations on Research and Development and software personnel wages and not being paid to the related institution. The gain obtained with reference to the execution of Technology Development Zones Law numbered 4691 is exempted from the corporate tax of 31 December 2023.

Between the period 1 January-31 December 2016 because of having Research and Development centers, TL 91.171 Thousand within the scope of income tax withholding incentive, promotion of insurance premium, stamp duty exception; as a result of being active at ODTÜ Teknokent, İstanbul Technology Development Area Technopark and ITU Arı Technopark TL 12.818 Thousand incentives have been used.

Within the scope of the Research and Development Law No 5746 and Teknokent Law No 4691, TL 109.553 Thousand Corporate Tax advantage has been gained as of 1 January-31 December 2016 period.

At periods when Group's Research and Development expenses, which is subject of Research and Development discount, is higher than the principal amount of Research and Development discount

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2016
which is indicated at corporate tax return, Corporate Tax ratio 20% of distinction amount is evaluated as deferred tax income at financial tables.

The 1501 Industrial Research and Development Projects Support Programme has been established in order to encourage the Research and Development operations of the companies creating added values at company level and to contribute to the enhancement of the Research and Development ability of the Turkish industry by this means. ASELSAN and Mikro AR-GE have benefited from incentives amounting to TL 9.123 Thousand within the scope of TÜBİTAK TEYDEB projects which are current at 2016.

Projects within the scope of 1511-Prioritized fields' research technologies development and innovation programme came into force as of 2013. ASELSAN and Mikro AR-GE have been benefited from TL 1.534 Thousand incentive at 2016.

The support process of the projects have been initiated as of July 2010 by 1509 EUREKA-International Industrial Research and Development Projects Support Program where market oriented projects for developing products and processes to be commercialized in short term are supported and ASELSAN and Mikro AR-GE have been benefited from incentive amount of TL 274 Thousand was used at 2016.

The project of TAGEM in within the framework The Ministry of Food, Agriculture and Livestock Research and Development Incentive Program of have been launched in 2016 and the incentives amounting to TL 357 Thousand has been used in 2016.

Within the scope of SAN-TEZ Research and Development 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, 18 Projects are ongoing

The 1007 Public Institutions Research and Development Project Support Program has been formed in order to meet the requirements of the Public Institutions with Research and Development or to support the projects aimed at solving their problems. In scope of this support 7 Research and Development projects are still ongoing.

Within the scope of the European Commission 7th Cooperation Framework Programs, 6 integration projects were executed. In the "Circulation of the Researchers, Return Grants; Individual Support Private Programme" within the scope of the European Commission 7th Cooperation Framework Programmes, 4 projects have gone into effect in the years 2010 and 2011.

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 6 Investment Incentive Certificates taken from the Turkish Republic Prime Ministry Under secretariat 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.

The sources and types of the incentives utilized and the incentive amounts utilized are summarized in the table below collectively.

The Source of Incentives	Type of Advantage	Company	The Amount 31 December 2016 (Thousand TL)
Research and Development Promotion Law numbered 5746	Income tax withholding, Insurance Premium, Stamp Tax	ASELSAN	91.171
Teknopark Law numbered 4691	Income tax withholding, Insurance Premium, Stamp Tax	ASELSAN, Mikro R&D	12.818
Research and Development Promotion Law numbered 5746 and Teknopark Law numbered 4691	Corporate Income Tax	ASELSAN, Mikro R&D	109.553
Support Programme (TÜBİTAK 1501,1511,1509)	Monetary Support	ASELSAN, Mikro R&D	10.931
TAGEM	Monetary Support	ASELSAN	357
TOTAL			224.830

18. Explanations 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 to activity, amounts, quality, circulation and the prices compared with the previous period figures

The capacity utilization for the period 1 January - 31 December 2016 was realized at the level of 102%. Substantial part of the production is realized as order based production. Research and Development activities are carried out for the products designed to be tailored for the customer requirements. The qualities of the system and products alone with their quantities and prices vary. Upon the usage of Enterprise Resource Planning System (ERPS), the production processes have been managed more efficiently.

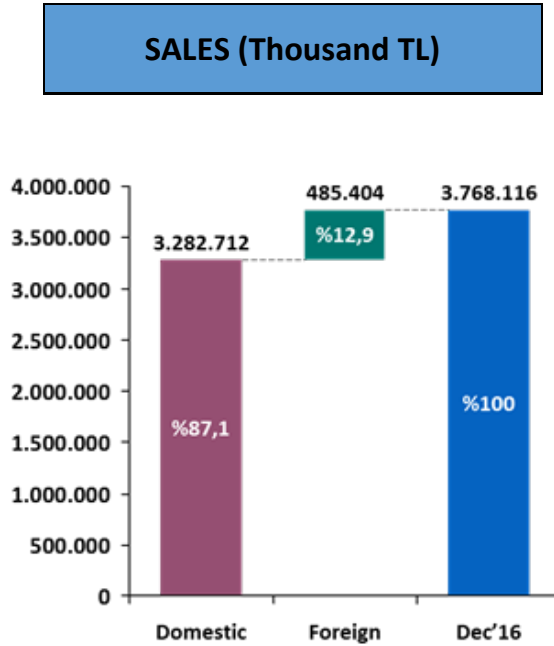
19. The prices, sales revenues, sales conditions of the products and services which are subjects of activity with their improvements within the year, developments in the yield and productivity parameters and the reasons of the substantial changes in these compared to the previous years

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

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2016
progress billing sales. Sales terms and conditions are subject to change as for the respective agreements.

As for the consolidated amount of the Group's realized net sales during the period 1 January - 31 December 2016; TL 3.282.712 Thousand of this realized as domestic sales and TL 485.404 Thousand of it realized as foreign sales.



20. 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 comparison basis with prior period and information about other matters and future expectations and risks that have been prepared in accordance with Capital Markets Board Communiqué Series: II and No:14.1

As of 31 December 2016, the Group's financial statements prepared in accordance with the Communiqué Series II, No: 14.1 "Communiqué on Capital Market Financial Reporting Standards" issued by Capital Markets Board, gross margin increased by 2 basis points compared to the same period of the prior year. Operating profit margin (EBIT) has increased by 4 basis points and EBITDA margin has increased by 1 basis points compared to the same period of the prior year. In addition, net profit margin has been at a level of 22% and increased by 14 basis points compared to the last year. While profit capital ratio increased 15 basis points, Average Net Working Capital/ Net Sales is around 44%.

BASIC RATIOS / CONSOLIDATED FINANCIAL STATEMENT	31 December 2016	31 December 2015
Current Ratio	2,3	2,0
Liquidity Ratio	1,5	1,1
Short Term Current Liabilities / Total Financial Liabilities	75%	74%
Total Financial Liabilities / Total Assets	6%	10%
BASIC RATIOS / CONSOLIDATED BALANCE SHEET	31 December 2016	31 December 2015
Gross Profit Margin	24%	23%
Operating Profit Margin (EBIT)	16%	12%
EBITDA Margin	19%	18%
Net Profit Margin	21%	8%
Return On Equity (ROE)	22%	7%
Average Net Working Capital / Net Sales	44%	46%
Average Net Working Capital / EBITDA	2,3	2,6

The liabilities of the Group are mainly consist of the short and long term order advances received.

21. 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 2017-2019, 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 suppliers and sub-contractors.

22. Changes in the top management within the period and the names and surnames of those are on duty

Changes in the top management within the period 1 January - 31 December 2016 and information regarding the ones on duty are given in the below table:

LIST OF UPPER MANAGEMENT IN SERVICE			
No	Name Surname	Duty	Date of Appointment
1	Mustafa Murat ŞEKER	Chairman/Managing Member	15 May 2013
2	Murat ÜÇÜNCÜ	Vice Chairman/Managing Member	15 May 2013
3	Ziya AKBAŞ	Member of the Board of Directors	31 March 2014
4	Nazım ALTINTAŞ	Member of the Board of Directors	31 March 2015
5	Ercüment ARVAS	Member of the Board of Directors	31 March 2016
6	Turan EROL	Member of the Board of Directors	31 March 2016
7	İsmail GÜMÜŞTEKİN	Member of the Board of Directors	31 March 2015
8	Mehmet Celalettin LEKESİZ	Member of the Board of Directors	31 March 2016
9	Sedat NAZLIBİLEK	Member of the Board of Directors	25 June 2014
10	Faik EKEN	CEO/President	24 July 2014
11	Okan TURAN	CFO/Vice President (Financial Management)	4 January 2016
12	Yavuz BAYIZ	Division CEO/Vice President (Communication & Information Technologies Business Sector)	1 September 2014
13	Baki ŞENSOY	Division CEO/Vice President (Microelectronics, Guidance & Electro-Optics Business Sector)	1 September 2014
14	Oğuz ŞENER	Division CEO/Vice President (Radar & Electronic Warfare Systems Business Sector)	1 September 2014
15	Mustafa KAVAL	Division CEO/Vice President (Defense Systems Technologies Business Sector)	1 September 2014
16	Yavuz Suat BENGÜR	Division CEO/Vice President (Transportation, Security, Energy & Automation Systems Business Sector)	1 September 2014
17	Hezarfen ORUÇ	Division CEO/Vice President (Support Services)	1 September 2014
18	İsmet ATALAR	Division CEO/Vice President (R&D and Technology Management)	1 September 2014
19	Hüseyin YAVUZ	Division CEO/Vice President (Human Resource Management)	1 September 2014
20	Abdülkadir GÖKTAŞ	Internal Audit President	1 September 2014

23. 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 that ended on 31 December 2016 is TL 8.658 Thousand.

