

aselsan

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

**REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD BETWEEN
1 JANUARY – 30 JUNE 2021**



Bağımsız
Denetim ve
Yeminli Mali
Müşavirlik A.Ş.



Independent Auditor's Report on Review of Semi-Annual Report

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

We have been assigned to the review whether the financial information in the semi-annual report of ASELSAN Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries (together "the Group") prepared as at 30 June 2021 is consistent with the reviewed interim condensed consolidated financial information. Management is responsible for the preparation of the semi-annual report. Our responsibility is to express a conclusion on whether the financial information provided in the semi-annual report is consistent with the reviewed interim condensed consolidated financial information on which we have expressed our conclusion dated 10 August 2021.

We conducted our review in accordance with the Standard on Review Engagements ("SRE") 2410 "Review on Interim Financial Information Performed by the Independent Auditor of the Entity". Our review includes the assessment as to whether the financial information included in the semi-annual report is consistent with the reviewed interim condensed consolidated financial statements and other explanatory notes. A review is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards, the objective of which is to express an opinion on the financial statements. Consequently, a review on the semi-annual financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to conclude that the accompanying financial information included in the semi-annual report is not consistent, in all material respects, with the interim condensed consolidated financial information and the information presented in the explanatory notes to interim condensed consolidated financial information.

Yeditepe Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş.
(Associate member of PRAXITY AISBL)



Mehmet Nadi Abbasoğlu,
Partner

10 August 2021, Istanbul, Turkey

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1. Principles of Preparation

The interim 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 – 30 June 2021. The title of the main shareholder in the report is ASELSAN Elektronik Sanayi ve Ticaret A.Ş. and will be referred as “the Company” in the accompanying notes.

The Company’s consolidated subsidiaries are ASELSAN Baku (“ASELSAN Baku”), Mikroelektronik Ar-Ge Tasarım ve Ticaret Ltd. Co. (“Mikro AR-GE”), ASELSANNET Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Ltd. Co. (“ASELSANNET”), ASELSAN Konya Silah Sistemleri Anonim Şirketi (“ASELSAN Konya”), ASELSAN Malaysia Sdn. Bhd. (“ASELSAN Malaysia”), BİTES Savunma Havacılık ve Uzay Teknolojileri Yazılım A.Ş. (“BİTES”), ASELSAN Global Dış Ticaret ve Pazarlama A.Ş. (“ASELSAN GLOBAL”), ULAK Haberleşme A.Ş. (“ULAK”) and ASELSAN Ukraine LLC (“ASELSAN Ukraine”).

Four branch offices; Aselsan Elektronik Sanayi ve Ticaret Anonim Şirketi EP Co. (“ASELSAN South Africa”), ASELSAN Makedonya Corridor-10 Highway Toll Collection System Project (“ASELSAN Macedonia”) and ASELSAN Kıbrıs İleri Teknolojiler Araştırma Merkezi (“ASELSAN Kıbrıs”) and ASELSAN Elektronik Sanayi ve Ticaret A.Ş. QSTP-B (“ASELSAN Katar”) located in South Africa, Macedonia, Turkish Republic of Northern Cyprus (“KKTC”) and Qatar, respectively. They are collectively referred as the “Group” in the accompanying notes.

2. Company Information and Organizational Structure

The Company is a leading defense industry company developing advanced technology system solutions within land, air, naval and space 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, medical systems, electro-optic systems and products.

The Company has been organized under five divisions with regard to production and engineering requirements of projects. These divisions comprise Communication and Information Technologies Vice Presidency (“HBT”), Microelectronics, Guidance & Electro-Optics Vice Presidency (“MGEO”), Defence Systems Technologies Vice Presidency (“SST”), Radar and Electronic Warfare Systems Vice Presidency (“REHİS”), and Transportation, Security, Energy, Automation and Medical Systems Vice Presidency (“UGES”).

In addition to the Vice Presidencies above, the Company organization also includes six Vice Presidencies to fulfil the planning, monitoring and analyzing functions: Financial Management Vice Presidency, Corporate Management Vice Presidency, Technology and Strategy Management Vice Presidency, Business Development and Marketing Vice Presidency, R&D Management Vice Presidency and Supply Chain Management Vice Presidency. In addition to these, there are also Legal Affairs and Office of the Private Secretary.

