

# aselsan

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

**REPORT OF THE BOARD OF DIRECTORS  
FOR THE PERIOD BETWEEN  
1 JANUARY – 31 DECEMBER 2018**

(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT  
ORIGINALLY ISSUED IN TURKISH)

## **INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT**

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

### **Opinion**

We have audited the annual report of Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries ("the Group") for the period of 1 January 2018 – 31 December 2018.

In our opinion, the consolidated financial information provided in the annual report of the Board of Directors and the discussions made by the Board of Directors on the situation of the Group are presented fairly and consistent, in all material respects, with the audited full set consolidated financial statements and the information we obtained during the audit.

### **Basis for Opinion**

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Annual Report section of our report. We are independent of the Group in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Our Auditor's Opinion on the Full Set Consolidated Financial Statements**

We have expressed an unqualified opinion in our auditor's report dated February 26, 2019 on the full set consolidated financial statements of the Group for the period of 1 January 2018 – 31 December 2018.

### **The Responsibility of the Board of Directors on the Annual Report**

In accordance with Articles 514 and 516 of the Turkish Commercial Code 6102 ("TCC") and the provisions of the Communiqué II-14.1 on the Principles of Financial Reporting in Capital Markets" ("the Communiqué") of the Capital Market Board ("CMB"), the management of the Group is responsible for the following items:

- a) Preparation of the annual report within the first three months following the balance sheet date and submission of the annual report to the general assembly.
- b) Preparation and fair presentation of the annual report; reflecting the operations of the Group for the year, along with its financial position in a correct, complete, straightforward, true and honest manner. In this report, the financial position is assessed according to the consolidated financial statements. The development of the Group and the potential risks to be encountered are also noted in the report. The evaluation of the board of directors is also included in this report.
- c) The annual report also includes the matters below:
  - Subsequent events occurred after the end of the fiscal year which have significance,
  - The research and development activities of the Group,

### **The Responsibility of the Board of Directors on the Annual Report (continued)**

- Financial benefits such as salaries and bonuses paid to the board members and to those charged governance, allowances, travel, accommodation and representation expenses, financial aids and aids in kind, insurances and similar deposits.

When preparing the annual report, the board of directors takes into account the secondary legislative arrangements published by the Ministry of Customs and Trade and related institutions.

### **Auditor's Responsibilities for the Audit of the Annual Report**

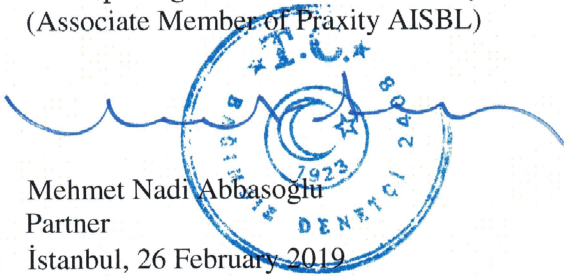
Our aim is to express an opinion, based on the independent audit we have performed on the annual report in accordance with provisions of the Turkish Commercial Code and the Communiqué, on whether the consolidated financial information provided in this annual report and the discussions of the Board of Directors are presented fairly and consistent with the Group's audited consolidated financial statements and to prepare a report including our opinion.

The independent audit we have performed is conducted in accordance with the standards on auditing as issued by the Capital Markets Board of Turkey. These standards require compliance with ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether the consolidated financial information provided in the annual report and the discussions of the Board of Directors are free from material misstatement and consistent with the consolidated financial statements.

The name of the engagement partner who supervised and concluded this audit is Mehmet Nadi Abbasoğlu.

Yeditepe Bağımsız Denetim Anonim Şirketi  
(Associate Member of Praxity AISBL)

Mehmet Nadi Abbasoğlu  
Partner  
İstanbul, 26 February 2019



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## **1. Principles of Preparation**

The year-end 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.

The report comprises the events took place during the period 1 January - 31 December 2018. The title of the main shareholder in the report is ASELSAN Elektronik Sanayi ve Ticaret A.Ş.

## **2. Company Information and Organizational Structure**

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

The Company, being an establishment of Turkish Armed Forces Foundation (“TSKGV”), stands in a position of a technology center within 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, security systems, transportation systems, energy systems, traffic and automation systems, electro-optic systems and products.

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 Management Vice Presidency, Technology and Strategy Vice Presidency and Business Development and Marketing Vice Presidency<sup>1</sup>; in addition to these Vice Presidencies there are also Legal Affairs and Office Of The Private Secretary.

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 Vice Presidencies management offices and Product Support Management of UGES Vice Presidency are located in Istanbul Teknopark.

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<sup>1</sup> The Directorate of Business Development and Marketing shall be restructured as a vice presidency within the organizational structure and Osman Devrim FİDANCI, the Director of Business Development and Marketing, shall be appointed as the Vice President as of 1 February 2019.

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

Corporation	Research / Study	Related Period	Ranking	
			Current	Prior
• International Ranking				
Defense News Magazine	Defense News Top 100	2018	55	57
SIPRI	SIPRI Top 100	2018	61	68
European Commission	World R&D Expense Top 2500 Company	2017	1.111	1.204
Mentor Graphics	PCB Technology Leadership Awards (TLA) – Printed Wiring Board Technology 2017: “Computers, Blade & Servers, Memory Systems” category 2016: “Military & Aerospace” category	2017	2	2
• National Ranking				
Istanbul Chamber of Industry	ICI 500 Top Industry Companies	2018	20	20
	ICI 500 - Private Companies	2018	19	19
Fortune Magazine	The Top 500 Companies	2018	38	41
Capital Magazine	The Top 500 Private Companies	2018	47	50
BIST (Borsa Istanbul)	Sustainability Index	2018	No Ranking	
	Corporate Management Index	2018	No Ranking	
	BIST Top 30 Index	2018	No Ranking	
	BIST Top 30 Market Value Sequence	2018	4	6
TEA (Turkey Exporters’ Assembly)	Top 1000 Exporters	2018	68	108
Turkish Time Journal	Study of Research and Development Top 100	2018	1	1
Deloitte	Technology Fast 50 / Big Star Category	2017	1	1
Brand Finance	Most Valuable Firms (100 Brands)	2018	28	34
Bloomberg Businessweek	Top 50 Firms (Between Universities)	2018	3	4
Universum	Ideal Employers (Engineering and Information Technologies- 100 Companies)	2018	1	1
Turkish Patent Institute	TÜRKPATENT Leauge (Top Ten Company Making National Patents)	2017	5	-
Ministry of Science, Industry and Technology	Top of the Private Sector R&D Centers / R&D Centers Performance Index / Defence Industry Sector	2017	1	1
CDP (Carbon Disclosure Project)	Firms Which Have Well Management of Climate Changes and Highest Greenhouse Gas Emission Performance (Turkey)	2017	No Ranking	
TESİD	Innovativeness and Creativeness Awards/ Developing Innovative Product Process Awards Between Big Firms	2018	No Ranking	
Fortune Turkey and Data Expert	50 Most Effective Human Resource Manager	2018	No Ranking	

Commercial title and trade registration number of the company and contact information pertaining to its headquarters, branches and its website address shown below;

Company	Type	Country/City	Trade Register No	Address	Telephone/Fax	Web site
ASELSAN Elektronik Sanayi ve Ticaret A.Ş.	Headquarters	Turkey /Ankara	311177	Mehmet Akif Ersoy Mahallesi 296. Cad. No:16 06370 Yenimahalle/Ankara	Tel: +90 (312) 592 1000 Fax: +90 (312) 354 1302	<a href="http://www.aselsan.com.tr">www.aselsan.com.tr</a>
ASELSAN South Africa Branch	Branch	Republic of South Africa/ Pretoria	--	Building 4, Room 005 CSIR Campus, Meiring Naude Drive, Pretoria Gauteng, 0001, South Africa	Tel: +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	Tel: +971 2 550 8808 Faks: +971 2 550 8812	--
Saudi Arabia Contact Office	Project Office	Saudi Arabia/ Riyadh	--	A. Building 17B, 1st Floor, The Business Gate, Riyadh, 11422, Saudi Arabia	Tel: +966 11 211 1111 Fax: +966 11 268 1111	--
ASELSAN Qatar Office	Project Office	Qatar/ Doha	--	The Gate Tower II 7th Floor - Office 725 West Bay, Maysaloun Street P.O. Box 14023 Doha / QATAR	Tel: +974 402 06000 Fax: +974 402 06006	--
ASELSAN TRNC Contact Office	Contact Office	TRNC/ Güzelyurt	--	Orta Doğu Teknik Üniversitesi Kuzey Kıbrıs Kampüsü ODTÜ KALTEV AR-GE Binası No: E-19 99738 Kalkanlı/Güzelyurt/Turkish Republic of Northern Cyprus	--	<a href="http://www.aselsan.com.tr">www.aselsan.com.tr</a>

### 3. The Company's Shareholder Structure

Registered capital ceiling of the Company is TL 2.000.000.000 (TL two billion). The nominal capital of the Company is TL 1.140.000.000 (TL one billion, one hundred and forty million) and is divided into 1.140.000.000 (one billion, one hundred and forty million) shares, each having a nominal value of TL 1 . 605.454.545 (six hundred and five million, four hundred and fifty four thousand, five hundred and forty five) of the shares are Group A shares and 534.545.455 (five hundred and thirty four million, five hundred and forty five thousand, four hundred and fifty five) 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. Changes in shareholders' structure and the Company's capital during the period is shown in the table below.

Partners	Share (%)	31 December 2018 (Thousand TL)	Share (%)	31 December 2017 (Thousand TL)
Turkish Armed Forces Foundation (TSKGV)	74,20	845.826	84,58	845.826
Quoted on BIST (Free float)	25,70	293.019	15,30	153.019
Axa Sigorta Anonim Şirketi	0,10	1.155	0,12	1.155
Paid-in capital	100	1.140.000	100	1.000.000
Share capital adjustment	--	98.621	--	98.621
Inflation adjusted capital	--	1.238.621	--	1.098.621

Capital increase of the Company (second public offering) from TL 1.000.000 thousand to TL 1.140.000 thousand was realized by limiting the preemptive rights of current shareholders and the changes in the shareholding rates and capital structure due to the increase amounting TL 140.000 thousand shown in the table above.

## 4. Members of the Board of Directors and Senior Executives

Within the framework of the provisions of the Company's Articles of Association, the Board of Directors consists of total 9 members comprising of 6 members to be elected from privileged shareholders or candidates nominated by group A and 3 independent members to be elected under Capital Markets Board (CMB) regulations.

Information regarding the Members of the Board of Directors during the period 1 January – 31 December 2018 are as follows:



## REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2018

MEMBER OF THE BOARD OF DIRECTORS				
List No	Name and Surname	Position	Positions In Other Company's	Date of First Assignment
1.	Haluk GÖRGÜN	Chairman / Executive Member / CEO	IGG ASELSAN Integrated Systems LLC BOD Member/ SASAD BOD Member / Saudi Arabian Defense and Electronics Company LLC Vice Chairman	15 March 2017
2.	Mustafa Murat ŞEKER	Vice Chairman / Executive Member	Presidency of Defense Industries Vice Chairman	15 May 2013
3.	Mehmet ARIK	Independent Member	Özyeğin University Machine Engineering Lecturer	2 April 2018
4.	Ercüment ARVAS	Independent Member	İstanbul Medipol University Electrical Engineering Lecturer	31 March 2016
5.	Bayram GENÇCAN <sup>2</sup>	Member	--	15 March 2017
6.	İbrahim ÖZKOL	Independent Member	İstanbul Technical University Vice-Chancellor	15 March 2017
7.	Ercan TOPACA	Member	Chief Inspector of Mülkiye	15 March 2017
8.	Celal Sami TÜFEKÇİ	Member	Presidency of Defense Industries Vice Chairman, TEKNOHAB Teknoloji Geliştirme Bölgesi Yönetici A.Ş. BOD Member	2 April 2018
9.	Murat ÜÇÜNCÜ	Member	--	15 May 2013
10.	Okan TURAN	Vice General Manager (Financial Management)	--	4 January 2016
11.	Yavuz BAYIZ <sup>3</sup>	Vice General Manager (HBT Sector President)	--	1 September 2014
12.	Oğuz ŞENER	Vice General Manager (REHİS Sector President)	--	1 September 2014
13.	Mustafa KAVAL	Vice General Manager (SST Sector President)	--	1 September 2014
14.	Sezai ELAGÖZ	Vice General Manager (MGEO Sector President)	--	18 July 2018
15.	Hakan KARATAŞ	Vice General Manager (Corporate Management)	--	2 July 2018
16.	Mehmet ÇELİK	Vice General Manager (Technology & Strategy Management)	--	14 May 2017
17.	İbrahim BEKAR	Vice General Manager (UGES Sector President)	--	12 February 2018
18.	Osman Devrim FİDANCI <sup>4</sup>	Vice General Manager (Business Development and Marketing)	--	1 February 2019
19.	Abdülkadir GÖKTAŞ	Internal Audit President	--	1 September 2014

<sup>2</sup> Appointed as the Vice President responsible of Communication and Information Technologies as of 5 February 2019, alongside his duty as a member of the Board of Directors.