In the table below, the annual gross total amount of the fees paid to the members of the Company's Main Partner Board of Directors and the interests of private health insurance are given.

ASELSAN ELECTRONICS INDUSTRY AND TRADE INC. LIST OF TOTAL AMOUNT OF FINANCIAL BENEFITS PROVIDED TO THE MANAGING MEMBERS AND SENIOR EXECUTIVES			
No	Name Surname	Duty	Total Amount Paid Thousand TL (Wage and Health Insurance)
1	Mustafa Murat ŞEKER	Chairman/Managing Member	47
2	Murat ÜÇÜNCÜ	Vice Chairman/Managing Member	48
3	Ziya AKBAŞ	Member of the Board of Directors	48
4	Nazım ALTINTAŞ	Member of the Board of Directors	47
5	Ercüment ARVAS	Member of the Board of Directors	34
6	Oğuz BORAT	Member of the Board of Directors	11
7	Hasan CANPOLAT	Member of the Board of Directors	11
8	Oral ERDOĞAN	Member of the Board of Directors	11
9	Turan EROL	Member of the Board of Directors	34
10	İsmail GÜMÜŞTEKİN	Member of the Board of Directors	47
11	Mehmet Celalettin LEKESİZ	Member of the Board of Directors	34
12	Sedat NAZLIBİLEK	Member of the Board of Directors	48
13	CEO/President and Vice Presidents	Higher Level Executives	4.697
TOTAL			5.116

24. 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 benefits

Total amount of 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 Group for the period ended by 31 December 2016 is TL 1.321 Thousand.

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

The Group recruited a total number of 424 people (116 with fixed term contract) as the personnel including fixed-term contracted personnel, disabled and terror-stricken personnel during the period 1 January - 31 December 2016 and the number of people quit for the same period is 308 (35 with fixed-term contracted).

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 31 December 2016 is 5.608.

There is no collective bargaining agreement in the Company.

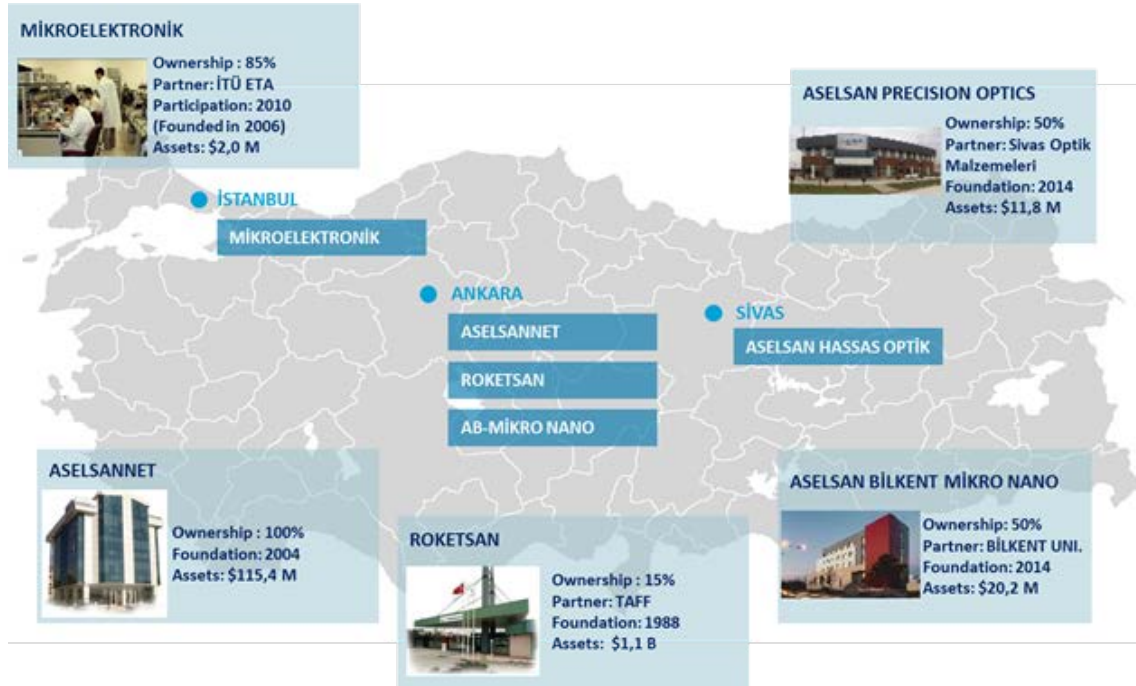
26. Information regarding the donations within the year and social responsibility

Within the period of 1 January 2016- 31 December 2016, the Group donated TL 48 Thousand in total which includes TL 37 Thousand for 20 wheelchairs within the aid campaign for Afghanistan and TL 11 Thousand to Martyrs' and Village Guards Association.

27. Information on Business Partnerships, Associates, Subsidiaries, Joint Ventures and Branches

- The Republic of Turkey, Sivas, ASELSAN-Optics Joint Venture
- The Republic of Turkey, ASELSAN-Bilkent Joint Venture
- Jordan, Amman, ASELSAN-Jordan Joint Venture
- Kazakhstan, Astana, ASELSAN-Kazakhstan Joint Venture
- United Arab Emirates; Abu Dhabi, IGG ASELSAN Joint Venture
- Saudi Arabia; Riyadh, SADEC LLC Joint Venture
- Republic of South Africa; Pretoria Branch
- Republic of Macedonia; Skopje Branch
- United Arab Emirates; Abu Dhabi Office

- **Domestic Associates and Subsidiaries**



- **Foreign Associates and Subsidiaries**



28. 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 full consolidation (ASELSANNET, ASELSAN BAKU and Mikro AR-GE) and equity pick-up method consolidation (ASELSAN Bilkent, ASELSAN Optik, IGG ASELSAN, ASELSAN Kazakhstan, ASELSAN Jordan and SADEC LLC) and the Company.

29. 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 Presidency (IAP), 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. IAP and Audit Committee carry out their duties independent from each other but within the guidance of common objectives and targets, with the aim 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 manage them, the Committee for Early Determination and Management of Risks operates. The committee meets on a periodical basis and reports in every two months to the Board of Directors. The report is also shared with the independent audit firm. In order to coordinate the work of the Committee and to manage the risks that may affect the Company's corporate targets in a comprehensive, integrative and effective manner and to carry out the necessary internal controls, the Corporate Risk Taking and

Internal Control Department operates under the Financial Management Vice Presidency. The activities are defined in the company by the guidelines.

30. Direct and indirect affiliates of the company and information regarding the share ratios

ASELSAN owns a 100% of ASELSANNET and ASELSAN Bakü and 85% of Mikro AR-GE, and these companies are subject to the full consolidation.

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	Main Activity Area	Share (%)	31 December 2016 (Thousand TL)
ROKETSAN-Roket Sanayi ve Ticaret A. Ş. ¹	All kinds of missiles, rockets, guided ammunition and their launch systems and propulsion systems and rocket fuels, guidance and control systems, algorithms and softwares related to these systems, warheads and other parts of these systems, all kinds of plugs and all kinds of ballistic protection (armor) system	14,897	516.032
ASELSAN Kazakhstan	Manufacture, sale and technical service of electronic and electro-optical devices and systems	49	30.697
ASELSAN Bilkent	Manufacture of micro and nano-sized devices containing semiconductors and similar technological materials	50	8.774
ASELSAN Jordan	Marketing sales and joint production of group products	49	11.357
ASELSAN Optik	Precision optic technology	50	6.559
ASPIİSAN Askeri Pil Sanayi ve Ticaret A. Ş.	Manufacture and sale of Ni-Cd, Ni-MH, Li-Ion battery / battery blocks and aircraft battery systems	1	147
IGG ASELSAN ²	Production, integration, sales and technical service of high technology products	49	--
SADEC LLC ³	Manufacture and sale of radar, electronic warfare and electrooptic products	50	--
TOTAL			573.566

31. Information regarding the company's own shares acquired by itself

There has not been such an event within the period.

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

There has not been such the private and governmental audit within the period.

¹ Group's marketable security ROKETSAN-Roket Sanayi ve Ticaret A.Ş. was revaluated and stated at fair value. Fair value determination was performed as of 31 December 2016, by Oyak Yatırım Menkul Değerler A.Ş. which is an independent valuation company of the Group.