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

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

Rankings of Company's international, nation-wide and sectoral rankings are summarized in the table below:

Institution	Research / Study	Related Period	Ranking	
			Current	Prior
• International Rankings				
Defense News Magazine	Defense News Top 100	2021	48	48
European Commission	Industrial R&D Investment Scoreboard Top 2500	2020	627	1.356
• National Rankings				
Istanbul Chamber of Industry	ICI 500 Top Industrial Enterprises	2021	11	11
	ICI 500 - Private Enterprises	2021	11	11
Fortune Magazine	Top 500 Companies	2021	25	25
Capital Magazine	Top 500 Private Companies	2020	35	42
BIST (Borsa Istanbul)	Sustainability Index	2021	No Ranking	
	Corporate Management Index	2021	No Ranking	
	BIST Top 30 Index	2021	No Ranking	
	BIST Top 30 Market Value Ranking	2021	7	6
TEA (Turkish Exporters Assembly)	Top 1000 Exporters	2020	81	108
Turkish Time Journal	Research and Development Expenditures Turkey Top 100	2021	1	2
Deloitte	Technology Fast 50 / Big Star Category	2020	No Ranking	
Brand Finance	Most Valuable Brands Top 100	2021	19	30
Bloomberg Businessweek	Top 50 Firms (Between Universities)	2021	3	5
Universum	Ideal Employers (Engineering and IT)- 100 Companies)	2020	1	1
CDP (Carbon Disclosure Project)	Climate Change Ranking (Turkey)	2021	Our Company is among the first 8 companies in “CDP Turkey Climate Change Leaders” category.	

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

Company	Type	Country / City	Trade Register No	Address	Telephone/Fax	Web site
ASELSAN Elektronik Sanayi ve Ticaret A.Ş.	Head quarters	Turkey /Ankara	31177	Mehmet Akif Ersoy Mahallesi İstiklal Marşı Cad. No:16 06200 Yenimahalle/Ankara	Tel: +90 (312) 592 1000 Fax: +90 (312) 354 1302	www.aselsan.com.tr
ASELSAN South Africa	Branch	Republic of South Africa/ Pretoria	--	Building 4, Room 005 CSIR Campus, Meiring Naude Drive, Pretoria Gauteng, 0001	Tel: +27 (0) 12 349 2613 Fax: +27 (0) 12 349 2544	--
ASELSAN Macedonia	Branch	Macedonia/ Skopje	--	Ankarska 29A, 1000 Skopje	--	--
ASELSAN Cyprus Advanced Technology Research Center	Branch	TRNC/ Güzelyurt	--	Orta Doğu Teknik Üniversitesi Kuzey Kıbrıs Kampüsü ODTÜ KALTEV AR-GE Binası No: E-19 99738 Kalkanlı/Güzelyurt	--	www.aselsan.com.tr
Saudi Arabia Contact Office	Project Office	Saudi Arabia/ Riyad	--	A. Building 17B, 1st Floor, The Business Gate, Riyadh, 11422	Tel: +966 11 211 1111 Faks: +966 11 268 1111	--
Pakistan Contact Office	Project Office	Pakistan / Islamabad	--	Serena Business Complex 3rd Level, Office No:3 Sector G-5/1 Ramna Suhrwardy Islamabad	--	--
ASELSAN Qatar (QSTP-B)	Branch	Qatar / Doha	--	Qatar Science & Technology Park Free Zone, Street No: 2322, Zone No: 51, Unit No: 107, Building No:153, Building Name: Tech1	-	-

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 2.280.000.000 (TL two billion, two hundred and eighty million) and is divided into 2.280.000.000 (two billion, two hundred and eighty million) shares, each having a nominal value of 1 TL.

1.210.909.090 (one billion, two hundred and ten million, nine hundred and nine thousand and ninety) of the shares are Group A shares and 1.069.090.910 (one billion, sixty nine million, ninety thousand and nine hundred and ten) 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.

Share distribution table of the Shareholders is presented below:

Partners	Share (%)	30 June 2021 (TL Thousand)	Share (%)	31 December 2020 (TL Thousand)
Turkish Armed Forces Foundation (TSKGV)	74,20	1.691.652	74,20	1.691.652
Quoted on BIST (Free float)	25,80	588.348	25,80	588.348
Paid-in capital	100	2.280.000	100	2.280.000
Inflation adjusted capital	--	2.378.621	--	2.378.621

a. 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 and Senior Executives as of publishing date of the report are as follows:

Members Of The Board Of Directors And Senior Executives

List No	Name and Surname	Position	Positions In Other Company's	Date of First Assignment
1.	Haluk GÖRGÜN	Chairman of the Board/ CEO	Member Of The Board Of Directors Of IGG ASELSAN Integrated Systems LLC, Member of the Board of Directors of SASAD, Member of the Board of Directors Of BARQ, Associate Member of Turkey Academy of Sciences, Chairman of the Board of Trustees And Board of the Gebze Technical Education And Research Foundation, Board of Trustees of Basic Science Research Foundation of Turkey, Member of the Board of Trustees of Yıldız Technical University Foundation And A Member of the Board of Trustees of OSTİM Technical University	15 March 2017
2.	Alpaslan KAVAKLIOĞLU	Deputy Chairman of the Board	Deputy Minister of Ministry of Defense, Member of the Board of Directors of Turkish Parliamentarians Union	26 April 2019
3.	Ercüment ARVAS	Independent Member	Professor at İstanbul Medipol University Electrical Engineering Department, Member of the Board of Directors of Kardemir Karabük Demir Çelik Sanayi ve Ticaret A.Ş.	31 March 2016
4.	Yavuz ÇELİK	Member / Executive Director	--	19 June 2020
5.	Turan EROL	Independent Member	Professor at İstanbul Sabahattin Zaim University Business and Management Sciences Faculty, Independent Member Of The Board Of Directors Of Tümosan And Traktör Sanayi A.Ş., Independent Member Of The Board Of Directors Ostim Yatırım A.Ş.	19 June 2020
6.	Mehmet Fatih KACIR	Member	Deputy Minister of Republic of Turkey Ministry of Industry and Technology, Member of Board of Trustees of Turkey Technology Team Foundation, Member of the Board of Directors of E-Sports Federation, Member of the Board of Directors Prof. Dr. Fuat Sezgin Islamic Science History Research Foundation	26 April 2019
7.	Salih KUL	Member	--	26 April 2019
8.	Nurşen SARI	Independent Member	Deputy General Manager Of C Tech Bilişim Teknolojileri Sanayi ve Ticaret A.Ş.	29 June 2021
9.	Mustafa Murat ŞEKER	Member / Executive Director	Vice President at Presidency of Defence Industries, Member of the Board of Directors of the Turkish Escalator and Radiation Laboratory (TARLA)	29 June 2021
10.	Mehmet Fatih GÜÇLÜ	Vice General Manager (Financial Management)	Member of the Board of Directors of Bites Savunma Havacılık Ve Uzay Teknolojileri Yazılım Elektronik Ticaret A.Ş.	1 October 2019
11.	Hakan KARATAŞ	Vice General Manager (Corporate Management)	Member of the Board of Directors of Teknohab Teknoloji Geliştirme Bölgesi Yönetici A.Ş., Member of the Board of Directors of ÜRTEM A.Ş., Professor of OSTİM Technical University, Chairman of ASİL Solidarity Foundation	2 July 2018
12.	Nuh YILMAZ	Vice General Manager (Supply Chain Management)	Member of the The Board of Dasal Havacılık Teknolojileri A.Ş., Member of The Board of Directors of Aselsan Global Dış Ticaret Ve Pazarlama A.Ş.	1 April 2021
13.	Mehmet ÇELİK	Vice General Manager (Technology & Strategy Management)	Member of CoHe, Teaching Professor in KTO Karatay University Mechanical Engineering Department, Member of Presidency of Science, Technology and Innovation Policies Council, Member of the Board of the Directors of ASELSAN Konya Silah Sistemleri A.Ş., Member of the Board of Directors of TR Eğitim ve Teknoloji A.Ş.	14 May 2017
14.	Sezai ELAGÖZ	Vice General Manager (R&D Management)	Vice President of ASELSAN Middle East PSC LTD, Member of Board of Directors of ASELSAN Bilkent Mikro Nano A.Ş., Chairman of Board of Directors of ASELSAN Hassas Optik A.Ş., Member of Board of Directors of Tübitak Ar-Ge Destek ve Süreç Yönetim Hizmetleri Grubu, Member of Board of Directors of TÜYAR A.Ş., Member of Executive Board of Presidency of Defence Industries / Air Defence	18 July 2018
15.	Osman Devrim FİDANCI	Vice General Manager (Business Development and Marketing)	Chairman of the Board of Directors of ASELSAN Global Dış Ticaret ve Pazarlama A.Ş., Vice Chairman of the Board of Directors Of ULAK A.Ş., Member of the Board of Directors of ASELSAN Middle East Psc Ltd, Member of Institute of Electrical and Electronics Engineers (IEEE), Member of Association of Record for Bid, Proposal, Business Development, Capture and Graphics Professionals (APMP)	1 February 2019
16.	Bayram GENÇCAN	Vice General Manager (HBT Sector President)	ASELSAN Elektronik Sanayi ve Ticaret A.Ş. Member of the Directors Committee of Overseas Foreign Company (ASELSAN Cyprus)	15 March 2017
17.	Mustafa KAVAL	Vice General Manager (MGEO Sector President)	Deputy Chairman of IGG ASELSAN Integrated Systems LLC, Member of the Board of Directors of Kazakhstan ASELSAN Engineering LLP, Member of the Board of Directors of Savunma ve Havacılık Sanayi İhracatçıları Birliği, Chairman of the Board of ASELSAN Konya Silah Sistemleri Anonim Şirketi, Member of the Board of Directors of BARQ, TIM (Turkish Exporters Assembly) Delegate	1 September 2014
18.	Oğuz ŞENER	Vice General Manager (REHIS Sector President)	Vice Chairman of ASELSAN Bilkent Mikro Nano A.Ş., Chairman of the Board of Managers of Mikroelektronik	1 September 2014
19.	Behçet KARATAŞ	Vice General Manager (SST Sector President)	Chairman of the Board of BİTES Savunma Havacılık ve Uzay Teknolojileri Yazılım Elektronik Ticaret A.Ş.	2 November 2020
20.	İbrahim BEKAR	Vice General Manager (UGES Sector President)	Chairman of the Board of Managers of Aselsanet, Member of the Board of Directors of ASELSAN Hassas Optik A.Ş., Advisory Board Member of Özyeğin University Mechanical Engineering Department, Advisory Board Member of Medipol University Faculty of Engineering and Natural Sciences Department of Biomedical Engineering, Member of Technology Advisory Commission of Information Valley, Member of Advisory Committee ITU Mechanical Engineering Faculty, Member of Advisory Committee of ITU Energy Institute	12 February 2018
21.	Abdülkadir GÖKTAŞ	Internal Audit President	--	1 September 2014