<sup>3</sup> Resigned his duty as the Vice President responsible of Communication and Information Technologies as of 5 February 2019 due to retirement.

<sup>4</sup> Osman Devrim FİDANCI, the Director of Business Development and Marketing, shall be appointed as the Vice President as of 1 February 2019.

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 a third party. 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 2018:**

During the Ordinary General Assembly Meeting held on 2 April 2018, Haluk GÖRGÜN, Mustafa Murat ŞEKER, Bayram GENÇCAN, Celal Sami TÜFEKÇİ, Ercan TOPACA and Murat ÜÇÜNCÜ were elected as Member of Board of Directors until the next Generally Assembly Meeting and İbrahim ÖZKOL, Mehmet ARIK and Ercümen ARVAS were elected as Independent Member of Board of Directors until the next General Assembly Meeting.

Haluk GÖRGÜN is assigned as the CEO starting from April 27 April 2018 onwards. Haluk GÖRGÜN will maintain his position as the Chairman of the Board of Directors.

#### **Total Amount of the Financial Benefits Given To 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 2018 is TL 14.863 Thousand.

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

ASELSAN ELECTRONICS INDUSTRY AND TRADE INC. LIST OF TOTAL AMOUNT OF FINANCIAL BENEFITS PROVIDED TO THE BOD MEMBERS AND HIGHER LEVEL EXECUTIVES			
No	Name and Surname	Duty	Total Amount Paid Thousand TL (Wage and Health Insurance)
1.	Haluk GÖRGÜN	BOD Chairman/Executive Member	57
2.	Mustafa Murat ŞEKER	BOD Vice Chairman/Executive Member	49
3.	Ziya AKBAŞ	BOD Member	11
4.	Ercümen ARVAS	BOD Member	53
5.	Bayram GENÇCAN	BOD Member	46
6.	İbrahim ÖZKOL	BOD Member	55
7.	Emin Sami ÖRGÜÇ	BOD Member	11
8.	Ercan TOPACA	BOD Member	53
9.	Murat ÜÇÜNCÜ	BOD Member	48
10.	Mehmet ARIK	BOD Member	33
11.	Celal Sami TÜFEKÇİ	BOD Member	34
12.	CEO/President and Vice Presidents	Higher Level Executives	9.232
TOTAL			9.683

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 2018 is TL 1.807 Thousand.

#### **5. Main Factors That Affect the Performance, Investment and Dividend Policy of the Company**

The Company carries on its business interests in defense industry as well as in civil industry. According to the latest data, globally, five countries which have the largest defense industry expenditures during 2017 are the USA, China, Saudi Arabia, Russia and India. The declining tendency of the resources which the USA has allocated to defense in recent years has been continuing and total defense expenditures decreased by 0,5% in 2017. Within 2017, in East Asia, the increasing tendency of the resources which has been allocated to defense for 23 years has been continuing and increased by 4,1%. In Western Europe, it has been continuing for 3 years and increased by 1,7%. For the rest of the world, no tendency has been observed. In Central America, Carribean's, Africa, and Eastern Europe, defense expenditures has been decreased and in Central Europe, Middle East, and South America, it has been increased in 2017. As of 2017 year-end, Turkey's yearly defense expenditures reached its highest level with USD 18,2 Billion if the year 2013's defense expenditure is considered as exemption, and 2,1% of the GDP is still comprised of defense expenditures. The ratio of defense expenditures over GDP stands steady while 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 2018 long term plans which have been accordingly signed as contracts spread over years amounts to USD 9,1 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 third 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 profit distribution policy is posted on [www.aselsan.com.tr](http://www.aselsan.com.tr) website under Investor Relations/ Corporate Governance/Policies. According to the policy, at least 10% of the net profit is planning to be distributed.

- At the Ordinary General Assembly Meeting held in 2 April 2018; from the remaining distributable profit obtained after subtracting taxes and statutory obligation from Company's operating profit in 2017. In accordance with Article 519/(1) of the Turkish Commercial Code, TL 44.487.397 to be allocated as General Legal Reserves. 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 84.600 Thousand (Kurus 8,46 per share of TL 1 and 8,46 % on the basis of the capital) (net profit TL 71.910 Thousand – Kurus 7,191 per share of TL 1 and 7,191 % on the basis of the capital) as in the form of cash,
- In accordance with Article 519/(2) of the Turkish Commercial Code, TL 3.460 Thousand to be allocated as General Legal Reserves,

- Remaining profit is 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 19 June 2018, 13 September 2018 and 13 December 2018, were decided.

As the Company increased its shared capital from TL 1.000.000 Thousand to TL 1.140.000 Thousand and increase of TL 140.000 Thousand of the shares to be offered to the public by abridging the preemptive rights of the current shareholders to be completed on 6 June 2018, cash dividend distribution ratios of TL 84.600 Thousand, net TL 71.910 Thousand, which were decided to be distributed at the Ordinary General Assembly meeting held on 2 April 2018 were recalculated. Accordingly, approximately gross 7,42 kuruş per share of TL 1, 7,42% of issued capital, net 6,31 kuruş, 6,31% of issued capital is distributed to the shareholders as cash dividend.

### 6. 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 2018 period, the cash requirements were met with the available cash, cash inflows from other operations and use of Türk Eximbank export discounted foreign currency loan due to low cost. Within the scope of the Eximbank Loan Program, during 1 January - 31 December 2018 period, "Discounted Foreign Currency Loan" was used as USD 165 Million with 240 days of maturity. As of 31 December 2018, there is a loan balance equivalent to USD 130 Million in total which is used from Türk Eximbank.

Furthermore, loan obtained from Defense Industry Support Fund (DISF) in accordance with Defense Industry Execution Committee's decision is USD 16,5 Million as of 31 December 2018.

The capital increase (secondary public offering) that is made by abridging preemptive rights of the current shareholders was successfully completed on 06 June 2018. TL 2.989.000 Thousand of gross cash was obtained from these secondary public offering transactions.

### Measures Planned To Be Taken To Improve the Financial Structure of the Company

As for the annual budgets and implementations for the period 2018-2020, the Group has adopted the principles as the basis to take care of savings in all kinds of expenditures, to follow up the advances and receivables closely, to pay attention to the proportion of the term and currency in purchasing and sales agreements and the risk status of the domestic/foreign suppliers and sub-contractors.

### 7. Risk Management Policies of the Company

The Company's Board of Directors performs in a transparent, accountable, impartial and responsible manner under Capital Markets Board regulations. The Chairman and Vice Chairman are elected among the Board of Directors members furthermore Board of Directors Committee Presidents and committee members are elected as well.

#### a. Corporate Risk Management

The 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 and the interests of its shareholders and related parties. Risk management has been an integrated part of the corporate management and information generated within the context of risk management process are integrated into decision-making mechanisms.

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 is active since 2012.

Through Corporate Risk Management practices, "top down" and "bottom up" approaches are applied together and risks that may affect the company's objectives are identified and evaluated along with the risk reactions and precautions to be taken. The reports prepared by the Management and Early Detection of The Risk Committee are presented to the Board of Directors and the Independent Audit Company. The insurable risks are evaluated and the risk is transferred to the outside of the company by means of insurance through cost-benefit analysis.

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:

### **i. Difficulty to Increase the Number and Variety of Customers**

World's leading defense industry companies, who provide the major portion of the defense needs of their country, lack of customer diversification caused by selling to mainly a single customer. The main client of the Company is the Public Institutions and Organizations, especially the Turkish Armed Forces. This situation is accompanied by the fact that the activities of the Company are generally directed towards the public demands of our country.

It is aimed to reduce this risk by working on increasing the sales abroad and carrying the existing know-how to the civilian sectors.

### **ii. Insufficiency in the Number of Qualified Subcontractors and Suppliers**

The main contractor companies play an important part in providing deepening to the industry. To build an effective supply chain; the creation of qualified subcontractors/suppliers is highly critical in terms of sector productivity and sustainability. For the Company, which works with a large number of domestic and foreign suppliers and subcontractors, it is of utmost importance to ensure material quality and supply continuity.

Having a strong subsidiary infrastructure is among the elements that will support The Company's business continuity, steady growth and global competitiveness. Besides, development of local subsidiary industry which is especially competent, reliable and value-added in the direction of national and local product development vision is important. In order to reduce the risk arising from the failure of suppliers and subcontractors to achieve the required technical competence, expertise, quality and performance, the performance of suppliers is continuously measured and analyzed, and also to improve this performance, the Company supports, developments and implementations trainings and programs.

### **iii. Changes in the Global Economy and Defense Spending**

Global economic variations have significant impacts on the economic activities of the countries and cause changes in projected defense budgets. This situation may bring along the risks of the demands of domestic and foreign customers lower from the expected level and also may affect the operational and functional indicators.

The current and potential economic developments, the countries which the Company have either collaborated or/and exported, and the effect of these matters on the company have been followed and the projection regarding global development have been planned.



Financial precautions and strategies that will minimize the negative effects of current and possible economic developments are evaluated and implemented on constant basis.

**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 can possibly 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. Financial derivatives are also utilized to minimize the risks. Moreover, financial risk management techniques have been put into use in order to protect the return on the project from the effects of 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.

The Company's subsidiaries and affiliates utilize financial risk management within the scope of their own management policies.

**i. Foreign Exchange Risk and Management Policy**

The main principle of the 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 with 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 context, 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 currency of the contracts signed between the company and its clients are mainly currencies other than the functional currency which is Turkish Lira. Advances can be made in different periods of the contracts so that the work can be carried out during the contracts, and the advances received can be in currencies other than the functional currency. All order advances taken and given apart from the functional currency are not subject to valuation according to the TAS 21 "The Effects of Changes in Foreign Exchange Rates Standard".

Due to the nature of the contracts, it is inevitable that there will be no change in the currencies during the term of the contract. As a result of the exchange rate fluctuations; there could be profits/losses from delivery, advance offsetting or collection within the scope of a foreign exchange rate based contract. Methods which are used to manage the exchange rate risk are on-balance sheet (structural) methods. On-balance sheet (structural) methods are utilized in order to manage the exchange rate risk. In order to keep foreign currency position at desired levels and to ensure currency conformity, applications such as the use of fixed rate TL denominated credit instead of foreign currency denomination, the determination of the contract currency according to the weighted currency of the contract and the signing of the contract in terms of the main contract currency with subcontractors within the scope of contracts.

**ii. Interest Risk and Management Policy**

In determining the interest risk, the difference between the interest rate sensitive assets and liabilities is analyzed and calculated in a certain condition. In the scope of fund management, sensitivity analysis is performed when the interest risk of interest sensitive assets in the portfolio is measured.

As of 31 December 2018, the sum of SSDF loans is USD 16,5 million. It is estimated that the interest rate does not constitute a risk due to the fact that the loans have fixed interest rates.