² As of 31 December 2016, IGG ASELSAN's equity is of negative value therefore subsidiary capital share amounts have not been disclosed.

³ SADEC LLC was established on 27 December 2016 in Saudi Arabia. As ASELSAN has a capital commitment to SADEC LLC, there is no consolidation effect on the Group's financial statements.

33. Information regarding the lawsuits filed against the company which would have an impact on the financial position and activities of the Group and their possible outcomes

The lawsuits and execution proceedings filed by or against the Group as of 31 December 2016 are summarized below:

Description	31 December 2016 (Thousand TL)
Ongoing lawsuits filed by the Group	1.395
Execution proceedings carried on by the Group	5.210
Lawsuits proceedings carried against the Group	5.332
Lawsuits finalized in favor of the Group within the period	4.076
Lawsuits finalized against the Group within the period	139

34. Explanations 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 by the Group within the period.

35. If it is an affiliate company, the legal transactions carried out in favor 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 favor of the parent company or its affiliate in the previous activity year

There has not been such an event within the period.

36. 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 35 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

There has not been any material event that affects the Company's financial statements within the period.

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

There has not been such an event within the period.

38. 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

There has not been such an event within the period.

39. Related party transactions

Detailed table is disclosed in Note 5 in Consolidated Financial Statements of 31 December 2016.

APPENDIX-1

REPORT FOR COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

CHAPTER I - STATEMENT FOR COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

ASELSAN, in scope of the Corporate Governance Principles which has been implemented by Capital Markets Board (CMB) since 2003, has been making efforts to work in compliance with the principles under the titles shareholders, public disclosure and transparency, stakeholders and Board of Directors.

ASELSAN, adopting the corporate governance understanding as a principle, was rated with a grade of 8,77 out of 10 as the result of the Corporate Rating Studies carried out by SAHA Corporate Governance and Credit Rating Services Inc (SAHA) in 2012 and therefore was included in the Borsa İstanbul Corporate Governance Index. As a result of the importance given to corporate governance principles, carrying out this effort as a continuous, dynamic process and making improvements accordingly; according to the report of SAHA, which was published on 12 December 2016, ASELSAN's corporate governance rating grade was updated to 9,15 out of 10 points from 9,13 in 2015.

Corporate governance rating grade shows to what extent the companies comply with the corporate governance principles set out by the CMB and the Company's compliance level with the principles is defined with a methodology measuring under the main titles Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors. Within this context, the methodology that is based on the "Corporate Governance Principles" published by CMB in January 2014, was used in the rating made by SAHA.

ASELSAN also stands in the first group at World Corporate Governance Index (WCGI) that was published on 1 July 2016 by SAHA. As a result of the efforts made for improving Corporate Governance Rating during 2016, ASELSAN's corporate governance rating was updated as 9,15 over 10 on 12 December 2016 by SAHA A.Ş.

The ratings of 2015 and 2016 and the subtitles are given below:

2015 Rating Distribution	2016 Rating Distribution
Shareholders : 84,09 / 100	Shareholders : 83,62 / 100
Public Disclosure and Transparency : 98,46 / 100	Public Disclosure and Transparency : 98,46 / 100
Stakeholders : 94,48 / 100	Stakeholders : 95,87 / 100
Board of Directors : 90,07 / 100	Board of Directors : 90,32 / 100
Average 9,13/10,00	Average 9,15/10,00

ASELSAN Corporate Governance Ranking Reports published by SAHA can be accessed at the company website: www.aselsan.com.tr

The compliance with all the mandatory principles of Corporate Governance Principles was achieved. There are no conflicts of interest arising because of the arbitrary principles where compliance has not been achieved. The titles regarding the arbitrary principles, where compliance has not been achieved yet, are given below and are explained in detail through the Compliance Report.

- No recognition of minority rights to those who own less than twentieth of the capital indicated in the Articles of Association,
- Non-existence of a judgement in the Articles of Association; declaring that shareholders may individually demand special audit of certain incidents from the General Assembly even if it is not on the meeting agenda, under the condition that the right to ask to obtain information and examine has been used before and if the exercise of shareholders rights is necessary,
- The article “Group A shares shall not be sold or transferred without the consent of the Board of Directors because of the Company’s operations in security and defense industry; in the event that these shares are transferred or sold to third parties partially or completely without the consent of the Board of Directors, the Board of Directors is entitled to abstain from recording this sale in the records” in the Articles of Association of the Company,
- Not disclosing the remuneration of Board Members and executive managers or the benefits provided to them per each individual.

Corporate Governance Committee will carry on the necessary efforts in order to achieve full compliance with Corporate Governance Principles.

Ercüment ARVAS
Independent Member of Board of Directors
Corporate Governance Committee Chairman

Murat ÜÇÜNCÜ
Board of Directors Vice Chairman
Member of Corporate Governance Committee

Turan EROL
Member of Board of Directors
Member of Corporate Governance Committee

Pınar ÇELEBİ
Investor Relations Manager
Member of Corporate Governance Committee

CHAPTER II - SHAREHOLDERS

2.1. Investor Relations Department

The information regarding Investor Relations Department responsible for the relations with shareholders is given below.

Okan TURAN.....Chief Financial Officer / Vice President
Aykan ÜRETEN.....Finance Director
Pınar ÇELEBİInvestor Relations Manager
Bâni Betül GÖKÇE.....Investor Relations Department / Leader
Başak YÜCEKAYALIInvestor Relations Department / Senior Specialist
Mehmet İŞILDAR.....Investor Relations Department / Assistant Specialist I

Contact Information

Phone: (312) 592 12 33 - 42 - 45 - 59 - 70
e-mail: aselsan.ir@aselsan.com.tr

Investor Relations Department has submitted the report regarding the operations carried during 2016, to Board of Directors on 14 March 2016.

Pınar ÇELEBİ, Investor Relations Manager, has Capital Markets Transactions Level-3 and Corporate Governance Rating Expertise Licenses.

Main operations carried out by Investor Relations Department during 2016 are as follows:

- Maintenance of the exercise of partnership rights of shareholders, updated and safe records regarding shareholders,
- Coordination of public disclosure of material events,
- Answering the written inquiries of shareholders regarding the company, excluding the information considered as confidential, trade secret and which was not disclosed to public,
- Ensuring the execution of General Assembly meeting in compliance with the regulation in force, Articles of Association and other company regulations, records being kept regarding the ballots and the results being reported to shareholders,
- Monitoring of every issue regarding the public disclosure including the regulations and company policies on information,
- Execution of tasks assigned by Corporate Governance Committee,
- Operation of transactions regarding dividend distribution, capital increase and tasks regarding Corporate Governance Principles,
- Coordination of updating the list of people who have access to insider information; informing those people in purpose of protecting the insider information and make sure they follow the confidentiality rules until financial and operational results are disclosed to public,

- Coordination of preparation and publishing of Sustainability Report,
- Performing the tasks regarding the compensation of the beneficiaries with the capital market instruments, the property of which has been lapsed to the Investor Compensation Center (ICC) and have become valid again.

Meetings with 129 corporate investors were made in investor conferences, roadshows, visits to ASELSAN and teleconferences; additionally approximately 100 of our shareholders' questions regarding exercising their rights, public disclosures made, financial tables, etc. were answered either written or verbally in 2016.

The information and explanations, which may affect the exercise of shareholders rights, are provided in the company website.

2.2. Exercising of Information Acquisition Rights of the Shareholders

Investor Relations Department has taken care of every written and verbal inquiry of all shareholders in 2016 with the most accurate and fastest way. It has paid attention to respond to all the information demands of shareholders with complete and comprehensible responses.

Investor Relations Department has been using Turkish and English website www.aselsan.com.tr actively in order to inform ASELSAN's investors on a timely and accurate basis and has been updating the information given on the web constantly. The electronic platform is being effectively used regarding the issues that may affect exercising of the shareholders rights. The material event disclosures made through Public Disclosure Platform (KAP) incorporated under Borsa İstanbul are being disclosed in Turkish and also in English along with it starting from 26.10.2015, the material event disclosure and other notifications are being published on our corporate website in Turkish and in English on the same day. In general, any changes occurred in the Company structure are immediately announced on our website and the investor presentations are constantly updated. Capital increases and dividend distribution information are also submitted to our investors' knowledge on the website. In addition, notifications regarding the attendance of shareholders to the General Assembly and electronic general assembly principles within the context of the new Turkish Code of Commerce (TCC) are being made.

Full compliance of both Turkish and English chapters on "Investor Relations" on the website with the regulations was achieved.

Within the context of regulations of CMB, in 2016;

- General Assembly documents within legal deadlines,
- General Assembly minutes and participants list,
- 2015 Annual Report,
- The report for the 1st six months' period for 2016,
- The investor presentations which are updated every 3 months ,

- Disclosure of material events made in 2016,
- Our Company's Consolidated Financial Statements and Basic Performance Indicators for the last 5 years along with the Financial Report,
- Investor Calendar updates

were published on the website in Turkish and English.