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.

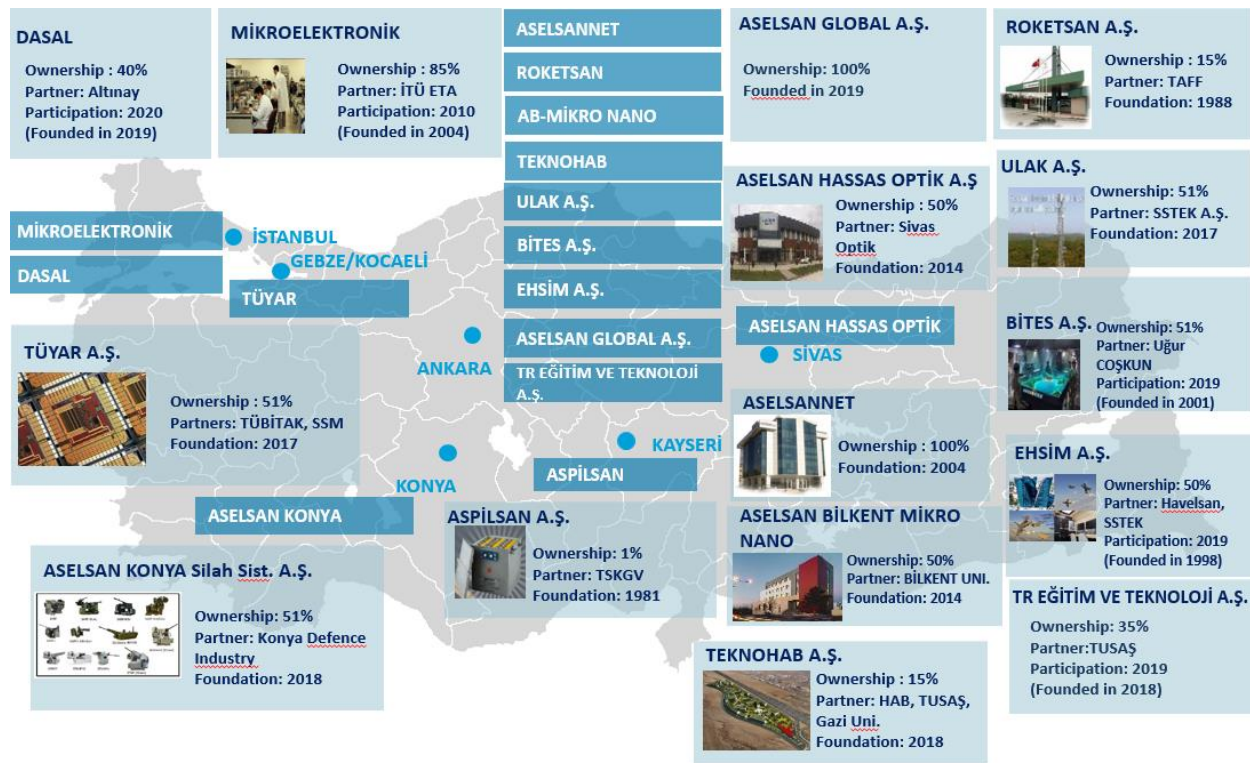
The controls are carried out by the Internal Audit Presidency (“IAP”) and Audit Committee within the parent company in order to minimize the substantial error risk on the financial statements of the Group. IAP and Audit Committee carry out their duties independent from each other but within the guidance 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.