As of 31 December 2018, the loan balance of USD 130 million, is used from Türk Eximbank. The interest rate of the loans is fixed for 240 days. Since the Company does not use floating rate loans, 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. Through 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 2018, 31% of the short-term and long-term liabilities comprise of advance payments received therefore as there is no discrepancy in maturity dates, therefore 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 guarantees and advance payment guarantees (letter of guarantees) granted to the customers in the scope of the contracts and which are showed off-balance sheet. Within this scope, in the context of the management of the credit limits in the bank, periodically risk counterparts are followed and transactions are carried out in order to deduct the letters of guarantees for the completed contracts without delay.

**v. Capital Risk Management**

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

**8. Events After the Reporting Period**

Due to the retirement of Yavuz BAYIZ, the Vice President responsible of Communication and Information Technologies, our Board of Directors Member, Bayram GENÇCAN shall be appointed as the Vice President responsible of Communication and Information Technologies as of 05 February 2019, alongside his duty as a member of the Board of Directors,

In order to support our "export-based growth" strategy, which is one of the most important aspects of our company's organic growth potential, and to be able to compete more effectively with global players.

The protocol for the transfer of shares to ASELSAN Inc. referring to 51% ownership in BİTES Defense Aviation and Space Technologies Software Electronic Trade Inc. has been signed. After the completion of required payment and legal approval procedures, additional disclosure will be provided in standard templates. BİTES Inc. operates mainly in the fields of augmented reality, artificial intelligence, simulation software, research, development, design and engineering.

The amount of contracts signed after the balance-sheet date by the Group is approximately USD 509 Million.

## 9. Evaluations Due to the Improvement of the Company

The forecasts under the normal conditions regarding the Group's consolidated financial results for the 2018 year are presented below;

Financial Targets 2018	Financial Targets 2018 (Ratio/Amount)	Realization 2018 (Ratio/Amount)
Consolidated Revenue Growth (TI)	≥ 40%	66%
EBITDA (Consolidated and Adjusted Excluding Foreign Exchange Rate Differences)	19% – 21%	%21
Capital Expenditures (Tangible and Intangible)	~ 650 million TL	715 million TL

Financial Targets 2019	Financial Targets 2019 (Ratio/Amount)	
Consolidated Revenue Growth (TL)	40% - 50%	
EBITDA (Consolidated and Adjusted without Foreign Exchange Rate Differences)	19% - 21%	
Capital Expenditures (Tangible and Intangible)	Tangible 650 million TL	Intangible 350 million TL

These expectations are based on the yearly average of USD/TL parity to be 5,63 and EURO/TL parity to be 6,45.

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 2017, the Company raised its ranking to 55<sup>th</sup> in the list of 2018 with a USD 1,43 Million defense sales.

During the General Assembly Meeting held on 2 April 2018, the following has been resolved;

1. Increase of our Company's issued share capital in the amount of TL 1.000.000.000 (one billion Turkish Liras) by TL 210.000.000 (two hundred ten million Turkish Liras) to TL 1.210.000.000 (one billion two hundred ten million Turkish Liras) within the registered capital ceiling of TL 2.000.000.000 (two billion Turkish Liras) as per the Capital Markets Law and related communiqués; (ii) issuance of 210.000.000 shares with a nominal value of TL 210.000.000 as group B registered shares and public offering of such shares over the offer price to be determined at a later stage, within the price range to be specified as per the related capital markets and stock exchange legislations, which can exceed the nominal value of the shares; (iii) sale of the shares to be offered to public by blank endorsement;
2. Restricting the pre-emption rights of our current shareholders with respect to the shares to be issued through the capital increase in favor of investors within the scope of public offering;
3. Authorisation of our Board of Directors for the determination of principles of the sale including, whether the offered shares will be issued as premium or discounted shares and conditions of such shares under such circumstances; authorisation of our Board of Directors for determination of the number of shares to be offered to public and the capital increase ratio, within the limit stated in the first paragraph;
4. Preparation of a statement on capital increase by the Board of Directors as per Article 457 of the Turkish Commercial Code;
5. Preparation of the Prospectus as per the Capital Markets Law and related communiqués and submission of such Prospectus to the approval of the Capital Markets Board;
6. Application to Borsa Istanbul A.Ş for the quotation of the shares to be issued through capital increase and execution of all necessary transactions before the Central Securities Depository by the Board of Directors;
7. Execution of all necessary transactions for the cancellation of the unsold shares in 6 (six) days following the expiry of the sale period of the offered shares as per the Capital Markets Law and related communiqués as per the article 25 of the Communiqué on Shares (VII-128.1) and authorisation of our Board of Directors in that respect;
8. Adoption of a resolution regarding the completion of the capital increase transactions as per the Article 18/7 of Capital Markets Law and Article 12(2) of the Communiqué on Principles on Registered Capital System (II-18.1), and authorisation of the Board of Directors for performing all necessary transactions for the capital increase including but not limited to the application with the Ankara Registry of Commerce for registration of the capital increase within 10 days following such resolution.

At the Board of Directors meeting dated May 18th, 2018, it was decided that the number of shares to be offered to the public would be determined as 140.000.000 units and the amount of issued capital to be increased as TL 140.000 thousand.

Within the framework of public offering transactions of the issued capital increased by TL 140.000 thousand;

- On 22 May 2018, trading sequence of the Company's shares was closed in BIST,
- On 24 May 2018, the prospectus was approved by CMB,
- Between 31 May 2018 - 1 June 2018, demand collection was completed with the price range of TL 21,35 – TL 26,00,
- The share sale was realized on the final public offering price determined as TL 21,35 on 4 June 2018 and public offering revenue amounting to TL 2.989.000 Thousand was obtained as of 6 June 2018.

In order to achieve the sustainable growth:

- The quality and technological perspectives of the cooperation formed with the universities have been increased.
- ASELSAN employees are provided with the opportunity to study in the work environment with the initiation of ASELSAN Academy Postgraduate Training Program. The program serves the purpose of having the necessary technologies and developing existing technologies.
- The efforts to form an eco-system with the sub-industry companies and SME's have continued.
- Company is continuing its operations in civil electronic areas which requires high technology.
- Inorganic expansion will be also evaluated as well as organic expansion.

### **10. Changes in the Legislation Which Would Have Significant Impact on the Activities of the Group**

The group has applied TFRS 15 Revenue from Contracts with Customers and TFRS 9 Financial Instruments that are effective from 1 January 2018 to prior periods retrospectively with the date of initial application of 1 January 2015, in accordance with the transition requirements of the respective standards and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

### **11. Compliance Report on Corporate Governance Principles**

In accordance with the Corporate Governance Communiqué numbered II-17.1 and the Corporate Governance Communiqué No: II-17.1, the CMB's Corporate Governance Compliance Report and Corporate Governance Information Form decided. In accordance with this decision of the CMB, the templates filled in the KAP at our Company have been added to the Corporate Governance Principles Compliance Report given in Annex-1.

### **12. Research and Development Activities**

The Group, as a leading defense industry establishment, develops advanced technology system solutions on land, air, naval and aerospace platforms, places great importance to Research and Development activities and technological gains since it was founded.

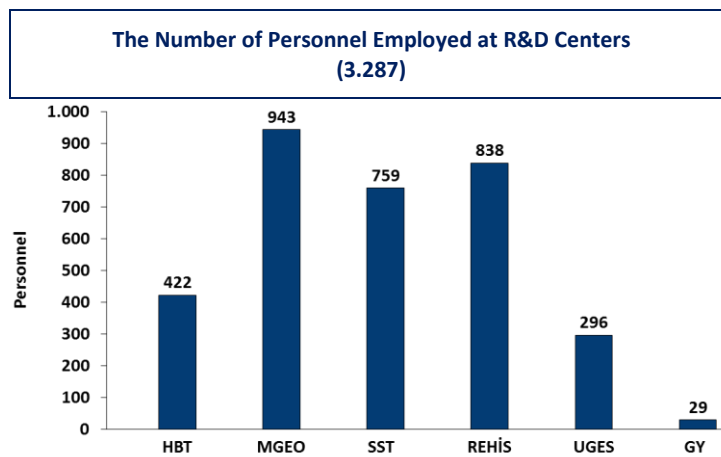


By following up on all kinds of technological developments pertaining to land, air, naval and aerospace platform product/system technologies, the Company not only applies technology but also designs, develops and produces product/system technologies in order to share or sell with/to national and international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

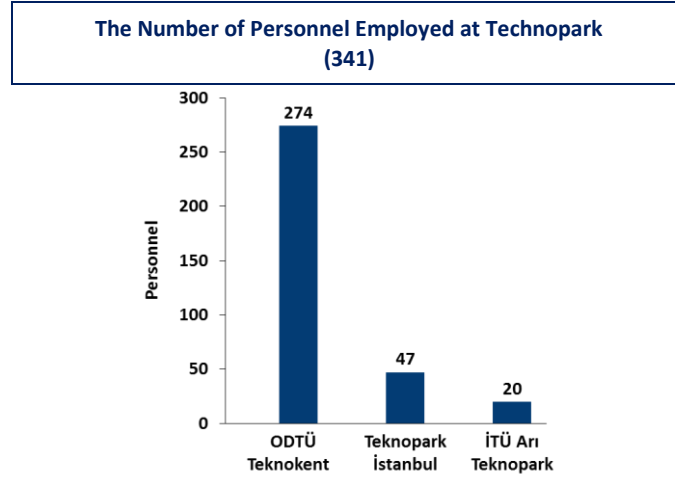
Projects are striving at maximum level in order to benefit from the technological opportunities existing in the country aiming to increase the national contribution share. For this purpose, cooperation is made with universities and various R&D organizations and importance is given to the use of local suppliers and subcontractors.

As for the projects carried out within the Group, the Research and Development incentive in compliance with the provisions of the Law on Corporate Tax numbered 5520 and Research and Development center application pursuant to the Law regarding the support of Research and Development activities numbered 5746 are being implemented together. As for non-public R&D projects, the approval of TEYDEB (Technology and Innovation Support Programs Directorate) and ARDEB (Research Support Programs Presidency) are received and supported by the institutions.

Within the Company, there are 6 Research and Development centers within the scope of 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 (UGES) Vice Presidencies as well as ASELSAN Research Center of Vice Presidency of Technology and Strategy Management. Currently, 3.287 staff are employed at the Group's Research and Development centers.



The Group also carry on its activities in Teknokent facility within Middle East Technical University, İstanbul Technology Development Area Teknopark and İTÜ Arı Teknopark within the scope of the Law numbered 4691 on Technology Development Regions. Group employed 341 staff within this region.



### 13. Progress in Investments and Degree of Incentive Utilization If Any

#### i. Progress in Investments

Directing the Company's resources to profitable, high value added fields, 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, particularly Turkish Armed Forces. The investments within the Company are carried out after detailed consideration of the technological plans, strategic plans and project requirements.

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

#### ii. Incentives That Company Has Benefitted

Income tax withholding incentive, insurance premium support, stamp tax exemption and Research and Development incentive 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 exemption 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 2018 because of having Research and Development centers, TL 133.893 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 20.925 Thousand incentives have been used.

Within the scope of the Research and Development Law No 5746 and Teknokent Law No 4691, TL 412.007 Thousand Corporate Tax advantage has been gained as of 1 January - 31 December 2018 period.

At the 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 which is indicated at corporate tax return, Corporate Tax ratio is 22% for the years 2018 - 2020 and 20% for the next years 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. Projects within the scope of 1511-Prioritized fields' research technologies development and innovation programme came into force as of 2013. 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 the Group have benefited from the incentives. In addition to these, TÜBİTAK 1003 Research Support programs were implemented within the scope of the projects entered into implementation in 2018 and the Company benefited from the incentives (TL 17.860 Thousand).

1505 - Within the scope of 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, 1 Projects are ongoing.

Market research, fair, and library support provided by the Support and Price Stabilization Fundy were obtained (TL 1.158 Thousand).

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 10 Research and Development projects are still ongoing.

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 (TL 27.137 Thousand).

VAT exemption is applied in domestic and foreign purchases and customs tax exemption is used in foreign purchases (TL 261.317 Thousand).