Due to the reason that a regulation is present within the TCC numbered 6102 according to which the shareholders will be able to request from the General Assembly the assignment of a special auditor for the inspection and disclosure of the financial status, and due to the reason that the law and the relevant legislation are considered for the issues not present in the Articles of Association of the Company, there is no respective provision with regard to this issue in the Articles of Association. There was no request of any shareholders with respect to the assignment of a special auditor in 2016.

General Assembly Meetings

The agenda and invitation related to the 41st Ordinary General Assembly Meeting dated 31 March 2016 with regard to 2015 operations realized at the Company headquarters were duly announced comprising all the necessary information in a daily newspaper published in Turkey and on the website on 8 March 2016 and in the Turkish Trade Registry Gazette dated 10 March 2016. Furthermore the invitation was sent to the main shareholders and the shareholders attended to the previous meeting by post two weeks before the General Assembly. The General Assembly was held with the attendance of 121 shareholders, 8 physically, 113 electronically representing 45.378.874.765 shares (TL 453.788.747,651 nominal) of 50.000.000.000 total shares. Media members did not participate in the General Assembly Meeting, which was held simultaneously both physically and electronically.

In scope of the Communiqué on Corporate Governance numbered II.17-1 of CMB, three weeks before the Ordinary General Assembly on date 8 March 2016, the Ordinary General Assembly Document including the meeting agenda, place, time, copy of the power of attorney, total number of shares as of 8 March 2016 and the voting rights, the number of shares representing the privileged shares and their voting rights, the reasons for the changes in the members of Board of Directors, which is present in the agenda, the list of independent members of the Board of Directors, the proposal of the Board of Directors with respect to the year 2015 dividend distribution, the CV's of the independent members of the Board of Directors and their statements of independence and explanations regarding the agenda items were disclosed on Public Disclosure Platform and were published on our Company website. The annual report was made available for the review of the shareholders at the headquarters 15 days before the General Assembly and handed to the shareholders participating in the General Assembly and to the ones who made requests.

For the facilitation of physical attendance to General Assembly Meeting in 2016, transportation from central spots to our Akyurt facility was provided for our shareholders, and our shareholders who attended the General Assembly had a site visit.

In the Ordinary General Assembly Meeting in 2016, the shareholders were informed regarding the presence of managing members, all the Board of Directors members and auditors at the meeting. No proposals were set forth by the shareholders during the meeting regarding the agenda. The shareholders exercised their rights to ask questions regarding the topics in the agenda and the answers to the questions took place in the General Assembly Meeting minutes. There are no questions which has not been answered in the Ordinary General Assembly Meeting and answered by the Investor Relations Department later on. Within the period, there have not been any transactions of which their resolutions were submitted to General Assembly because the confirmative vote of the majority of the independent board members are required where as they have voted negatively. The minutes of the General Assembly Meeting held in 2016 can be accessed from the website of our Company.

No Extraordinary General Assembly Meeting was held during the year 2016. The shareholders were informed about donations and aids were made in 2015, with a separate agenda item at the 41st Ordinary General Assembly Meeting.

2.3. Right to Vote and Minority Rights

In article 25 of the Articles of Association titled “Right to Vote”, there is a provision stating that “the Shareholders and their representatives who are present at the Ordinary and Extraordinary General Assemblies shall have one right to vote for each share” and there is no privilege or no upper limit pertaining to the numbers of votes. The right to vote arises as soon as the share is acquired and there is no regulation setting forth that the vote shall be used when a certain time passes after the acquisition date of the share.

The regulations regarding the voting of the shareholders through their representatives are followed by; in the event of a legal representation, it is certified and the open proxy rule is applied.

Particular attention is paid in exercising the minority rights in our Company and the provisions of Turkish Code of Commerce and the relevant legislation regarding minority rights are applied as is. All shareholders are treated equally in our Company, including the minority and foreign shareholders.

There are no prevailing partners in our Company. In the Articles of Association, there is no provision with respect to the representation of the minority shares in the management and their accumulated casting of votes. Due to the voluntary implementation of this issue regarding the capital market legislation, provision with respect to the current General Assembly quorum is applied.

2.4. Dividend Rights

There are no privileges with respect to the participation in the profit gained by the Company. The dividend policy was revised in 2015 and was submitted to General Assembly meeting. The dividend policy published on our website is given below.

“The dividend amounts which shall be calculated considering the sustainable growth rate, market capitalization, net working capital requirements, dividend yield and cash flows, equity ratio, with the relevant legislation and the provisions of the articles of association over the distributable profit amount calculated taking the period profit as the basis which is shown on the financial statements of our Company prepared pursuant to the existing legal regulations (after the compulsory legal reserves are reserved and the taxes, funds and financial liabilities and losses of the previous year, if any, are deducted and the donations are added), the profit distribution proposal which shall be prepared by the Board of Directors in order for the shares which shall be issued by means of adding the cash or the dividend on the capital on the date(s) determined pursuant to the regulations of the Capital Markets Board to be distributed targeting at least %10 of net profit in cash in the defined amounts or as bonus shares or partly in cash, partly as bonus shares in defined amounts, shall be submitted to the approval of the General Assembly. Following the approval of the General Assembly, the determined dividends are distributed to the shareholders within the legal periods on the date determined by the General Assembly.

There is no privilege to participate to the profit of our Company. The dividends are distributed equally regardless of all the existing shares and their issue and acquiring dates.

In case of a revision made on the Dividend Policy, the resolution of Board of Directors regarding this revision and the reason for revision shall be publicly announced with respect to the legislation of Capital Markets Board.”

As per the decision taken in the General Assembly pursuant to the provisions of the Articles of Association and to the Capital Market Law and other legal regulations in 2016 and within the legal periods, out of the profit gained from 2015 operations, the gross amount of 42.000 Thousand TL (4,2 Kurus TL per 1 TL of share, gross 4,2% over the capital) (net 35.700 Thousand TL - 3,6 Kurus TL per 1 TL of share, net 3,6% over the capital) was distributed to our shareholders as cash dividend. As a result of the Company’s capital increase (from 500.000 Thousand TL to 1.000.000 Thousan TL), the amount per share has been recalculated.

2.5. Transfer of Shares

The transfer of the nominated Group A shares representing majority part of the capital and which are not traded in Borsa İstanbul has been restricted with the provision of article 6 of the Articles of Association stating “Group A shares shall not be sold or transferred without the consent of the Board of Directors; in the event that these shares are transferred or sold to

third parties partially or completely without the consent of the Board of Directors, the Board of Directors is entitled to abstain from recording this sale in the records without stating a reason”.

CHAPTER III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Company Website and its Content

In order to inform our shareholders in a timely and accurate manner within the context of public disclosure and transparency; the website of the Company at the address www.aselsan.com.tr in Turkish and English is actively used and the information published on the web is updated regularly.

The section “Investor Relations” is included on our website also comprising the issues listed in article 2.1.1 of the corporate governance principles of Communiqué on Corporate Governance numbered II-17.1 issued by CMB on 3 January 2014.

Under “Investor Relations” section;

1. Corporate Governance
 - 1.1 Shareholder Structure and Privileged Shares
 - 1.2 Board of Directors
 - 1.3 Key Resolutions of Board of Directors
 - 1.4 Board Committees
 - 1.5 Articles of Association
 - 1.6 Company Profile and Trade Register Information
 - 1.7 Policies
 - 1.8 Ethical Principles
 - 1.9 Corporate Governance Rating
 - 1.10 General Assembly Meeting
 - 1.11 Compliance with Corporate Governance Principles
2. Sustainability
3. Stock Info
 - 3.1 Stock Info
 - 3.2 Capital Increases
 - 3.3 Analyst Coverage
 - 3.4 Registration Statement and Public Offering Circular
 - 3.5 Dividend Info
4. Investor Calendar
5. Annual Reports
6. Financial Data
 - 6.1 Financial Reports
 - 6.2 Financial Highlights
 - 6.3 Investor Presentations

6.4 Board of Directors Reports

7. BİST Disclosures

8. Frequently Asked Questions

9. Contact

chapters exist. Necessary records and information are included under these titles. The information given on the Turkish website under “Investor Relations” section is included entirely on the English website.

3.2. Annual Report

The Board of Directors prepare the annual report in detail regarding the operations of the Company and enable the public to reach complete and accurate information that can be comprehensive. The 2015 annual report of our Company was prepared as per the Turkish Code of Commerce numbered 6102, the Regulation Regarding the Determination of the Minimum Content of the Annual Reports of Companies issued by the Ministry of Customs and Trade, the Communiqué Regarding the Principles Related to Financial Reporting in the Capital Market and the Communiqué Regarding the Determination and Implementation of the Corporate Governance Principles, both issued by the CMB.