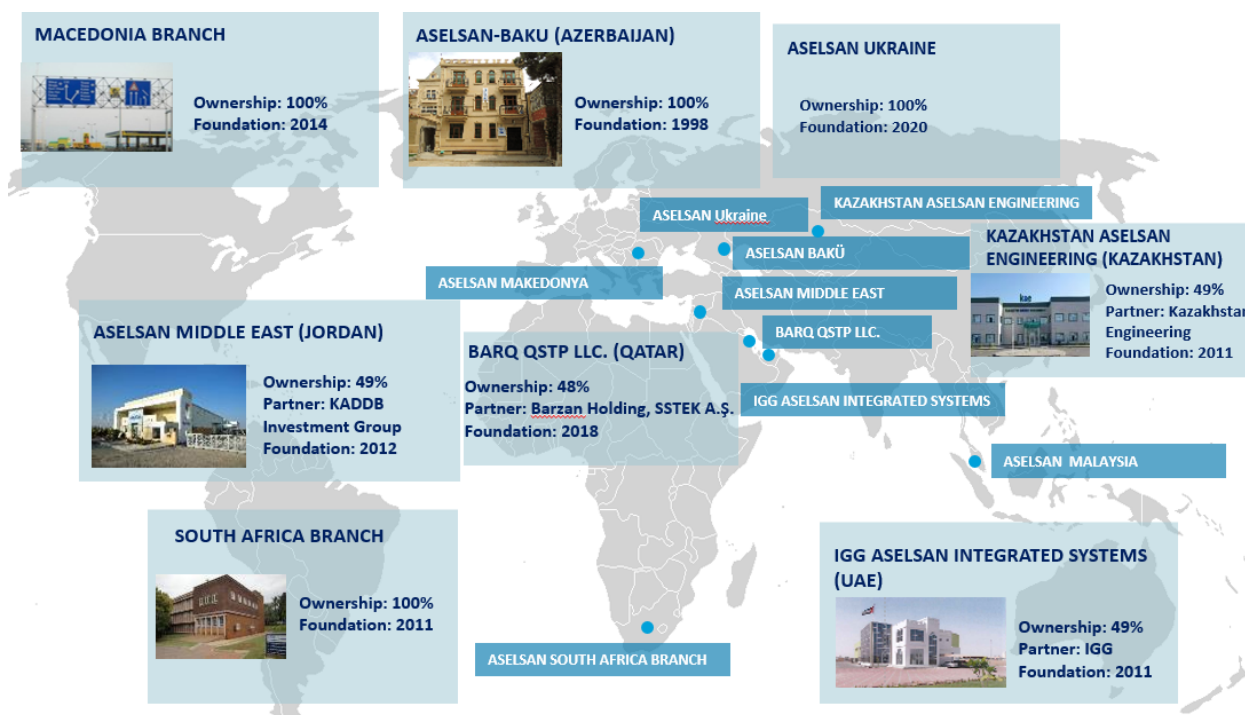
Total Amount of the Financial Benefits Given To Senior Executives:

The total amount of the remuneration and similar benefits paid to the senior executives by the Company as for the period that ended on June 30, 2021 is TL 18.000 Thousand.

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

The Company’s consolidated subsidiaries and branches are as follows:





Both our subsidiaries and joint ventures subject to consolidation fulfill their obligations regarding the tax legislation of the countries in which they operate and submit their audited financial statements and declarations regarding their tax assets/liabilities to the relevant authorities.

4. Main Factors That Affect the Performance, Investment and Dividend Policy of the Company

The Company carries on its business operations mainly in defense industry as well as in non-defence industry.

According to the latest data, world defense expenditures has increased by 2,6 % reaching USD 1,98 Trillion and the ratio of expenditures to GDP has realized as 2,4%. The summary table on the right side gives information about the top five countries, which accounted for 62% of the defense expenditure in 2020 and Turkey.