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

The Source of Incentives	Type of Advantage	31 December 2018 Amount (Thousand TL)
Research and Development Promotion Law numbered 5746 and Teknopark Law numbered 4691	Corporate Income Tax	412.007
VAT Law numbered 3065	VAT Return	261.317
Research and Development Promotion Law numbered 5746	Income tax withholding, Insurance Premium, Stamp Tax	133.893
Ministry of Economy Investment Incentive	VAT and Customs Duty Exemptions	27.137
Teknopark Law numbered 4691	Income tax withholding, Insurance Premium, Stamp Tax	20.925
Support Programme (TÜBİTAK 1003, 1501, 1511, 1509)	Monetary Support	17.860
The Support and Price Stabilization Fund	Monetary Support	1.158
<b>TOTAL</b>		<b>874.297</b>

#### 14. Production and Capacity

The Company can conduct complicated projects through its own integrated system architecture by means of knowledge, highly developed R&D infrastructure, well-equipped production lines and facilities.

Works in order to perform distinctive business development and marketing activities in global markets to increase efficiency in international markets and exports have been continued.

Revenue (Thousand TL)	31 December 2018	31 December 2017	Δ %
Domestic sales	8.119.561	4.628.088	75%
Export sales	888.955	784.165	13%
<b>TOTAL</b>	<b>9.008.516</b>	<b>5.412.253</b>	<b>66%</b>

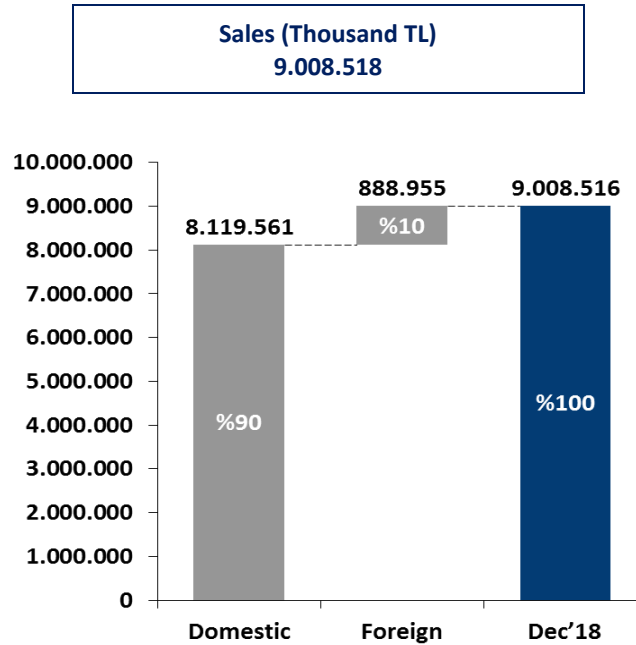
Substantial part of production has been through ERP as orders. All related processes are being managed efficiently in ERP as system and product requirements, quantities and prices are different.

## 15. Revenue

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”.

According to the relevant sales agreement terms and conditions, the Company’s revenue from projects contains order based production, mass production product sales, services, commodities and progress billing sales. Sales terms and conditions are subject to change as for the respective agreements.

As for the consolidated amount of the Group’s realized net sales during the period 1 January - 31 December 2018; TL 8.119.561 Thousand of this realized as domestic sales and TL 888.955 Thousand of it realized as foreign sales.



## 16. The Basic Ratios

As of 31 December 2018, 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 is 25%, Operating profit margin (EBIT) is 19%, Adjusted EBITDA margin is 21% and Net Profit margin is 31%. At the end of the 3<sup>rd</sup> Quarter, Return on Equity (ROE) is 34% and Average Net Working Capital/ Net Sales is 39%.

The group has applied TFRS 15 Revenue from Contracts with Customers and TFRS 9 Financial Instruments that are effective from 1 January 2018 to prior periods retrospectively with the date of initial application of 1 January 2015, in accordance with the transition requirements of the respective standards and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.



BASIC RATIOS / CONSOLIDATED FINANCIAL STATEMENT	31 December 2018	31 December 2017
Current Ratio (Acid-test)	2,48	1,64
Liquidity Ratio	1,36	0,80
Short Term Current Liabilities / Total Financial Liabilities	97%	88%
Total Financial Liabilities / Total Assets	4%	5%

BASIC RATIOS / CONSOLIDATED BALANCE SHEET	31 December 2018	31 December 2017
Gross Profit Margin	25%	27%
Operating Profit Margin (EBIT)	19%	19%
Adjusted EBITDA Margin (*)	21%	21%
Net Profit Margin	26%	25%
Return On Equity (ROE)	31%	34%
Average Net Working Capital / Net Sales	34%	28%
Return on Assets (ROA)	15%	13%

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

(\*) General administrative expenses, marketing expenses and research and development expenses are subtracted from and current period's depreciation and amortization expenses are added to the gross profit in calculation of EBITDA value. Other operating income and other operating expenses are not included in the calculation.

The Company has no collective bargaining agreements.

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

The Company's consolidated subsidiaries are ASELSAN Baku ("ASELSAN Baku"), Mikroelektronik Ar-Ge Tasarım ve Ticaret Ltd. Co. ("Mikro AR-GE"), ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Ltd. Co. ("ASELSANNET"), ASELSAN Malaysia Sdn. Bhd. (ASELSAN Malaysia) and ASELSAN Konya. They are collectively referred as the "Group" in the accompanying notes.

The Company has two branch offices; Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi EP Co. ("ASELSAN South Africa") and ASELSAN Makedonya Corridor-10 Highway Toll Collection System Project ("ASELSAN Macedonia") located in South Africa and Macedonia, respectively. All of the branches are included in the consolidated financial statements.

Share transfer agreement has signed as of 1 October 2018 in order to transfer 51% shares of ULAK Haberleşme A.Ş. which is fully owned by SSTEK Savunma Teknolojileri A.Ş. New capital structure is as follows; 51% ASELSAN Elektronik Sanayi ve Ticaret A.Ş., %49 SSTEK Savunma Teknolojileri A.Ş. Since, Extraordinary General Assembly has not held the meeting for share transfer, the entity has not included to consolidation process.

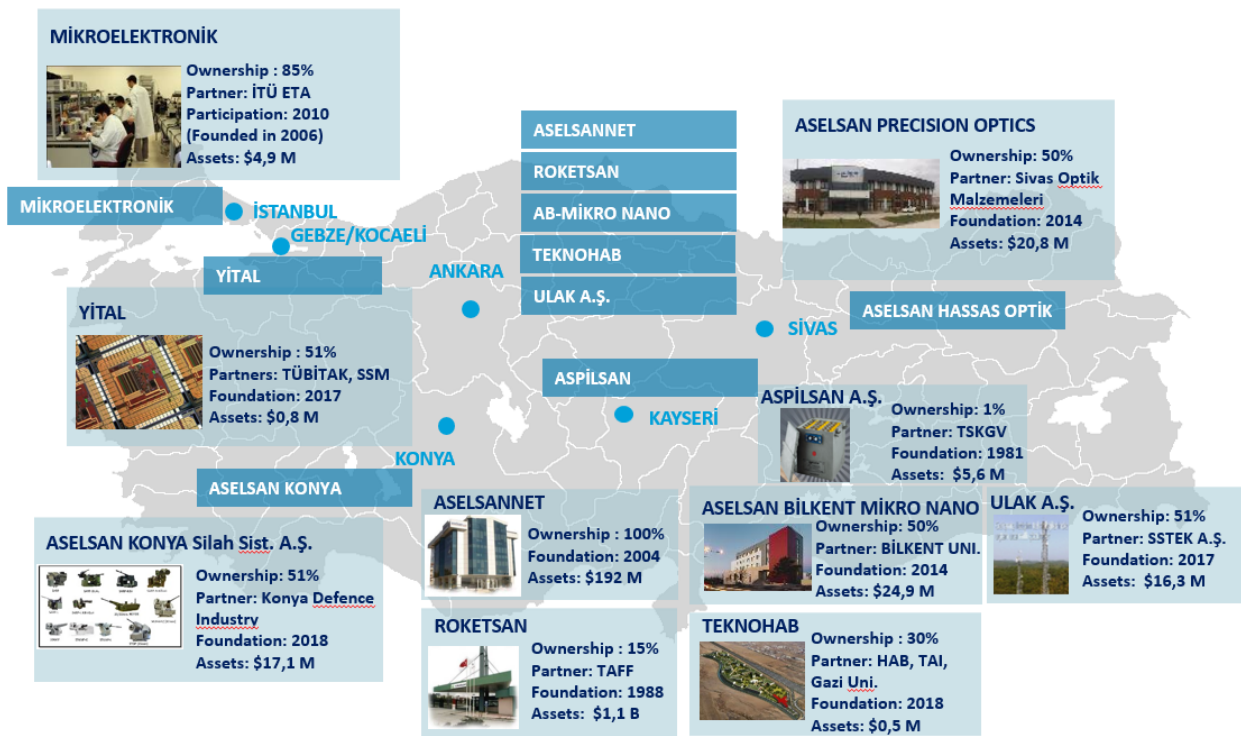
ASELSAN Hassas Optik Sanayi ve Ticaret A.Ş. ("ASELSAN Optik"), ASELSAN Bilkent Mikro Nano Teknolojileri Sanayi ve Ticaret A.Ş. ("ASELSAN Bilkent"), IGG ASELSAN Integrated Systems LLC ("IGG ASELSAN"), Kazakhstan ASELSAN Engineering LLP ("ASELSAN Kazakhstan") and ASELSAN Middle East PSC LTD ("ASELSAN Jordan"), Saudi Arabian Defense Electronics Corporation LLC ("SADEC LLC"), and YİTAL Mikroelektronik Sanayi ve Ticaret A.Ş. ("YİTAL A.Ş.") are consolidated by the equity method. Since BARQ QSTP LLC., ve Teknohab Teknoloji Geliştirme Bölgesi Yönetici A.Ş. has not started to operate yet, there is no consolidation effect on the Group's financial statements.

The controls are carried out by the Internal Audit Presidency (IAP) and Audit Committee 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.

The Committee for Early Determination and Management of Risks' mission is to determine and manage the potential risks which may affect the Company. The committee meets on a periodical basis and directly reports in every two months to the Board of Directors. The reports is also shared with the independent audit firm.

Domestic and Foreign subsidiaries information by maps shown below;

### • Domestic Associates and Subsidiaries



Assets are given as of 31.12.2018.

### • Foreign Associates and Subsidiaries



Assets are given as of 31.12.2018.

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

Company	Main Activity Area	Share (%)	31 December 2018 (Thousand TL)
ROKETSAN – Roket Sanayi ve Ticaret A.Ş.	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	773.154
ASELSAN Kazakhstan	Manufacture, sale and technical service of electronic and electro-optical devices and systems	49	42.702
ASELSAN Jordan	Marketing sales and joint production of group products	49	14.417
SADEC LLC	Manufacture and sale of radar, electronic warfare and electrooptic products	50	5.907
ASELSAN Bilkent	Manufacture of micro and nano-sized devices containing semiconductors and similar technological materials	50	9.380
ASELSAN Optik	Precision optic technology	50	10.310
IGG ASELSAN	Production, integration, sales and technical service of high technology products	49	7.245
YİTAL A.Ş.	Production of micro and nano-sized devices containing semi-conductor and similar technological materials	51	2.041
ASPIİLSAN 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	411
BARQ QSTP LLC	Command and control systems, thermal and night vision camera, crypto, remote-controlled weapon systems	48	834
ULAK	Communication systems	51	5.100
TEKNOHAB	To create investment opportunities in technology intensive areas, provide job opportunities to researchers and skilled people, help technology transfers and facilitate foreign capital to enter our country that will enable high technology	30	750

## 18. Information Regarding the Lawsuits of the Company

The lawsuits and execution proceedings filed by or against the Group as of 31 December 2018 are summarized below:

Description	31 December 2018 (Thousand TL)
Ongoing lawsuits filed by the Group	12.162
Execution proceedings carried on by the Group	29.115
Lawsuits proceedings carried against the Group	10.905
Lawsuits finalized in favor of the Group within the period	413
Lawsuits finalized against the Group within the period	150

There has not been any final judicial decision against the Group due to the violation of employee rights or the responsibility related with work accidents within 2018.