CHAPTER IV - STAKEHOLDERS

4.1. Informing the Stakeholders

The information requests of stakeholders are keenly handled and attention is paid in responding these accurately and in an understandable manner. Our employees are informed with an employee hand book and informative presentations over the intranet; continuous access to data and support is provided through help desk application over the intranet. Nonetheless, general and personal data that can be necessary outside the company are provided to access over the internet.

As for our suppliers, they are informed via internet, e-platforms and our website, in addition, information share is provided through face to face meetings. The efforts are being carried on to build the ASELSAN Suppliers Portal in order to provide efficient information transfer, thus an effective management shall be achieved by transferring, observing and reporting the data process between ASELSAN and its suppliers to the Enterprise Resource Planning (ERP) system.

High quality standards and high technological solutions are offered for services or delivered products with regard to customer needs and expectations so as to meet customer satisfaction. Requirements of these quality standards are met and inspections, tests are applied through every process from projects' start till the delivery phases. Our all processes are administered by directives, quality plans, standards, audits and test instructions. Our processes have been certified by internationally accepted standards such as AS9100, ISO 9001, AQAP and CMMI so that our products and services are secured to protect quality standards. These certificates are renewed every year with the audits performed. Changes and improvements of international

standards are being followed and our processes are developed accordingly. Customer satisfaction, which is the primary objective, is evaluated and reported for the access of related executives. In addition, results and trends are evaluated by the upper management in an annual basis and required recovery activities are planned.

It is possible to increase the quality of product and service correspondingly increasing customer satisfaction by supplying the materials used in products from the right and trusted sources. For this purpose, suppliers are subject to product and/or field of activity based selection and evaluation processes. These activities that target continuous improvement and high quality standards for suppliers are regarded as playing an important role in eventual product quality. In this direction, trainings, technology /equipment transfers, on the job trainings are for creating a high quality supplier portfolio. All information share is done within the context of confidentiality with our suppliers, who have the status of our business partners, and it is not permitted to share this information with unauthorized persons and third party firms. Through related directives, handling any kind of relations between ASELSAN and the suppliers within the scope of law and ethical values, minimizing the occurrence of unsuitable conditions for protecting parties and securing the justice and transparency.

ASELSAN Magazine, published every 4 months, provides information regarding the activities, technical issues and up-to-date social events. Hardcopies of ASELSAN Magazine is delivered to the end users of ASELSAN products, shareholders who participated to the General Assembly Meeting, company employees and other related parties and uploaded to the website right after it is published.

The Compensation Policy can be accessed from our Company's website under Corporate Governance title.

The members of the Board of Directors and the executives do not perform any activities that may cause shareholders to incur losses or may diminish the Company assets. The subject that no debt shall be given, no loans shall be granted or no pledges such as guarantees in favor thereof may be extended to any members of the Board of Directors or to any employees through the use of ASELSAN assets, is declared within the "ASELSAN Ethical Principles, Values and Conduct Rules Document which is available on our Company's website.

The e-mail mechanism for the stakeholders to report their complaints regarding the transactions of the company which are against the legislation or deemed unethical, is stated in the ASELSAN Ethical Principles Policy, which was revised last on 7 January 2016. The policy has been published on the Turkish and English web site following the approval of the policy. Within the context of the policy, the Ethics Committee is informing the Corporate Governance Committee.

4.2. Participation of Stakeholders in the Management

M.M.Ş. M.Ü. Z.A N.A. E.A. T.E. ~~I.G.~~ ~~M.C.L.~~ S.N.

In the Articles of Association, there are no provisions regulating the participation of the stakeholders in the management. However, their participation to management shall be supported provided that it does not corrupt the Company activities.

The corporate governance structure of the Company gives the opportunity to all stakeholders including the employees and representatives to convey their worries with regard to transactions, which are inappropriate in terms of legality and ethics.

Our Board of Directors resolved on 30 September 2015 that; employee representatives shall attend to the Board of Directors meetings at least once a year for submitting their opinions, suggestions and requests, in order to further comply with the article “Supporting the Participation of the Stakeholders in the Corporation’s Management” of Corporate Governance Principles of Capital Board, numbered II-17.1. Within this context, by the coordination of the Corporate Governance Committee, the employee representatives have attended to the Board of Directors meeting on 29.12.2016 and have submitted their opinions, suggestions and requests.

In ASELSAN, an Employee Representative is formed in order to increase the motivation and the sense of identity through providing the ASELSAN employees with the opportunities to,

- Submit their expectations and problems to upper management,
- Share the decisions related with themselves timely and accurately,
- To participate in the decision making processes
- Increase communication with upper management.

The resolution of our Board of Directors dated 30 September 2015 is included in the Employee Representative Directive, which became effective on 17 November 2015. As per the directive published, within the new structure;

- Electing of representatives shall be made by the involvement of all employees to the election process once in every two years via Intranet Portal,
- 1 personnel representative shall be representing every 100 employees,
- A fractional bottom-up structure shall be formed that includes sub-committees and a supreme board,
- Problems shall be first solved by the relevant units in-house, and only the ones that could not be solved shall be transferred to the Supreme Board,
- Filter mechanisms shall be developed for agenda setting,
- Representatives shall attend to the Board of Directors meeting at least once a year.

Coordination of representative meetings is held by the Corporate Services Vice Presidency, where the meeting chairman is the CEO. Nevertheless, Human Resources Management Vice Presidency is represented at least at the level of Director.

The elections for the Employee Representative was made in April 2016, and the tasks of the sub-committees and supreme boards are being performed in compliance with the related internal regulations.

4.3. Human Resources Policy

The human resources policy of our Company is to adopt an understanding which adds successful and dynamic talents to ASELSAN family required pursuant to the vision of ASELSAN, which contributes to the sustainable success of ASELSAN with employee oriented approaches, adds value and which takes side of its employee at all times.

Within this scope and pursuant to the vision, mission and the principles of the Company, regulations have been set out pertaining to the working conditions of the personnel, their qualifications, recruitment, promoting, remuneration, rewarding, dismissal, disciplinary treatments, rights, tasks and liabilities and other personal rights.

58% of our employees stand for the engineering group, 29% for the technician group, 7% for the administrative group, 3% for the office personnel and 3% of the worker group.

There were no complaints related to discrimination from the employees in 2016. Performance and rewarding policies are announced to all of our employees through Company directives.

4.4. Ethical Rules and Social Responsibility

4.4.1. Ethical Rules

The ethical rules of our Company have been written and were published on our website. Furthermore, in order to integrate and develop the ethical rules with the implementations, an Ethical Committee was established to meet the evaluation, direction, consulting and recommendation requirements and create shared knowledge.

“ASELSAN Ethical Principles, Values and Conduct Rules” document is announced to all ASELSAN personnel with all its exhibits and the personnel makes a written commitment that s/he acknowledges the information and ethical values. When an amendment or an update is made on this document, the changes are made known to all the personnel and training programs about these changes are organized if deemed necessary.

Ethical Committee comprises of five members, the chairmanship of the Committee is executed by the Human Resources Management Vice President and the secretariat is handled by Human Resources Director. Other members consist of the representatives of Legal Affairs Department, Central Procurement Department or Financial Management Vice Presidency, charged by the approval of the CEO, and and two personnel; one shall have at least 15 years, other shall have at least 5 years of ASELSAN experience among the Top 5 ranked nominees with the votes of ASELSAN personnel and assigned by the Board of Directors. If there are no changes in the organization, the Ethical Committee members serve at least for two years.

Ethical Committee meets once a month unless an application or disobedience is present. However, Committee, Board of Directors, Corporate Governance Committee, CEO or the Chairman of the Ethical Committee can call a meeting. Beyond evaluating applications, Ethical Committee represents reason and conscience of ASELSAN and works to increase the awareness about ethical values in ASELSAN family.

When there is an application, ethical committee conducts the required assessment and submit a report to the CEO. At the end of this investigation, necessary steps are taken in accordance with relative law and ASELSAN regulations and directives. The applications for last six months and assessment result is reported to Board of Directors each year within the months January and July.

4.4.2. Social Responsibility

An independent British institution, Carbon Disclosure Project (CDP) which reports how the risks of climate changes are managed by the companies announced the 2016 results of the Turkey Carbon Transparency Project. ASELSAN is placed in the B list, among the firms that most successfully manage climate change risks through production process and has the highest gas emission performance on the outcome of the research conducted by evaluating big firms including firms listed on Borsa İstanbul.

In ASELSAN, where decreasing carbon emission is one of the strategic goals, carbon emission is monitored since 2009. Also, ASELSAN is the first and only company that is ranked with the highest initial score among Defense Industry firms in Turkey by participating in CDP survey.

ASELSAN has decreased carbon emission significantly through its efforts, and continues its operations by increasing momentum in the fields of increasing energy efficiency in production, giving priority to production technologies that decrease carbon emission, switching to use of energy that does not cause carbon emission.