Rank	Country	Expenditure (m\$)	2020/19 Change (%)	Expenditure / GDP (%)	Share in the World (%)
	World	1.981	2,6	2,4	
1	USA	778	4,4	3,7	39,0
2	China	252	1,9	1,7	13,0
3	India	73	2,1	2,9	3,7
4	Russia	62	2,5	4,3	3,1
5	UK	59	2,9	2,2	3,0
16	Turkey	18	-5,0	2,8	0,9

As of 2020, Turkey's annual defense expenditures decreased by 5% to USD 17,7 Billion and ranks 16th in the world. The ratio of defense spending to GDP tends to increase steadily over the years, and reached the highest level in the last 17 years with a rate of 2,8%.

Due to the industry's nature, defense projects spread over years, furthermore a system project lasts approximately 4 to 5 years from its start to its delivery. As of June 30 2021 long term plans which have been accordingly signed as contracts spread over years amounts to USD 9,2 Billion. The determination of target regions/countries and focusing on these markets for marketing and direct sales as well as engaging in joint productions, transfer of technology to/from international platform producers and strategic initiatives for sales to third countries are concurrent to our sustainable growth objectives.

Our structure coincides with our objective to operate in non-defense electronic fields which require high technology.

The Company's profit distribution policy is posted on www.aselsan.com.tr website under Investor Relations/ Corporate Governance/Policies. According to the policy, at least 10% of the net profit is planned to be distributed.

As a result of 46th General assembly meeting held on 29.06.2021, of the net profit generated by our company from its 2020 activities;

- In accordance with Article 519/(1) of the Turkish Commercial Code, General Legal Reserves amounting to TL 197.390.996,80 is going to be allocated,
- Out of net distributable profit to the shareholders for the period, calculated in the framework of the dividend distribution regulations and decisions of the Capital Markets Board, gross, TL 400.000.000,- (Kuruş 17,54386 per share of TL 1 and 17,54386% on the basis of the capital) (net TL 340.000.000,- Kuruş 14,91228 per share of TL 1 and 14,91228% on the basis of the capital) shall be distributed in the form of cash
- In accordance with Article 519/2 of the Turkish Commercial Code, General Legal Reserves amounting to TL 28.600.000,- is going to be allocated,
- The remaining profit is going to be allocated as Extraordinary Legal Reserves,
- and distribution of the cash dividend to the shareholders shall be distributed as of November 19, 2021.

5. Enterprise Risk Management

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

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

At ASELSAN, risks are followed under four main categories:

a. Main Risk Categories

Strategic Risks: Risks that may prevent ASELSAN from reaching its targets in short, medium or long terms are classified under this heading. Risks under this heading include factors such as; growth and continuity, changing customer expectations, technological changes and market share.

While ASELSAN manages its strategic risks effectively; it aims to increase its backlog, increase exports and to take part in sustainable works. In order to increase ASELSAN's market share and offer new products / services, ASELSAN seizes company mergers / acquisition opportunities both at home and abroad. ASELSAN also conducts business development activities successfully.

ASELSAN increases its research and development activities in order to meet changing customer expectations and changes in technology, and realizes the necessary infrastructure and technological investments. ASELSAN diversifies the geographical regions in sales, customer portfolio and the sectors in order to maintain its growth and continuity in the medium and long term.

Operational Risks: It is defined as the risks arising from errors and negligence that may occur while performing the operational activities of the company. Risks under this section include factors such as; production, supply chain, human resources, information technologies, natural disaster and terrorist attacks.

In order to ensure the continuity of the processes, in-house directives and functors have been prepared and necessary updates are being made when needed. Within the scope of the Internal Audit plan and work schedule prepared in ASELSAN, business processes are being audited and process improvements are made in line with the audit outputs.

Quality in production processes involving internal operations and suppliers is uncompromisable; where subcontractor and supplier development activities are carried without slowing down. In terms of managing Human Resources and increasing employee motivation; activities were made with the participation of employees from every level and process improvements were made. Security policies are sustained at the highest level in Information Technology applications. In this area, internal and external audits are carried out periodically and precautions are taken against probable cyber-attacks and in the field of Information Technologies, business continuity in-house is provided.

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.

Regarding risks, such as natural disasters, terrorist attacks, necessary precautions are taken, primarily insurances have been made, and drills are carried out.

Financial Risks: It refers to the risks arising from the financial structure and financial preferences of the company. Exchange rate, liquidity and interest rate risks are some risks under this heading.

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

ASELSAN eliminates the liquidity risk, which is known as the risk arising from default and inability to fund the the assets, it monitors forecasted and actual cash flows regularly and ensures the continuity of adequate funds and credit lines by matching the maturity of financial assets and liabilities. In order to manage the interest rate risk arising from changes in assets and / or liabilities as a result of fluctuations in interest rates in the future, it conducts transactions with fixed interest rates and uses financial derivative instruments when necessary.