## 19. Information Regarding the Transactions Made within the Reporting Period

### i. Changes in the Articles of Association

In the scope of the increase in the registered capital upper limit of the Company which was approved in the General Assembly held on 2 April 2018, the amendment in the Article 6 “The Registered Capital of the Company” in the Articles of Association have been registered on 12 April 2018 and have been published in Turkey Trade Registry Gazette numbered 9560 dated 17 April 2018.

At the Board of Directors Meeting held on 26 June 2018, it was decided to increase the issued capital from TL 1.000.000 Thousand to TL 1.140.000 Thousand by completing the secondary public offering and to amend the Article 6 of the Company’s Articles of Association regarding capital with the approval of CMB and to register the amendment and to be announced.

The amendment made in Article 6 of the Company’s Articles of Association has been approved on 11 July 2018 and the registration announced in Turkey Trade Registry Gazette on 16 July 2018.

### ii. Collective Agreement Implementations, Rights and Benefits Provided to the Personnel and Workers

The Group recruited a total number of 699 people (263 with fixed term contract) as the personnel including fixed-term contracted personnel, disabled and terror-stricken personnel during the period 1 January - 31 December 2018 and the number of people quit for the same period is 304 (22 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 2018 is 5.694.

### iii. Information Regarding the Donations and Social Responsibility

Within the period of 1 January 2018 - 31 December 2018, the Group donated TL 100 Thousand to Kartal Vakfı Genel Müdürlüğü in total.



**ANNEX-1**

**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) first in 2012 and therefore was included in the Borsa İstanbul Corporate Governance Index. According to the report of SAHA, which was published on 12.12.2018, ASELSAN's corporate governance rating grade, which was 9,20 in 2017, was confirmed as 9,20 out of 10 points.

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 21.07.2017 by SAHA. As a result of the activities of ASELSAN within the concept of corporate governance throughout 2017, ASELSAN's corporate governance rating was confirmed to 9,20 over 10 on 12.12.2017 by SAHA A.Ş.

The ratings of 2017 and 2018 and the subtitles have not changed and they are given below:

<b>2017 and 2018 Rating Distribution</b>	
Shareholders	: <b>83,63 / 100</b>
Public Disclosure and Transparency	: <b>98,70 / 100</b>
Stakeholders	: <b>98,09 / 100</b>
Board of Directors	: <b>90,70 / 100</b>
<b>Average 9,20 / 10,00</b>	

ASELSAN Corporate Governance Ranking Reports published by SAHA can be accessed at the company website: [www.aselsan.com.tr](http://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,
- Group A shares having the privileges on Board nominations and the transfer of those shares being subject to permission,
- The fact that although the mechanisms enabling the participation of stakeholders in the management of the company are built, they are not included 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 to 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 defence 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,
- Non-existence of a female member in the Board of Directors, the fact that a target, where the ratio of the female members should not be less than 25%, was not set and that there is not a written company policy on that issue,
- Not disclosing the remuneration of executive managers or the benefits provided to them per each individual.

With the resolution of CMB, numbered 2/49 and dated 10.01.2019, it has been decided that companies shall make their Corporate Governance Compliance Reporting, which is made in accordance with the Corporate Governance Communiqué numbered II-17.1, by filling the Corporate Governance Compliance Report and Corporate Management Information Form templates via the Public Disclosure Platform (PDP). In accordance with this decision, our Company filled the relevant templates in PDP and also added the templates to the end of the report as Appendix-1.

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

Celal Sami TÜFEKÇİ

Member of Board of Directors  
Member of Corporate Governance Committee

Murat ÜÇÜNCÜ

Member of Board of Directors  
Member of Corporate Governance Committee

Pınar ÇELEBİ

Investor Relations and  
Enterprise Risk Manager  
Member of Corporate Governance Committee

### CHAPTER II - SHAREHOLDERS

#### 2.1. Investor Relations Department

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

Okan TURAN	: Chief Financial Officer/Vice President
Nuh YILMAZ	: Finance Director
Pınar ÇELEBİ	: Investor Relations and Enterprise Risk Manager
Bâni Betül GÖKÇE	: Investor Relations and Enterprise Risk Management Department/Leader
Başak YÜCEKAYALI	: Investor Relations and Enterprise Risk Management Department/Senior Specialist
Gülru SELÇUK FİLİZ	: Investor Relations and Enterprise Risk Management Department/Specialist
Müge TAZE ARISOY	: Investor Relations and Enterprise Risk Management Department/Assistant Specialist II
Alper GÜNEY	: Investor Relations and Enterprise Risk Management Department/Assistant Specialist I

#### Contact Information

Phone: (312) 592 12 42- 45- 33- 22- 56- 54

e-mail: aselsan.ir@aselsan.com.tr

Investor Relations Department has submitted the report regarding the tasks carried during 2017, to Board of Directors on 30.01.2018.

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 2018 are as follows:

- Carrying the tasks regarding the Secondary Public Offering,
- 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 making 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.

In 2018, a total of 128 meetings were held with corporate investors, where 47 of them were held during the deal roadshow for the secondary public offering, 70 of them were one-on-one interviews held in investor conferences, 7 of them were teleconference calls and 4 were held in ASELSAN facilities. In addition to the meetings with corporate investors held by means of investor conferences and teleconferences, approximately 750 individual shareholders' questions regarding secondary public offering, fluctuations in the stock, exercising shareholder rights, material event disclosures made, financial tables, etc. were answered either written or verbally in 2018.

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 2018 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](http://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 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 2018;

- General Assembly documents within legal deadlines,
  - General Assembly minutes and participants list,
  - 2017 Annual Report,
  - The reports for the 1<sup>st</sup> quarter, 1<sup>st</sup> six months' and 3<sup>rd</sup> quarter period for 2017,
  - The investor presentations which are updated every 3 months ,
  - Disclosure of material events made in 2018,
  - Our Company's Consolidated Financial Statements and Basic Performance Indicators for the last 5 years along with the Financial Report,
  - Fact Sheet,
  - Investor Calendar updates,
  - The updated 5 Year Strategic Plan summary
- 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 2018.

### **2.3. General Assembly Meetings**

The agenda and invitation related to the 43<sup>rd</sup> Ordinary General Assembly Meeting dated 02.04.2018 with regard to 2017 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 12.03.2018 and in the Turkish Trade Registry Gazette dated 09.03.2018. Furthermore, the invitation was sent to the main shareholders and the shareholders who attended the previous meeting by post two weeks before the General Assembly. The General Assembly was held with the attendance of 348 shareholders, 16 physically, 332 electronically representing 878.295.689,443 shares (TL 878.295.689,443 nominal) of 1.000.000.000 total shares representing the TL 1.000.000.000 paid-in capital. 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 08.03.2018, the Ordinary General Assembly Document including the meeting agenda, place, time, copy of the power of attorney, total number of shares as of 08.03.2018 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 2017 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 2018, 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 2018, 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 2018 can be accessed from the website of our Company.

No Extraordinary General Assembly Meeting was held during the year 2018.

The shareholders were informed about donations and aids were made in 2017, with a separate agenda item at the 43<sup>rd</sup> Ordinary General Assembly Meeting.

#### **2.4. 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.

#### **2.5. 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 on date 02.04.2018 pursuant to the provisions of the Articles of Association and to the Capital Market Law and other legal regulations in 2017 and within the legal periods, out of the profit gained from 2017 operations, the gross amount of 84.600.000 TL (8,46 Kuruş TL per 1 TL of share, gross 8,46% over the capital) (net 71.900.000 TL – 7,191 Kuruş TL per 1 TL of share, net 7,191% over the capital). The aforesaid dividend distribution rates decided at the Ordinary General Assembly meeting were updated and disclosed at PDP on 07.06.2018 as follows; 7,42 Kuruş TL per 1 TL share, gross 7,42% over the capital, 6,31 Kuruş TL per 1 TL share gross 6,31%, as a result of the increasing number of investors by means of secondary public offering. 28.199.952,- TL of the dividend was distributed on 19.06.2018, 28.199.952,- TL of it was distributed on 13.09.2018 and 28.200.096,- TL of it was distributed on 13.12.2018 to our shareholders as cash dividend with 3 installments.

## **2.6. 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](http://www.aselsan.com.tr) in Turkish and English is actively used and the information published on the web are 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 03.01.2014.

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
  - 6.5 Fact Sheet
- 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 2017 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, in order to provide efficient information transfer, ASELSAN Supplier Portal started to be used and by this way, monitoring and reporting of the data process/content between ASELSAN and its suppliers has been provided within Enterprise Resource Planning (ERP) system. On the other hand, information is also shared by ASELSAN website, joint organizations/workshops and face to face meetings.

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 is shared 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 in Turkish and English every 3 months and A Bülten published in Turkish every month, provide information regarding the activities, technical issues and up-to-date social events. Hard copies of ASELSAN Magazine is delivered to the end users of products, shareholders who participated to the General Assembly Meeting, company employees and other related parties. A Bülten is uploaded to the social media, Turkcell Dergilik application and the corporate 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 07.01.2016. 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**

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 30.09.2015 that; employee representatives shall attend 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 25.12.2018 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 30.09.2015 is included in the Employee Representative Directive, which became effective on 17.11.2015. As per the directive published, within the new structure;

- Election 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 Management Vice Presidency, where the meeting chairman is the CEO. Nevertheless, Human Resources Directorate is represented at least at the level of a Manager.

The elections for the Employee Representative was made in April 2016, and the tasks of the sub-committees and supreme boards are being performed. The elections will be held in 2019.

#### **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.

59% of our employees stand for the engineering group, 29% for the technician group, 7% for the administrative group, 3% for the office personnel and 2% of the worker group.

There were no complaints related to discrimination from the employees in 2018. 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.

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

Ethical Committee meets as soon as possible when there is an application. 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.

In the year 2018, Disciplinary Procedures and Practices at ASELSAN were updated in order to create a harmonious and productive work environment and to be able to pursue our business targets as they should normally be. With the updated procedures, the operations and actions that require disciplinary action are defined; describing in detail how those disciplinary actions will be applied. These updates were announced to the employees through ASELSAN intranet system.

#### **4.4.2. Social Responsibility**

An independent British institution, Carbon Disclosure Project (CDP), which reports how the companies manage the risks of climate changes, has announced the 2018 results on January 2019. ASELSAN is placed in the A- list according to 2018 results, 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 has been monitored since 2009. Also, ASELSAN is the first and only company that is ranked with the highest initial score among Defence 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 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 Istanbul (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 2017, ASELSAN kept its place in the index as a consequence of the re-evaluation of ASELSAN Sustainability Report that was published in June 2017.

Sustainability reports that are published on our website ([www.aselsan.com.tr](http://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 the year 2018, our company supported the following events through sponsorship:

- Turkish Armed Forces Rehabilitation and Healthcare Center's Disability Sports Club's sport activities and Gazi Sports Team's climbing event held on 09.03.2018,
- Publication of Anıtkabir Command's 2018 Books,



- Unmanned Underwater Vehicles Prototype Competition, which was organized for the first time by the Presidency of Defence Industries, Autonomous Land Vehicle Development Competition held for the second time this year by the Presidency of Defence Industries and ROBOIK 2018 Competitions,
- TEKNOFEST 2018, İstanbul Aerospace and Technology Festival.

## 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 reports regarding the evaluation of the list of Independent Members of Board of Directors prepared by Corporate Governance Committee on 26.12.2017, 09.01.2018, 06.03.2018 were presented to Board of Directors respectively on 26.12.2017, 09.01.2018 and 08.03.2018. Within the scope of CMB's Communiqué on Corporate Governance numbered II.17-1, CMB has not stated any adverse opinion on the nominee lists and the evaluation reports. The CV's and independence statements of the 12 nominees were announced to public on our website respectively on 08.03.2018 and 16.03.2018. As a result of the voting at the General Assembly Meeting on 02.04.2018, 3 nominees were elected as Independent Members of Board of Directors. There were no cases to eliminate the independency of the Independent Members of the Board of Directors in 2018.