Having certifications for ISO 14001 Environmental Management System and OHSAS 18001 Work Health and Safety Integrated Management System; we will proceed to take part in pioneer applications through actualization of national and international initiatives.

In November 2014, Borsa İstanbul (BIST) has launched Sustainability Index that display the performance of January-March 2014 time period for BIST-30 firms in the fields of financial, environmental, social issues and corporate governance. With respect to that, as of this date, ASELSAN started publishing sustainability reports. As a result of the evaluation of our Company on the ASELSAN Sustainability Report, published in Turkish and English for the first time before the Index assessments, ASELSAN was among the 15 firms that were approved to be included in BIST Sustainability Index. In November 2016, ASELSAN kept its place in the index as a consequence of the re-evaluation of ASELSAN Sustainability Report that was published in June, 2016.

Sustainability reports that are published on our website (www.aselsan.com.tr) include the details of sustainable applications in the fields of strategic governance, corporate governance, ethical principles, internal audit, bribery and corruption, risk management, communication with stakeholders, supply chain, information systems, facility management, employee development, human rights, occupational health and safety, environmental management.

In 2016 our company sponsored the activities of Turkish Armed Forces Rehabilitation and Care Center Handicapped Sports Club, the publishing of the books of Anıtkabir Command about Mighty Leader Veteran Mustafa Kemal ATATÜRK and his principles and reforms in order to reach to large populations, and a vehicle that is disability friendly, which was needed for the transportation of Turkish Armed Forces personel's handicapped children for Turkish Armed Forces Elele Foundation. Also, ASELSAN made donations to Anatolia Village Guards Foundation and the aid campaign for Afghanistan.

CHAPTER V - BOARD OF DIRECTORS

5.1. Structure and Formation of Board of Directors

In our Company, 3 members of 9 members of Board of Directors are independent members. The duties of Nomination Committee are executed by Corporate Governance Committee. The report regarding the evaluation of the list of Independent Members of Board of Directors prepared by Corporate Governance Committee on 28 January 2016 was presented to Board of Directors on 28 January 2016. Within the scope of CMB's Communiqué on Corporate Governance numbered II.17-1, CMB has not stated any adverse opinion on the nominees list and the evaluation report, which were submitted to CMB on 29 January 2016. The CV's and independence statements of the 9 nominees who has applied to our Company were announced to public on our website on 8 March 2016. As a result of the voting at the General Assembly Meeting on 31 March 2016, 3 nominees were elected as Independent Members of Board of Directors. There are no female members among the Independent Board Members. There were no cases to eliminate the independency of the Independent Members of the Board of Directors in 2016.

The CVs of the Members of the Board of Directors are included in the 2016 annual report and the information with respect to their duty terms is provided in the table below.

Name Surname	Duty	Election Date
Mustafa Murat ŞEKER	Chairman / Managing Member	May 2013
Murat ÜÇÜNCÜ	Vice Chairman / Managing Member	May 2013
Ziya AKBAŞ	Independent Member	March 2014
Nazım ALTINTAŞ	Independent Member	March 2015
Ercümend ARVAS	Independent Member	March 2016
Turan EROL	Member	March 2016
İsmail GÜMÜŞTEKİN	Member	March 2015
Mehmet Celalettin LEKESİZ	Member	March 2016
Sedat NAZLIBİLEK	Member	June 2014
Faik EKEN	CEO	May 2014

In article 13 of the Articles of Association titled “Duties and Authorization of the Board of Directors”, the duties and authorization of the Board of Directors have been defined. Besides, the Board of Directors Working Directive also describes the Duties and Authorization of the Board of Directors. With the article 14 of the Articles of Association titled “Assignment of the Authorization to the CEO”, the assignment of the authorization of the Board of Directors to the CEO has been set out. The duties and authorization of the executives are described in the “Duties and Responsibilities Directive” formed within the Company.

The duties of the Members of the Board of Directors and of the CEO carried out outside the Company, information regarding the term of office and the statements of the board of members with respect to their independencies:

- There are no members of Board of Directors carrying out an executive duty.
- The statements of independence of the Independent Members of the Board of Directors have been provided at the annex of the Compliance Report.
- The Members of the Board of Directors fulfill their duties without any interest or benefit and pursuant; to the liabilities and authorizations undertaken by the Board of Directors and to the regulations of the Turkish Code of Commerce and CMB.
- Members of the Board of Directors, in accordance with the Working Directive of Board of Directors, are liable not to enter into any commercial treatments directly or indirectly with the Company that coincides with the Company objectives, on their behalf or on behalf of others without the consent of the General Assembly.

5.2. Principles of Activity of Board of Directors

Board of Directors carries out its duties and responsibilities determined with reference to TCC, Capital Market Law and Articles of Association. In this context, the basis of duties and operations are indicated in details in ASELSAN Board of Directors Working Directives.

The agenda of the Board of Directors meetings is formed with the proposals of the Members of the Board of Directors and the committees and the CEO, it is afterwards evaluated by the Board of Directors Chairman and finalized. The subjects emerged as urgent and which are considered worthwhile to discuss may be added to the agenda during the Board of Directors meeting.

As per article 10 of the Articles of Association, the Board of Directors assemble when required and at least once a month. The number of Board of Directors Meetings in 2016 was 44, where 29 of the decisions in the meetings are interim decisions. All of the Members of the Board of Directors attended 80% of the meetings.

The place, date, time and agenda of the next meeting is decided at the Board of Directors Meetings. Documents pertaining to the meeting agenda are sent to the members of Board of Directors at least 3 work days before the meeting by the Presidency.

The Members of the Board of Directors attend the meetings and fulfill their duties as per their authorization and responsibilities. The members who do not attend the meetings submit their excuses.

Board Office is established under Board of Directors in order to coordinate necessary issues in the name of the Board, particularly the relationships with the Presidency and TAFF, to execute planning and support the Board of Directors' operations.

All members have one right to vote, including the chairman. If the numbers of votes are equal, the vote of the chairman does not change the result. Abstaining is not possible, either rejection or acceptance is voted. The vote of the abstaining member is considered as a rejecting vote. The member casting a reject vote states the ground for this in the meeting minutes and undersigns it. According to the article 11 of the Articles of Association titled "Quorum of Meeting and Decision Making"; "The provisions of the TCC, Capital Market Law, regulations of the Capital Markets Board in connection with corporate governance and other relevant legislation are taken into account with respect to the meetings and decision making quorums of the Board of Directors as well as with respect to any Board of Directors members assuming duties and positions outside the Company. Any action and resolutions taken by the Board of Directors without complying with the Corporate Governance Principles, which are made mandatory as to be complied by the Capital Markets Board, are invalid and considered as in contrary to the Articles of Association". In the operation year 2016, there were no related party transactions or any other significant issue, which had to be submitted to the

approval of the general assembly, since they were not approved by the Independent Members of the Board of Directors.

The signed decisions are made available to the follow up of the Members of the Board of Directors and Executive Committee Members in the electronic platform.

In accordance with the article 4.2.8 of Capital Markets Board Corporate Governance Communiqué; Executive Liability Insurance Policy was signed for Board of Directors members on 17 July 2016 with the total liability amount of USD 85.000.000,- which corresponds to more than 25% of the paid-in-capital of our Company, with a validity period of 1 year.

5.3. Number of Committees Formed in the Board of Directors with Their Structures and Independency

As per the title “Committees Formed in the Board of Directors” in the Communiqué Regarding Determination and Implementation of Corporate Governance Principles by the Capital Markets Board, our Company’s Board of Directors, in the meeting dated 10 April 2012, formed an Audit Committee, Corporate Governance Committee and Early Detection and Management of Risk Committee and announced this to the public. There are no Nomination and Remuneration Committees within the Board of Directors and the duties of these are carried out by the Corporate Governance Committee.

The directives of Audit Committee, Corporate Governance Committee and Early Detection and Management of Risk Committee are made available at the website of our Company. The Independent Members of the Board of Directors and four members of the Board of Directors have duties in more than one committee. This is because it is mandatory that all members of the Audit Committee and the chairman of the other committees should be Independent Members of the Board of Directors.

Boards of Directors have made the annual evaluation of the committees composed under its structure and the evaluation report is available in 2015 Annual Report.

AUDIT COMMITTEE

Committee Members (January – March 2016)

Ziya AKBAŞChairman / Independent Member of Board of Directors

Oral ERDOĞANMember / Independent Member of Board of Directors

Nazım ALTINTAŞ.....Member / Independent Member of Board of Directors

Committee Members (April – December 2016)

Ziya AKBAŞChairman / Independent Member of Board of Directors

Nazım ALTINTAŞ.....Member / Independent Member of Board of Directors

Ercüment ARVAS.....Member / Independent Member of Board of Directors

The main duties of the Audit Committee that were set out in the “ASELSAN Audit Committee Work Directives” regulating the working principles of Audit Committee are as follows;

- To enable the disclosure of the financial data of ASELSAN, to pursue the operation and efficiency of the accounting system, independent audit, internal audit and internal control system of the company,
- To assemble at least once in every 3 months, to share the meeting minutes with the Board of Directors

Meetings were held by Audit Committee on dates 7 March 2016, 10 May 2016, 17 August 2016 and 8 November 2016 regarding the financial statements with the participation of the relevant independent audit company in 2016.