Compliance Risks: It refers to the risks associated with the Company's financial losses and / or loss of reputation as a result of the company's activities or the attitudes and behaviors of the company employees that are not in compliance with the legislation, regulations and standards. While conducting its activities, ASELSAN closely follows national and international standards with the best practices in the sector, and compliance with legislation and regulations is ensured at the highest level. In addition, by IAP; the effectiveness of controls, compliance with legislation and ASELSAN regulations, compliance with ethical principles and controls to eliminate risks are being evaluated.

b. Early Detection and Management of Risk Committee Works

The Early Detection and Management of Risk Committee, which consists of the members of the Board of Directors, has been operating at ASELSAN since 2012 in order to ensure early detection of risks that may endanger the existence, development and continuity of the Company, to take necessary measures related to the identified risks and to manage the risks. The Chairman of the Committee is an Independent Board Member.

Committee; carries out its own activities in full compliance with the regulations of the Capital Markets Board and all the related legislation, especially article 378 of the Turkish Commercial Code No. 6102. In addition, the Early Detection of Risk System and Committee, established by ASELSAN, is subjected to independent audits annually and the Auditor Report stating that the activities performed is sufficient, is submitted to the Board of Directors. Committee conducted 3 meetings in the first half of 2021 in order to follow the works on early detection and management of risks and to make evaluations about this issue. The reports containing the works of the Committee were being submitted to the Board of Directors periodically.

COVID - 19

From the first statements announced by the World Health Organization and Ministry of Health of Republic of Turkey regarding the Corona Virus (COVID-19) threat, ASELSAN has taken all the necessary preventive measures and decisions to protect the health of all employees working in its campuses and to provide a suitable working environment for them. Maintaining the health of all employees working in ASELSAN campuses, as well as ensuring the continuity and sustainability of production and design activities in terms of the nature of the area in which it operates and its importance for the country have been determined as the main target.

COVID-19, which has influenced the world and our country, has been at the center of ASELSAN's Corporate Risk Management System. In order to reduce the impact of the outbreak, measures covering all internal and external stakeholders at ASELSAN have been implemented. In addition, all possible effects of epidemic disease on ASELSAN's strategic goals, operations, financial situation, and all laws and regulations it is subject to were evaluated through scenario-based analysis.

ASELSAN, which is Turkey's largest defense electronics organizations operates in a wide area that meets the needs of domestic and foreign authorities especially the Turkish Armed Forces' in the field of communication and information technologies, microelectronics, radar, electronic warfare, electro-optics, avionics systems, unmanned systems, land, naval, army systems, air defense, missile systems, command and control systems, transportation, security, traffic, automation and health technologies. ASELSAN Family continues to work with great faith, determination and sacrifice.

6. Financial Information of the Company

The forecasts under the normal conditions regarding the Group's consolidated financial results for the 2021 year are presented below;

Financial Targets of 2021	Financial Targets 2021 (Ratio / Amount)
Consolidated Revenue Growth (TL)	40 – 50%
EBITDA Margin <i>(Consolidated and Adjusted without Foreign Exchange Rate Differences)</i>	20 – 22%
Consolidated Capital Expenditures	TL 2.000 Million

The Company, which has been in the most prestigious Defense Industry list since 2008, “Defense News Top 100”, published by “Defense News” magazine, aims to increase its ranking in the list in following years. Ranking 48th in the 2020 list, the Company maintained ist 48th place in the 2021 list.

46th Ordinary General Assembly Meeting held on 29 June 2021.

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 eco-system with the sub-industry companies and SME’s is formed.
- Company is continuing its operations in civil electronic areas which requires high technology.
- Inorganic growth will be also evaluated as well as organic growth.

a. 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 the period between 1 January – 30 June 2021, the cash requirements were met with the available cash, cash inflows from operations and loans.

As of 30 June 2021, there is a loan balance amounting to USD 504 Million, including USD 270 Million used from Turkish EximBank, USD 225 Million used from commercial banks, USD 8 Million used for the payment for Social Security Institution.

The total loan balance is 516 USD Million with the consolidation effect.

Planned Measures To Improve the Financial Structure of the Company

As for the annual budgets and implementations for the period 2021-2023, the Group have 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.

b. 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, Research and Development center application pursuant to the Law regarding the support of Research and Development activities numbered 5746 is being implemented. 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 7 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-1 and MGEO-2), Communication and Information Technologies (HBT), Transportation, Security, Energy, Automation and Medical Systems (UGES) Vice Presidencies as well as ASELSAN Research Center of Vice Presidency of Technology and Strategy Management (GY). Currently, 4.262 staff are employed at the Group's Research and Development centers.