The CVs of the Members of the Board of Directors are included in the 2017 annual report and the information with respect to their duty terms is provided in the table below.

Name Surname	Duty	Election Date
Haluk GÖRGÜN	Chairman / Managing Member / CEO	March 2017
Mustafa Murat ŞEKER	Vice Chairman / Managing Member	May 2013
Mehmet ARIK	Independent Member	April 2018
Ercüment ARVAS	Independent Member	March 2016
Bayram GENÇCAN (*)	Member	March 2017
İbrahim ÖZKOL	Independent Member	March 2017
Ercan TOPACA	Member	March 2017
Celal Sami TÜFEKÇİ	Member	April 2018
Murat ÜÇÜNCÜ	Member	May 2013

(\*)Appointed as the Vice President responsible of Communication and Information Technologies as of 05.02.2019.

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 is an executive member in the Board of Directors.
- 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 2018 was 65, where 50 of the decisions in the meetings are interim decisions. 90% of the Members of the Board of Directors attended 88% 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 2018, 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 17.07.2018 with the total liability amount of USD 75.000.000,- 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 10.04.2012, 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 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 2017 Annual Report.

### AUDIT COMMITTEE

Committee Members (January – March 2018)

Ziya AKBAŞ : Chairman / Independent Member of Board of Directors  
Ercüment ARVAS : Member / Independent Member of Board of Directors

Committee Members (April – December 2018)

İbrahim ÖZKOL : Chairman / Independent Member of Board of Directors  
Ercüment ARVAS : Member / Independent Member of Board of Directors  
Mehmet ARIK : 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 every 3 months, to share the meeting minutes with the Board of Directors

Meetings were held by Audit Committee on dates 20.02.2018, 02.05.2018, 14.08.2018 and 30.10.2018 regarding the financial statements with the participation of the relevant independent audit company in 2018.

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 eleven times on dates 22.01.2018, 12.02.2018, 09.04.2018, 23.05.2018, 19.06.2018, 17.07.2018, 07.08.2018, 25.09.2018, 25.10.2018, 21.11.2018, 19.12.2018.

The Committee was active in two main topics in 2018.

#### **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 2017, March 2018, June 2018 and September 2018 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 2018 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 “YEDİTEPE Bağımsız Denetim A.Ş.” was taken by Board of Directors. The resolution was submitted for approval on the General Assembly Meeting dated 02.04.2018 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 (January – March 2018)

Ercümend ARVAS	: Chairman / Independent Member of the Board of Directors
Haluk GÖRGÜN	: Member / Member of the Board of Directors
Emin Sami ÖRGÜÇ	: Member / Member of the Board of Directors
Pınar ÇELEBİ	: Member / Investor Relations and Enterprise Risk Manager

Committee Members (April- December 2018)

Ercümend ARVAS	: Chairman / Independent Member of the Board of Directors
Celal Sami TÜFEKÇİ	: Member / Member of the Board of Directors
Murat ÜÇÜNCÜ	: Member / Member of the Board of Directors
Pınar ÇELEBİ	: Member / Investor Relations and Enterprise Risk 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 2018 on dates, 09.01.2018, 13.02.2018, 06.03.2018, 23.05.2018, 20.06.2018, 06.07.2018, 13.07.2018 and 14.08.2018. The meeting minutes of the Committee may be reached on our website. The committee was active in three respective tasks in 2018:

#### i. Operations of Investor Relations Department:

Investor Relations Department have attended all the meetings in 2018 and performed secretariat procedures of the committee with regard to “ASELSAN Corporate Governance Committee Working Directive”. Information was provided to the committee about the activities of the Investor Relations Department in the Committee meetings.

In 2018, the subjects discussed and tasks carried by the Corporate Governance Committee within the context of the meetings are given below:

- Corporate Governance Committee Evaluation Report,
- Preparation of ASELSAN Corporate Governance Principles Compliance Report 2017 and the submission of the report to Board of Directors,
- Independent Board Members selection process,
- Corporate Governance Rating,
- Preparation of Corporate Governance Committee 2017 Evaluation Report and the submission of the report to Board of Directors,
- Discussing the tasks carried out by the General Directorate within the context of ASELSAN's export development strategies,
- Discussing Industry 4.0 issue,
- ASELSAN investor base analysis results,

- Self-financed R&D Process Management Functor,
- University Rankings,
- Discussing ASELSAN Personnel Post-Graduate Education Permission Directive,
- Discussing the tasks carried out by the General Directorate regarding the Project and Subsidiaries Management,
- Discussing the studies about Quantum Computers,
- Evaluation of the additional needs of ASELSAN in Teknopark İstanbul,
- Deciding on receiving corporate governance rating service,
- Investor Relations Department and its operations,
- Tasks carried for the revision of the score cards of Sector Presedencies and Vice Presedencies,
- BİST Sustainability Index, sustainability tasks performed in ASELSAN and the draft ASELSAN 2017 Sustainability Report,
- Fluctuations observed in ASELSAN stock.

## **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 2018. According to the review, the score of 12.12.2017, 9,20 was confirmed as 9,20 out of 10 on 12.12.2018.

Our Company's share has been listed in the corporate governance index since the date 14.12.2012, which it first entered the index. Rating reports can be accessed on the company website.

## **iii. Election of Independent Board Members**

As given by Corporate Governance Principles, the responsibility of evaluating and reporting the nominations and their independency status 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 was carried on by the Committee and the resulting nominee lists were presented at the Board of Directors meetings on dates 26.12.2017, 09.01.2018 and 08.03.2018.

CMB has not stated any opposing opinions regarding the nominees' lists and evaluation reports which was submitted by the Board of Directors. The final list was submitted to shareholders' voting on General Assembly Meeting on 02.04.2018 and as a result, Ercüment ARVAS, Mehmet ARIK and İbrahim ÖZKOL 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 10.04.2012 and numbered 720/1. The Committee executes as per the directive numbered ASY-01-066.

Committee Members (January – March 2018)

Ziya AKBAŞ	: Chairman / Independent Member of the Board of Directors
Bayram GENÇCAN	: Member / Member of the Board of Directors



The committee members were changed in accordance with the Board of Directors resolution, dated 02.04.2018 and numbered 983/1. The Board of Directors members assigned to the committee are given below:

Committee Members (April – December 2018)

Mehmet ARIK : Chairman / Independent Member of the Board of Directors

Bayram GENÇCAN : Member / Member of the Board of Directors

In 2018 the Committee continued to identify 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 context, in 2018 the Committee held six meetings on 28.01.2018, 26.03.2018, 18.05.2018, 19.07.2018, 02.10.2018 and 15.11.2018.

Committee's activities are summarized below:

- "2017 Evaluation Report" was prepared and submitted to Board of Directors in January 2018.
  - "Corporate Risk Evaluation Report" was prepared and submitted to Board of Directors in January 2018, March 2018, May 2018, July 2018, October 2018 and November 2018. 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 and mitigating actions were included in the report.
    - Warning levels of benchmarks for risk indicators were determined and the risk indicators which divert from the benchmark and can signal the poor performance of a goal during the reporting period were also reported.
  - 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 Investor Relations and Enterprise Risk Management Department of Finance Directorate.

#### **5.4. Risk Management and Internal Control Mechanism**

In ASELSAN, the effectiveness of internal audit activities, corporate governance, risk management and internal control processes are improved and the Company contributes to the achievement of the Company's targets. The most important role of the internal audit activities, which is an important component of the internal control system, is the provision of assurance and consultancy services to the Audit Committee and the Board of Directors on the internal control system. The 3-year audit plan and work programs are prepared on a risk-based basis and the results of the audit are reported to the Audit Committee and regular meetings are held with the Committee. By the Internal Audit Department; compliance with legal regulations and company regulations, the application of ethical principles and the adequacy of controls to eliminate risks are evaluated.

**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 success can be achieved through environment friendly strategies.

ASELSAN's vision is to be a reliable, competitively preferred, environment-friendly and human conscious technology firm which preserves its sustainable growth in the global market via the values created for stakeholders, as well as serving its establishment purposes. 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/Vice 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.

The remuneration and all other benefits provided to board members are explained on an individual basis in the 2017 annual report.

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 43rd Ordinary General Assembly held on 02.04.2018, 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: 19.12.2017

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: 19.12.2017

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,

Prof. Dr. İbrahim ÖZKOL  


## Statement of Independence

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

Date: 25.12.2017

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,



## APPENDIX-1

APPENDIX-1

CORPORATE GOVERNANCE COMPLIANCE REPORT	Compliance					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
1.1. FACILITATING THE EXERCISE OF SHAREHOLDER RIGHTS						
1.1.2 - Up-to-date information and disclosures which may affect the exercise of shareholder rights are available to investors at the corporate website.	X	-	-	-	-	
1.2. RIGHT TO OBTAIN AND REVIEW INFORMATION						
1.2.1- Management did not enter into any transaction that would complicate the conduct of special audit.	X	-	-	-	-	
1.3. GENERAL ASSEMBLY						
1.3.2 -The company ensures the clarity of the General Assembly agenda, and that an item on the agenda does not cover multiple topics.	X	-	-	-	-	
1.3.7- Insiders with privileged information have informed the board of directors about transactions conducted on their behalf within the scope of the company's activities in order for these transactions to be presented at the General Shareholders' Meeting.	-	-	-	-	X	
1.3.8 - Members of the board of directors who are concerned with specific agenda items, auditors, and other related persons, as well as the officers who are responsible for the preparation of the financial statements were present at the General Shareholders' Meeting.	X	-	-	-	-	
1.3.10 - The agenda of the General Shareholders' Meeting included a separate item detailing the amounts and beneficiaries of all donations and contributions.	X	-	-	-	-	



## REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2018

1.3.11 - The General Shareholders' Meeting was held open to the public, including the stakeholders, without having the right to speak.

- X - - -

The General Assembly meeting is not open to the media.

CORPORATE GOVERNANCE COMPLIANCE REPORT	Compliance					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
1.4. VOTING RIGHTS						
1.4.1-There is no restriction preventing shareholders from exercising their shareholder rights.	X	-	-	-	-	
1.4.2-The company does not have shares that carry privileged voting rights.	X	-	-	-	-	
1.4.3-The company withholds from exercising its voting rights at the General Shareholders' Meeting of any company with which it has cross-ownership, in case such cross-ownership provides management control.	-	-	-	-	X	
1.5. MINORITY RIGHTS						
1.5.1- The company pays maximum diligence to the exercise of minority rights.	X	-	-	-	-	
1.5.2-The Articles of Association extend the use of minority rights to those who own less than one twentieth of the outstanding shares, and expand the scope of the minority rights.	-	-	X	-	-	Utmost attention is paid for the execution of minority rights in our Company and the provisions of Turkish Code of Commerce and the relevant legislation regarding minority rights are applied as is.
1.6. DIVIDEND RIGHT						
1.6.1 -The dividend policy approved by the General Shareholders' Meeting is posted on the company website.	X	-	-	-	-	
1.6.2-The dividend distribution policy comprises the minimum information to ensure that the shareholders can have an opinion on the procedure and principles of dividend distributions in the future.	X	-	-	-	-	

## REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2018

1.6.3 - The reasons for retaining earnings, and their allocations, are stated in the relevant agenda item.

X - - - -

1.6.4 - The board reviewed whether the dividend policy balances the benefits of the shareholders and those of the company.

X - - - -

### Compliance

## CORPORATE GOVERNANCE COMPLIANCE REPORT

Yes Partial No Exempted Not Applicable

Explanation

### 1.7. TRANSFER OF SHARES

1.7.1 - There are no restrictions preventing shares from being transferred.

- - X - -

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”.

### 2.1. CORPORATE WEBSITE

2.1.1.-The company website includes all elements listed in Corporate Governance Principle 2.1.1.

X - - - -

2.1.2-The shareholding structure (names, privileges, number and ratio of shares, and beneficial owners of more than 5% of the issued share capital) is updated on the website at least every 6 months.