In order to increase the efficiency of internal audit, attention was paid to strengthen the cooperation with Internal Audit Presidency and to the supervision of internal audit activities, direct and continuous communication was established between Audit Committee and Internal Audit Presidency.

A dimension of this communication; Audit Committee- Internal Audit Presidency coordination meetings, were held nine times on dates 17 February 2016, 17 March 2016, 22 April 2016, 24 June 2016, 27 July 2016, 12 August 2016, 8 September 2016, 21 October 2016 and 26 December 2016.

The Committee was active in two main topics in 2016.

i. Independent Audit Activities and Works Regarding the Audited Financial Statements:

“Communiqué on Financial Reporting in Capital Markets” Serial: II, 14.1 regulated the preparation of financial reports and their basis, principles of presentation to the relevant parties. December 2015, March 2016, June 2016 and September 2016 financials and Board of Directors reports were prepared in accordance with the communiqué numbered II, 14.1, and submitted to Board of Directors by Audit Committee and presented to the public via Public Disclosure Platform.

The procurement process for independent audit services for the year 2016 as per the CMB’S communiqué numbered II-14:1, was handled by the Procurement Department and the purchasing decision that the service shall be provided by “AKİS Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.” (KPMG) was taken by Board of Directors. The resolution was submitted for approval on the General Assembly Meeting dated 31 March 2016 and was accepted.

ii. Internal Audit Presidency:

Within the scope of the internal audit activities of the Company, the relations between the Internal Audit Presidency and the Board of Directors have been carried out through Audit Committee. A direct and continuous contact between Audit Committee and Internal Audit Presidency is present.

CORPORATE GOVERNANCE COMMITTEE

Committee Members (2016 January - March)

Oral ERDOĞAN Chairman / Independent Member of the Board of Directors

Murat ÜÇÜNCÜ Member / Board of Directors Vice Chairman

Oğuz BORAT Member / Member of the Board of Directors

Pınar ÇELEBİ Member / Investor Relations Manager

Committee Members (2016 April- December)

Ercüment ARVAS Chairman / Independent Member of the Board of Directors

Murat ÜÇÜNCÜ Member / Board of Directors Vice Chairman

Turan EROL Member / Member of the Board of Directors

Pınar ÇELEBİ Member / Investor Relations Manager

The main duties of the Corporate Governance Committee were set out in the “ASELSAN Corporate Governance Committee Work Directives” as follows:

- To carry out studies for the implementation of Corporate Governance Principles in the Company,
- To observe whether the Corporate Governance Principles have been implemented or not and if not implemented to determine the grounds for this and the conflicts of interest arising due to not complying with these principles and to make proposals for improving the status,
- To monitor the activities of the Investor Relations Department.
- Corporate Governance Committee assembles every 3 months and in every situation when necessary. The meeting minutes are submitted to the Board of Directors.

The Corporate Governance Committee assembled eight times within the activity year 2016 on dates, 28 January 2016, 25 February 2016, 7 March 2016, 10 May 2016, 24 June 2016, 21 July 2016, 28 September 2016 and 28 December 2016. The meeting minutes of the Committee may be reached on our website. The committee was active in three respective tasks in 2016:

i. Operations of Investor Relations Department:

Investor Relations Department have attended all the meetings in 2016, performed secretariat procedures of the committee with regard to “ASELSAN Corporate Governance Committee Working Directive” and informed the committee periodically about the tasks carried by investor relations department.

In 2016, the subjects discussed and tasks carried by the Corporate Governance Committee within the context of the meetings made are given below:

M.M.Ş. M.Ü. Z.A N.A. E.A. T.E. ~~I.G.~~ ~~M.C.L.~~ S.N.

- Independent Board Member election process
- Investor Relations Department and its operations
- Corporate Governance Rating
- Corporate Governance Committee 2015 Report
- ASELSAN 2015 Compliance with the Corporate Governance Principles Report
- BİST Sustainability Index and sustainability tasks performed in ASELSAN
- ASELSAN Anti Bribery and Anti Corruption Policy
- ASELSAN Ethical Principles
- Tasks carried for the revision of ASELSAN score cards
- Task carried regarding the compensation of the beneficiaries with the capital market instruments, the property of which has been lapsed to the Investor Compensation Center (ICC) and have become valid again.

ii. Corporate Governance Rating:

The evaluation of corporate governance rating performed by SAHA Corporate Governance and Credit Rating Services were concluded during the last quarter of 2016. According to the review, as a result of the enhancements made throughout 2016, the score of 11 December 2015, 9,13 out of 10, was revised as 9,15 out of 10 on 12 December 2016.

Our Company's share has been listed in the corporate governance index since the date 14 December 2012, which it first entered the index. Rating reports can be accessed on the company website.

iii. Election Process of Independent Board Members

As given by Corporate Governance Principles, the responsibility of evaluating and reporting the nominations and their independency status to Board of Directors is given to the Nomination Committee, in companies where this committee is not formed because of the structure of the Board of Directors, the responsibility is given to Corporate Governance Committee. Within this context, the evaluation of nominations which were made until 27 January 2016 was carried on by the Committee and the resulting nominee list was presented at the Board of Directors meeting on 28 January 2016. CMB has not stated any opposing opinions regarding the nominees list and evaluation report which was submitted by the Board of Directors on 29 January 2016. The list was submitted to shareholders' voting on General Assembly Meeting on 31 March 2016 and as a result, Ercüment ARVAS, Ziya AKBAŞ and Nazım ALTINTAŞ were elected as independent members to serve for 1 year.

EARLY DETECTION AND MANAGEMENT OF RISK COMMITTEE

ASELSAN Board of Directors established the "Early Detection and Management of Risk Committee" with the resolution dated 10 April 2012 and numbered 720/1. The Committee executes as per the directive numbered ASY-01-066.

The Board Members assigned to the committee are given below:

Committee Members (2016 January - March)

Nazım ALTINTAŞChairman / Independent Member of the Board of Directors

İsmail GÜMÜŞTEKİNMember / Member of the Board of Directors

Ahmet Can ÇEVİKMember / Member of the Board of Directors

Committee Members (2016 April - December)

Ziya AKBAŞChairman / Independent Member of the Board of Directors

İsmail GÜMÜŞTEKİNMember / Member of the Board of Directors

Sedat NAZLIBİLEKMember / Member of the Board of Directors

In 2016 the Committee continued to identify and evaluate the risks which prevent ASELSAN from reaching its goals; manage the risks in accordance with the company's risk-taking profile; report the risk activities; build risk aware decision mechanisms and internal control. Risks identified through risk management processes are prioritized depending on their probability and impact. It is ensured that important risks are monitored and reported. In this respect, in 2016 the Committee held 5 meetings on 18 February 2016, 25 April 2016, 24 June 2016,

28 September 2016 and 21 November 2016. Committee's activities are summarized below:

- "2015 Evaluation Report" was prepared and submitted to Board of Directors in February 2016.
- "Corporate Risk Evaluation Report" was prepared and submitted to Board of Directors in February 2016, April 2016, June 2016, August 2016, September 2016 and November 2016. In the reports;
 - Important risks of ASELSAN were evaluated and monitored. The risk classification, explanation, rating, strategy, owner/responsible, current control operations and relevant indicators were included in the report.
 - Risks indicators and the risks which divert from the benchmark are given at the end of the report in order to draw the Board's attention.
- Risk management chapters in the annual report and the other reports set by the legal authorities were prepared.
- Special reports were prepared for specific risks related to recent incidents.

The secretariat formalities of the Committee were performed by Corporate Risk Management and Internal Control Department of Finance Directorate since April 2016.

5.4. Risk Management and Internal Control Mechanism

Internal audit operations and corporate governance are facilitated via risk management and development of efficiency of internal control procedures in ASELSAN. The most important role of internal audit operations is assuring the Audit Committee and Board of Directors that the

risks are being managed effectively. Annual audit plan and work programs are prepared on a risk basis and audit results are reported periodically to Audit Committee. Harmonization with legal and firm regulations, the status of application of ethical principles and the effectiveness of risk mitigation is evaluated by Internal Audit Department.

5.5. Strategic Objectives of the Company

The Board of Directors is the top level body to make strategic decisions and to execute and represent. As per the Articles of Association of the Company, the Board of Directors is responsible to determine the strategic plans and control their implementations.

Strategic management process is a part of Corporate Governance and is managed by the CEO in the name of Board of Directors, following the approval of the Strategic Plan, prepared with the coordination of Strategic Management Directorate. Reaching ASELSAN's long term goals and sustaining its success can be achieved through environment friendly strategies.

ASELSAN's vision is to be a national technology company that maintains its sustainable growth by creating value in the global market, is being preferred due to its competitiveness, is being trusted as a strategic partner, and is caring for the environment and the people. Within this concept, annually updated 5 year Strategic Plan and Business Plans and 3 year budgets are prepared. With this methodology, short and middle term targets are specified by considering long term goals. The operations to be carried out for these targets are executed by Sectors Presidencies and performance evaluations are made based on Balanced Scorecard method, which is widely used in the world.

5.6. Financial Rights

Remuneration procedures for Board of Directors Members and Managers with Executive Responsibility, which are set in written form in accordance with the Corporate Governance Principles, are published on our Company's website.

Monthly remunerations provided to our Members of the Board of Directors are determined by the General Assembly and no other benefits are granted apart from the monthly remuneration. Pursuant to the resolution taken at the 41st Ordinary General Assembly held on 31 March 2016, the Members of the Board of Directors are paid TL 3.000,- per month. As for the determination of the financial rights of the board members, no reward system is applied to reflect the Company performance and which is based on the performance of the Members of the Board of Directors.

Statement of Independence

TO THE BOARD OF DIRECTORS OF ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.
ANKARA

Date: 18 January 2016

With respect to the corporate governance principle numbered 4.3.6 of the Capital Markets Board's Communiqué on Corporate Governance numbered II-17.1, in order for me to be selected as an Independent Board Member of ASELSAN Elektronik Sanayi ve Ticaret (Company), I hereby agree, represent and undertake that I;

- a) do not have a relationship in terms of employment at an administrative level to take upon significant duty and responsibilities within the last five years, do not own more than 5% of the capital or voting rights or privileged shares either jointly or solely or do not have established a significant commercial relation between the corporation, companies on which the corporation hold control of management or significant effect and shareholders who hold control of management of the corporation or have significant effect in the corporation and legal entities on which these shareholders hold control of management and myself, my spouse and my relatives by blood or marriage up to second degree,
- b) have not been a shareholder (5% and more), an employee at an administrative level to take upon significant duty and responsibilities or member of board of directors within the last five years in companies that the corporation purchases or sells goods or service at a significant level within the framework of the contracts executed, especially on audit (including tax audit, statutory audit, internal audit), rating and consulting of the corporation, at the time period when the corporation purchases or sells services or goods,
- c) have professional education, knowledge and experience in order to duly fulfill the duties assigned for being an independent board member,
- d) will not be serving as a full time employee at public authorities and institutions after being elected, except being an academic member at university provided that is in compliance with the relevant legislation,
- e) am residing in Turkey in accordance with the Income Tax Law (I.T.L) dated 31.12.1960 and numbered 193,
- f) am capable to contribute positively to the operations of the corporation, to maintain my objectivity in conflicts of interests between the corporation and the shareholders, have strong ethical standards, professional reputation and experience to freely take decisions by considering the rights of the stakeholders,
- g) am able to allocate time for the corporation's business in order to follow up the activities of the corporation and duly fulfill the allocated duties,
- h) have not conducted membership of board of directors more than a term of six years in the last ten years,
- i) am not the independent member of the board of directors in more than three of the corporations as such; the corporation or the controlling shareholders of the corporation who hold the control of management corporations and in more than five corporations in total which are admitted to the trading on the exchange,
- j) have not been registered and announced as a board member representing a legal entity.

I hereby submit this to the knowledge of the Board of Directors, shareholders and all relevant parties.

Sincerely yours,



Ziya AKBAŞ

Statement of Independence

TO THE BOARD OF DIRECTORS OF ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.
ANKARA

Date: 27 January 2016

With respect to the corporate governance principle numbered 4.3.6 of the Capital Markets Board's Communiqué on Corporate Governance numbered II-17.1, in order for me to be selected as an Independent Board Member of ASELSAN Elektronik Sanayi ve Ticaret (Company), I hereby agree, represent and undertake that I;

- a) do not have a relationship in terms of employment at an administrative level to take upon significant duty and responsibilities within the last five years, do not own more than 5% of the capital or voting rights or privileged shares either jointly or solely or do not have established a significant commercial relation between the corporation, companies on which the corporation hold control of management or significant effect and shareholders who hold control of management of the corporation or have significant effect in the corporation and legal entities on which these shareholders hold control of management and myself, my spouse and my relatives by blood or marriage up to second degree,
- b) have not been a shareholder (5% and more), an employee at an administrative level to take upon significant duty and responsibilities or member of board of directors within the last five years in companies that the corporation purchases or sells goods or service at a significant level within the framework of the contracts executed, especially on audit (including tax audit, statutory audit, internal audit), rating and consulting of the corporation, at the time period when the corporation purchases or sells services or goods,
- c) have professional education, knowledge and experience in order to duly fulfill the duties assigned for being an independent board member,
- d) will not be serving as a full time employee at public authorities and institutions after being elected, except being an academic member at university provided that is in compliance with the relevant legislation,
- e) am residing in Turkey in accordance with the Income Tax Law (I.T.L) dated 31.12.1960 and numbered 193,
- f) am capable to contribute positively to the operations of the corporation, to maintain my objectivity in conflicts of interests between the corporation and the shareholders, have strong ethical standards, professional reputation and experience to freely take decisions by considering the rights of the stakeholders,
- g) am able to allocate time for the corporation's business in order to follow up the activities of the corporation and duly fulfill the allocated duties,
- h) have not conducted membership of board of directors more than a term of six years in the last ten years,
- i) am not the independent member of the board of directors in more than three of the corporations as such; the corporation or the controlling shareholders of the corporation who hold the control of management corporations and in more than five corporations in total which are admitted to the trading on the exchange,
- j) have not been registered and announced as a board member representing a legal entity.

I hereby submit this to the knowledge of the Board of Directors, shareholders and all relevant parties.

Sincerely yours,

Ercüment ARVAS

Statement of Independence

TO THE BOARD OF DIRECTORS OF ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.
ANKARA

Date: 27 January 2016

With respect to the corporate governance principle numbered 4.3.6 of the Capital Markets Board's Communiqué on Corporate Governance numbered II-17.1, in order for me to be selected as an Independent Board Member of ASELSAN Elektronik Sanayi ve Ticaret (Company), I hereby agree, represent and undertake that I;

- a) do not have a relationship in terms of employment at an administrative level to take upon significant duty and responsibilities within the last five years, do not own more than 5% of the capital or voting rights or privileged shares either jointly or solely or do not have established a significant commercial relation between the corporation, companies on which the corporation hold control of management or significant effect and shareholders who hold control of management of the corporation or have significant effect in the corporation and legal entities on which these shareholders hold control of management and myself, my spouse and my relatives by blood or marriage up to second degree,
- b) have not been a shareholder (5% and more), an employee at an administrative level to take upon significant duty and responsibilities or member of board of directors within the last five years in companies that the corporation purchases or sells goods or service at a significant level within the framework of the contracts executed, especially on audit (including tax audit, statutory audit, internal audit), rating and consulting of the corporation, at the time period when the corporation purchases or sells services or goods,
- c) have professional education, knowledge and experience in order to duly fulfill the duties assigned for being an independent board member,
- d) will not be serving as a full time employee at public authorities and institutions after being elected, except being an academic member at university provided that is in compliance with the relevant legislation,
- e) am residing in Turkey in accordance with the Income Tax Law (I.T.L) dated 31.12.1960 and numbered 193,
- f) am capable to contribute positively to the operations of the corporation, to maintain my objectivity in conflicts of interests between the corporation and the shareholders, have strong ethical standards, professional reputation and experience to freely take decisions by considering the rights of the stakeholders,
- g) am able to allocate time for the corporation's business in order to follow up the activities of the corporation and duly fulfill the allocated duties,
- h) have not conducted membership of board of directors more than a term of six years in the last ten years,
- i) am not the independent member of the board of directors in more than three of the corporations as such; the corporation or the controlling shareholders of the corporation who hold the control of management corporations and in more than five corporations in total which are admitted to the trading on the exchange,
- j) have not been registered and announced as a board member representing a legal entity.

I hereby submit this to the knowledge of the Board of Directors, shareholders and all relevant parties.

Sincerely yours,

Nazım ALTINTAŞ

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.

**SIGNATURE SECTION OF ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
BETWEEN 1 JANUARY – 31 DECEMBER 2016**

Mustafa Murat ŞEKER
Chairman of the Board of
Directors

Murat ÜÇÜNCÜ
Vice Chairman of the Board of
Directors

Ziya AKBAŞ
Member of the Board of
Directors

Nazım ALTINTAŞ
Member of the Board of
Directors

Ercümend ARVAS
Member of the Board of
Directors

Turan EROL
Member of the Board of
Directors

İsmail GÜMÜŞTEKİN
Member of the Board of
Directors
(Not Attended)

M.Celalettin LEKESİZ
Member of the Board of
Directors
(Not Attended)

Sedat NAZLIBİLEK
Member of the Board of
Directors