X - - - -

## REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2018

2.1.4 -The company website is prepared in other selected foreign languages, in a way to present exactly the same information with the Turkish content.

X - - - -

### 2.2. ANNUAL REPORT

2.2.1-The board of directors ensures that the annual report represents a true and complete view of the company's activities.

X - - - -

2.2.2 - The annual report includes all elements listed in Corporate Governance Principle 2.2.2.

X - - - -

### Compliance

### CORPORATE GOVERNANCE COMPLIANCE REPORT

Yes Partial No Exempted Not Applicable Explanation

### 3.1. CORPORATION'S POLICY ON STAKEHOLDERS

3.1.1- The rights of the stakeholders are protected pursuant to the relevant regulations, contracts and within the framework of bona fides principles.

X - - - -

3.1.3-Policies or procedures addressing stakeholders' rights are published on the company's website.

X - - - -

3.1.4 - A whistleblowing programme is in place for reporting legal and ethical issues.

X - - - -

3.1.5-The company addresses conflicts of interest among stakeholders in a balanced manner.

X - - - -

## 3.2. SUPPORTING THE PARTICIPATION OF THE STAKEHOLDERS IN THE CORPORATION'S MANAGEMENT

3.2.1-The Articles of Association, or the internal regulations (terms of reference/manuals), regulate the participation of employees in management.	-	X	-	-	-	Although the mechanisms that enable the participation of stakeholders in the management of the company are built, they are not included in the Articles of Association.
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3.2.2 - Surveys/other research techniques, consultation, interviews, observation method etc. were conducted to obtain opinions from stakeholders on decisions that significantly affect them.	X	-	-	-	-	
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CORPORATE GOVERNANCE COMPLIANCE REPORT	Compliance					Explanation
	Yes	Partial	No	Exempted	Not Applicable	

## 3.3. HUMAN RESOURCES POLICY

3.3.1- The company has adopted an employment policy ensuring equal opportunities, and a succession plan for all key managerial positions.	X	-	-	-	-	
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3.3.2-Recruitment criteria are documented.	X	-	-	-	-	
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3.3.3 - The company has a policy on human resources development, and organises trainings for employees.	X	-	-	-	-	
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3.3.4-Meetings have been organised to inform employees on the financial status of the company, remuneration, career planning, education and health.	X	-	-	-	-	
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3.3.5 - Employees, or their representatives, were notified of decisions impacting them. The opinion of the related trade unions was also taken.	-	X	-	-	-	Although there is an employee representative practice in our company, there is no union organization.
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## REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2018

3.3.6 - Job descriptions and performance criteria have been prepared for all employees, announced to them and taken into account to determine employee remuneration.

X - - - -

3.3.7 - Measures (procedures, trainings, raising awareness, goals, monitoring, complaint mechanisms) have been taken to prevent discrimination, and to protect employees against any physical, mental, and emotional mistreatment.

X - - - -

3.3.8 - The company ensures freedom of association and supports the right for collective bargaining.

- - - - X There is no such request within the company.

3.3.9 - A safe working environment for employees is maintained.

X - - - -

### Compliance

## CORPORATE GOVERNANCE COMPLIANCE REPORT

Yes Partial No Exempted Not Applicable Explanation

### 3.4. RELATIONS WITH CUSTOMERS AND SUPPLIERS

3.4.1-The company measured its customer satisfaction, and operated to ensure full customer satisfaction.

X - - - -

3.4.2-Customers are notified of any delays in handling their requests.

X - - - -

3.4.3 - The company complied with the quality standards with respect to its products and services.

X - - - -

## REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2018

3.4.4 - The company has in place adequate controls to protect the confidentiality of sensitive information and business secrets of its customers and suppliers.

X - - - -

### 3.5. ETHICAL RULES AND SOCIAL RESPONSIBILITY

3.5.1-The board of the corporation has adopted a code of ethics, disclosed on the corporate website.

X - - - -

3.5.2-The company has been mindful of its social responsibility and has adopted measures to prevent corruption and bribery.

X - - - -

### 4.1. ROLE OF THE BOARD OF DIRECTORS

4.1.1 - The board of directors has ensured strategy and risks do not threaten the long-term interests of the company, and that effective risk management is in place.

X - - - -

4.1.2 - The agenda and minutes of board meetings indicate that the board of directors discussed and approved strategy, ensured resources were adequately allocated, and monitored company and management performance.

X - - - -

### CORPORATE GOVERNANCE COMPLIANCE REPORT

#### Compliance

Yes Partial No Exempted Not Applicable Explanation

### 4.2. ACTIVITIES OF THE BOARD OF DIRECTORS

4.2.1-The board of directors documented its meetings and reported its activities to the shareholders.

X - - - -

4.2.2-Duties and authorities of the members of the board of directors are disclosed in the annual report.

X - - - -

4.2.3-The board has ensured the company has an internal control framework adequate for its activities, size and complexity.

X - - - -



## REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2018

4.2.4-Information on the functioning and effectiveness of the internal control system is provided in the annual report.	X	-	-	-	-	
4.2.5 - The roles of the Chairman and Chief Executive Officer are separated and defined.	X	-	-	-	-	
4.2.7 - The board of directors ensures that the Investor Relations department and the corporate governance committee work effectively. The board works closely with them when communicating and settling disputes with shareholders.	X	-	-	-	-	
4.2.8 - The company has subscribed to a Directors and Officers liability insurance covering more than 25% of the capital.	X	-	-	-	-	
<b>4.3. STRUCTURE OF THE BOARD OF DIRECTORS</b>						
4.3.9-The board of directors has approved the policy on its own composition, setting a minimal target of 25% for female directors. The board annually evaluates its composition and nominates directors so as to be compliant with the policy.	-	-	X	-	-	There are no female members in the Board of Directors, and a target was not set to keep the female member ratio at a minimum of 25%. There is no written Company policy regarding this issue.
4.3.10-At least one member of the audit committee has 5 years of experience in audit/accounting and finance.	X	-	-	-	-	

CORPORATE GOVERNANCE COMPLIANCE REPORT	Compliance					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
4.4. BOARD MEETING PROCEDURES						
4.4.1-Each board member attended the majority of the board meetings in person.	X	-	-	-	-	
4.4.2-The board has formally approved a minimum time by which information and documents relevant to the agenda items should be supplied to all board members.	X	-	-	-	-	

## REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2018

4.4.3 - The opinions of board members that could not attend the meeting, but did submit their opinion in written format, were presented to other members.	X	-	-	-	-	
4.4.4-Each member of the board has one vote.	X	-	-	-	-	
4.4.5-The board has a charter/written internal rules defining the meeting procedures of the board.	X	-	-	-	-	
4.4.6-Board minutes document that all items on the agenda are discussed, and board resolutions include director's dissenting opinions if any.	X	-	-	-	-	
4.4.7-There are limits to external commitments of board members. Shareholders are informed of board members' external commitments at the General Shareholders' Meeting.	-	X	-	-	-	There are no limitations for the members of the Board of Directors regarding them to carry duties outside the company, except the duties that are subject to prohibition of competition.
<b>4.5. BOARD COMMITTEES</b>						
4.5.5-Board members serve in only one of the Board's committees.	-	-	X	-	-	The independent members take part in more than one committee because the number of independent members is 3.
4.5.6 - Committees have invited persons to the meetings as deemed necessary to obtain their views.	X	-	-	-	-	
4.5.7-If external consultancy services are used, the independence of the provider is stated in the annual report.	-	-	-	-	X	
4.5.8-Minutes of all committee meetings are kept and reported to board members.	X	-	-	-	-	

<b>CORPORATE GOVERNANCE COMPLIANCE REPORT</b>	Compliance					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
<b>4.6. FINANCIAL RIGHTS</b>						
4.6.1-The board of directors has conducted a board performance evaluation to review whether it has discharged all its responsibilities effectively.	-	-	X	-	-	There is no such practice within the company.
4.6.4-The company did not extend any loans to its board directors or executives, nor extended their lending period or enhanced the amount of those loans, or improve conditions thereon, and did not extend loans under a personal credit title by third parties or provided guarantees such as surety in favour of them.	X	-	-	-	-	
4.6.5-The individual remuneration of board members and executives is disclosed in the annual report.	-	X	-	-	-	The salaries of the Chairman and the members of the Board of Directors are given seperately in the Board of Directors Report and the annual report but the salaries of the CEO and vice presidents are given as a sum.

## CORPORATE GOVERNANCE INFORMATION FILLINGS

### 1. SHAREHOLDERS

#### 1.1. Facilitating the Exercise of Shareholders Rights

The number of investor meetings (conference, seminar/etc.) organised by the company during the year	3
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#### 1.2. Right to Obtain and Examine Information

The number of special audit request(s)	-
The number of special audit requests that were accepted at the General Shareholders' Meeting	-

#### 1.3. General Assembly

Link to the PDP announcement that demonstrates the information requested by Principle 1.3.1. (a-d)	<a href="https://www.kap.org.tr/en/Bildirim/661371">https://www.kap.org.tr/en/Bildirim/661371</a>
Whether the company provides materials for the General Shareholders' Meeting in English and Turkish at the same time	<a href="https://www.kap.org.tr/en/Bildirim/661371">https://www.kap.org.tr/en/Bildirim/661371</a>
The links to the PDP announcements associated with the transactions that are not approved by the majority of independent directors or by unanimous votes of present board members in the context of Principle 1.3.9	-
The links to the PDP announcements associated with related party transactions in the context of Article 9 of the Communique on Corporate Governance (II-17.1)	-
The links to the PDP announcements associated with common and continuous transactions in the context of Article 10 of the Communique on Corporate Governance (II-17.1)	<a href="https://www.kap.org.tr/en/Bildirim/661371">https://www.kap.org.tr/en/Bildirim/661371</a>
The name of the section on the corporate website that demonstrates the donation policy of the company	Investor Relations > Corporate Governance > Policies
The relevant link to the PDP with minute of the General Shareholders' Meeting where the donation policy has been approved	<a href="https://www.kap.org.tr/en/Bildirim/672690">https://www.kap.org.tr/en/Bildirim/672690</a>
The number of the provisions of the articles of association that discuss the participation of stakeholders to the General Shareholders' Meeting	-
Identified stakeholder groups that participated in the General Shareholders' Meeting, if any	The representatives of the Independent Audit Company and the Corporate Governance Rating Company attended the general assembly meeting.

#### 1.4. Voting Rights

Whether the shares of the company have differential voting rights	No
In case that there are voting privileges, indicate the owner and percentage of the voting majority of shares.	-
The percentage of ownership of the largest shareholder	74,20%

#### 1.5. Minority Rights

Whether the scope of minority rights enlarged (in terms of content or the ratio) in the articles of the association	No
If yes, specify the relevant provision of the articles of association	-

#### 1.6. Dividend Right

The name of the section on the corporate website that describes the dividend distribution policy	Investor Relations > Corporate Governance > Policies
Minutes of the relevant agenda item in case the board of directors proposed to the general assembly not to distribute dividends, the reason for such proposal and information as to use of the dividend	-
PDP link to the related general shareholder meeting minutes in case the board of directors proposed to the general assembly not to distribute dividends	-

## REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2018

### General Assembly Meetings

General Meeting Date	The number of information requests received by the company regarding the clarification of the agenda of the General Shareholders' Meeting	Shareholder participation rate to the General Shareholders' Meeting	Percentage of shares directly present at the GSM	Percentage of shares represented by proxy	Specify the name of the page of the corporate website that contains the General Shareholders' Meeting minutes, and also indicates for each resolution the voting levels for or against	Specify the name of the page of the corporate website that contains all questions asked in the general assembly meeting and all responses to them	The number of the relevant item or paragraph of General Shareholders' Meeting minutes in relation to related party transactions	The number of declarations by insiders received by the board of directors	The link to the related PDP general shareholder meeting notification
02/04/2018	0	87,83%	0,08%	87,75%	Investor Relations > Corporate Governance > General Assembly	Investor Relations > Corporate Governance > General Assembly > General Assembly Documents	Article 11	7	<a href="https://www.kap.org.tr/en/Bildirim/672690">https://www.kap.org.tr/en/Bildirim/672690</a>

### 2. DISCLOSURE AND TRANSPARENCY

#### 2.1. Corporate Website

Specify the name of the sections of the website providing the information requested by the Principle 2.1.1.	Investor Relations > Corporate Governance
If applicable, specify the name of the sections of the website providing the list of shareholders (ultimate beneficiaries) who directly or indirectly own more than 5% of the shares.	-
List of languages for which the website is available	Turkish, English

#### 2.2. Annual Report

##### The page numbers and/or name of the sections in the Annual Report that demonstrate the information requested by principle 2.2.2.

a) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the duties of the members of the board of directors and executives conducted out of the company and declarations on independence of board members	The information on the duties of the members of the board of directors and executives conducted out of the company is under Article 4 of the Report of Board of Directors. Declarations on independence of board members are end of the Annual Report > Corporate Governance Principles Compliance Report.
b) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on committees formed within the board structure	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Number of Committees Formed in the Board of Directors with Their Structures and Independency title.
c) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the number of board meetings in a year and the attendance of the members to these meetings	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Principles of Activity of the Board of Directors title.
ç) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on amendments in the legislation which may significantly affect the activities of the corporation	The information is under Article 10 of the Report of Board of Director.
d) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on significant lawsuits filed against the corporation and the possible results thereof	The information is under Financial Information Note 15 and at the same time under Article 18 of the Report of Board of Directors.
e) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the conflicts of interest of the corporation among the institutions that it purchases services on matters such as investment consulting and rating and the measures taken by the corporation in order to avoid from these conflicts of interest	None.
f) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the cross ownership subsidiaries that the direct contribution to the capital exceeds 5%	The information is under Article 17 of the Report of Board of Directors.
g) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on social rights and professional training of the employees and activities of corporate social responsibility in respect of the corporate activities that arises social and environmental results	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Ethical Rules and Social Responsibility title.



### 3. STAKEHOLDERS

#### 3.1. Corporation's Policy on Stakeholders

The name of the section on the corporate website that demonstrates the employee remedy or severance policy	Investor Relations > Corporate Governance > Policies
The number of definitive convictions the company was subject to in relation to breach of employee rights	The information is under Article 18 of the Annual Report of Board of Directors.
The position of the person responsible for the alert mechanism (i.e. whistleblowing mechanism)	CEO
The contact detail of the company alert mechanism.	Chairman & CEO Prof. Dr. Haluk GÖRGÜN Phone Number: (0312) 592 10 00 Address: ASELSAN Elektronik Sanayi ve Ticaret A.Ş. Mehmet Akif Ersoy Mahallesi 296. Cadde No: 16 06370 Yenimahalle ANKARA, TURKEY

#### 3.2. Supporting the Participation of the Stakeholders in the Corporation's Management

Name of the section on the corporate website that demonstrates the internal regulation addressing the participation of employees on management bodies.	It was regulated by internal directives and it is not open to the public.
Corporate bodies where employees are actually represented	None.

#### 3.3. Human Resources Policy

The role of the board on developing and ensuring that the company has a succession plan for the key management positions	None.
The name of the section on the corporate website that demonstrates the human resource policy covering equal opportunities and hiring principles. Also provide a summary of relevant parts of the human resource policy.	Career > Being Part of Our Team
Whether the company provides an employee stock ownership program	There isn't an employee stock ownership program.
The name of the section on the corporate website that demonstrates the human resource policy covering discrimination and mistreatments and the measures to prevent them. Also provide a summary of relevant parts of the human resource policy.	Career > Our Human Rights Policy
The number of definitive convictions the company is subject to in relation to health and safety measures	The information is under Article 18 of the Annual Report of Board of Directors.

#### 3.5. Ethical Rules and Social Responsibility

The name of the section on the corporate website that demonstrates the code of ethics	Investor Relations > Corporate Governance > Ethical Principles
The name of the section on the company website that demonstrates the corporate social responsibility report. If such a report does not exist, provide the information about any measures taken on environmental, social and corporate governance issues.	Investor Relations > Sustainability
Any measures combating any kind of corruption including embezzlement and bribery	Investor Relations > Corporate Governance > Policies

#### 4. BOARD OF DIRECTORS-I

##### 4.2. Activity of the Board of Directors

Date of the last board evaluation conducted	26/02/2019
Whether the board evaluation was externally facilitated	No
Whether all board members released from their duties at the GSM	Yes
Name(s) of the board member(s) with specific delegated duties and authorities, and descriptions of such duties	It was resolved at the meeting of the Board of Directors of our Company, held on 02.04.2018 that; Haluk GÖRGÜN shall be appointed as the Chairman of the Board of Directors, Mustafa Murat ŞEKER shall be appointed as the Vice Chairman and Haluk GÖRGÜN and Mustafa Murat ŞEKER shall be appointed as the Managing Members. The details regarding the context of the authorities are included in the articles of association.
Number of reports presented by internal auditors to the audit committee or any relevant committee to the board	54
Specify the name of the section or page number of the annual report that provides the summary of the review of the effectiveness of internal controls	The information is under Article 17 of the Annual Report of Board of Directors.
Name of the Chairman	Prof. Dr. Haluk GÖRGÜN
Name of the CEO	Prof. Dr. Haluk GÖRGÜN
If the CEO and Chair functions are combined: provide the link to the relevant PDP announcement providing the rationale for such combined roles	None.
Link to the PDP notification stating that any damage that may be caused by the members of the board of directors during the discharge of their duties is insured for an amount exceeding 25% of the company's capital	<a href="https://www.kap.org.tr/en/Bildirim/696449">https://www.kap.org.tr/en/Bildirim/696449</a>
The name of the section on the corporate website that demonstrates current diversity policy targeting women directors	None.
The number and ratio of female directors within the Board of Directors	0

## REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2018

### Composition of Board of Directors

Name, Surname of Board Member	Whether Executive Director Or Not	Whether Independent Director Or Not	The First Election Date To Board	Link to PDP Notification That Includes The Independency Declaration	Whether the Independent Director Considered By The Nomination Committee	Whether She/He is the Director Who Ceased to Satisfy The Independence or Not	Whether The Director Has At Least 5 Years' Experience On Audit, Accounting And/Or Finance Or Not
Haluk GÖRGÜN	Executive	Not independent	15/03/2017		Not considered	No	Yes
Mustafa Murat ŞEKER	Non-executive	Not independent	15/05/2013		Not considered	No	Yes
Mehmet ARIK	Non-executive	Independent	02/04/2018	<a href="https://www.kap.org.tr/en/Bildirim/667170">https://www.kap.org.tr/en/Bildirim/667170</a>	Considered	No	Yes
Ercümen ARVAS	Non-executive	Independent	31/03/2016	<a href="https://www.kap.org.tr/en/Bildirim/667170">https://www.kap.org.tr/en/Bildirim/667170</a>	Considered	No	Yes
Bayram GENÇCAN	Executive	Not independent	15/03/2017		Not considered	No	Yes
İbrahim ÖZKOL	Non-executive	Independent	15/03/2017	<a href="https://www.kap.org.tr/en/Bildirim/667170">https://www.kap.org.tr/en/Bildirim/667170</a>	Considered	No	Yes
Ercan TOPACA	Non-executive	Not independent	15/03/2017		Not considered	No	Yes
Celal Sami TÜFEKÇİ	Non-executive	Not independent	02/04/2018		Not considered	No	Yes
Murat ÜÇÜNCÜ	Non-executive	Not independent	15/03/2013		Not considered	No	Yes

**4. BOARD OF DIRECTORS-II**
**4.4. Meeting Procedures of the Board of Directors**

Number of physical board meetings in the reporting period (meetings in person)	65
Director average attendance rate at board meetings	88%
Whether the board uses an electronic portal to support its work or not	Yes
Number of minimum days ahead of the board meeting to provide information to directors, as per the board charter	3
The name of the section on the corporate website that demonstrates information about the board charter	It was regulated by internal directives and it is not open to the public.
Number of maximum external commitments for board members as per the policy covering the number of external duties held by directors	There are no limitations for the members of the Board of Directors regarding them to carry duties outside the company, except the duties that are subject to prohibition of competition.

**4.5. Board Committees**

Page numbers or section names of the annual report where information about the board committees are presented.	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Number of Committees Formed in the Board of Directors with Their Structures and Independency title.
Link(s) to the PDP announcement(s) with the board committee charters	The working principles of the committees are not disclosed on PDP, yet they are presented at the end of the Annual Report.

**Composition of Board Committees-I**

Names Of The Board Committees	Name Of Committees Defined As "Other" In The First Column	Name-Surname of Committee Members	Whether Committee Chair Or Not	Whether Board Member Or Not
Audit Committee	-	İbrahim ÖZKOL	Yes	Board member
Audit Committee	-	Ercümend ARVAS	No	Board member
Audit Committee	-	Mehmet ARIK	No	Board member
Corporate Governance Committee	-	Ercümend ARVAS	Yes	Board member
Corporate Governance Committee	-	Celal Sami TÜFEKÇİ	No	Board member
Corporate Governance Committee	-	Murat ÜÇÜNCÜ	No	Board member
Corporate Governance Committee	-	Pınar ÇELEBİ	No	Not board member
Committee of Early Detection of Risk	-	Mehmet ARIK	Yes	Board member
Committee of Early Detection of Risk	-	Bayram GENÇCAN	No	Board member

**4. BOARD OF DIRECTORS-III**
**4.5. Board Committees-II**

Specify where the activities of the audit committee are presented in your annual report or website (Page number or section name in the annual report/website)	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Number of Committees Formed in the Board of Directors with Their Structures and Independency title.
Specify where the activities of the corporate governance committee are presented in your annual report or website (Page number or section name in the annual report/website)	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Number of Committees Formed in the Board of Directors with Their Structures and Independency title.
Specify where the activities of the nomination committee are presented in your annual report or website (Page number or section name in the annual report/website)	The duties of the nomination committee is carried by the Corporate Governance Committee.
Specify where the activities of the early detection of risk committee are presented in your annual report or website (Page number or section name in the annual report/website)	The information is in the Annual Report > Corporate Governance Principles Compliance Report > Number of Committees Formed in the Board of Directors with Their Structures and Independency title.
Specify where the activities of the remuneration committee are presented in your annual report or website (Page number or section name in the annual report/website)	The duties of the remuneration committee is carried by the Corporate Governance Committee.
<b>4.6. Financial Rights</b>	
Specify where the operational and financial targets and their achievement are presented in your annual report (Page number or section name in the annual report)	The information is given under Article 9 of the Report of Board of Directors.
Specify the section of website where remuneration policy for executive and non-executive directors are presented.	Investor Relations > Corporate Governance > Policies title.
Specify where the individual remuneration for board members and senior executives are presented in your annual report (Page number or section name in the annual report)	The information is given under Article 4 of the Report of Board of Directors.

**Composition of Board Committees-II**

Names Of The Board Committees	Name Of Committees Defined As "Other" In The First Column	The Percentage Of Non-executive Directors	The Percentage Of Independent Directors In The Committee	The Number Of Meetings Held In Person	The Number of Reports on its Activities Submitted to the Board
Audit Committee	-	100%	100%	4	54
Corporate Governance Committee	-	75%	25%	8	15
Committee of Early Detection of Risk	-	100%	50%	6	6

**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 2018**

Prof. Dr. Haluk GÖRGÜN  
Chairman of the Board of  
Directors and CEO

Mustafa Murat ŞEKER  
Vice Chairman of the Board of  
Directors

Prof. Dr. Mehmet ARIK  
Member of the Board of  
Directors

Prof. Dr. Ercüment ARVAS  
Member of the Board of  
Directors

Bayram GENÇCAN  
Member of the Board of  
Directors

Prof. Dr. İbrahim ÖZKOL  
Member of the Board of  
Directors

Ercan TOPACA  
Member of the Board of  
Directors

Dr. Celal Sami TÜFEKÇİ  
Member of the Board of  
Directors

Dr. Murat ÜÇÜNCÜ  
Member of the Board of  
Directors