Besides, in this context, in January 2021, R&D Management Vice Presidency is established.

The Company also carries on its activities at METU Teknokent, Hacettepe Teknokent, Teknopark Ankara and Teknopark İstanbul within the scope of the Law numbered 4691 on Technology Development Regions. Group employed 849 staff within this region. 318 staff at Teknopark İvedik, 329 staff at Teknokent ODTÜ, 107 staff at Teknopark İstanbul, 88 staff at Teknopark Hacettepe, and 7 staff at Gebze Bilişim Vadisi are employed.

c. Progress in Investments and Degree of Incentive Utilization

i. 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

Income tax withholding incentive, insurance premium support, stamp tax exemption and Research and Development incentives 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 Legal Gazette 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 2028.

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 2028.

Between the period 1 January – 30 June 2021 because of having Research and Development centers, 143.299 Thousand TL within the scope of income tax withholding incentive, promotion of insurance premium, stamp duty exception; as a result of being active at ODTÜ Teknokent, Ankara Teknokent, Hacettepe Teknokent, Gebze Informatics Valley and İstanbul Technology Development Area Technopark 44.869 Thousand TL incentives have been used.

Within the scope of the Research and Development Law No 5746 and Teknokent Law No 4691, 301.431 Thousand TL Corporate Tax advantage has been gained as of 1 January - 30 June 2021 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 25% (%25 for the year 2021, %22 for the years 2018 - 2020 and 20% for the remaining years) of distinction amount is evaluated as deferred tax income at financial tables.

Subject to the Tübitak Academic Support Programs; there are six ongoing projects in the 1003 –Priority Areas R&D Projects Support Program, and two ongoing projects in the 1004-Center of Excellence Support Program.

Subject to the Tübitak Industry Support Programs, 5 in the 1511-Priority Areas Research, Technology Development and Innovation Projects, and 7 ongoing projects in the 1501-Industry R&D Projects Support Program. The application was removed from the programs for large-scale organizations; SMEs were left under the program based on the changes made on the 1501-Industry R&D Projects Support Program on 1 July 2019.

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 R&D projects are still ongoing.

The incentives for the related programs are used periodically. In addition, there are 1 projects carried out in the Tübitak 1005 Ardep- National New Ideas and Products Research Funding Program.

Incentives were received from Turquality and Support and Price Stability Fund (DFIF) due to the Market research, fair, and library support activities (316 Thousand TL).

Supports are received within the scope of TUBITAK projects. (115 Thousand TL).

Within the context of "Taxes and Funds Exemption Certificate" received from Republic of Turkey Ministry of Trade in order to increase exports and gain competitiveness in international markets, stamp duty and fee exemptions are used in export sales and deliveries and foreign exchange gain activities. (8.137 Thousand TL)

Within the Decision Regarding the Governmental Grant in Investments, there are eight Investment Incentive Certificates taken from the Turkish Republic Ministry of Industry and Technology General Directorate of Incentives and Implementation. With such incentive certificates, VAT exemption and customs tax exclusion are utilized (34.626 Thousand TL).

VAT exemption is applied to our purchases, which are used for our deliveries subject to VAT 13/f Article and our exports (136.733 Thousand TL).

d. Production, Capacity and Revenue

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.

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.

Substantial part of production has been realized based on orders. All related processes are being managed efficiently since product requirements, quantities and prices are different.

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.

As of June 2021, net sales increased by %33 to 6,97 Billion TL and export to net sales ratio is %7.

e. Financial Ratios

As of 30 June 2021, 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. Based on this, financial ratios are presented as below.

Financial Ratios	30.06.2021	30.06.2020
Current Ratio	1,56	1,78
Liquidity Ratio	0,81	0,90
Short Term Current Liabilities / Total Financial Liabilities	96,4%	79,1%
Total Financial Liabilities / Total Assets	12,6%	9,6%
Gross Profit Margin	36,9%	29,7%
Operating Profit Margin (EBIT)	24,5%	21,8%
Adjusted EBITDA Margin (*)	27,3%	24,4%
Net Profit Margin	36,3%	35,3%
Return On Equity (ROE)	29,1%	29,2%
Net Working Capital / Net Sales	49,0%	51,1%
Return on Assets (ROA)	16,4%	16,0%

(*) 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.

7. Changes in the Legislation Which Would Have Significant Impact on the Activities of the Company

There is no material change in the legislation within the reporting period.

8. Compliance Report on Corporate Governance Principles

"Corporate Governance Compliance Report" will be announced in the year-end report of the Board of Directors.

9. Information Regarding the Lawsuits of the Group

The lawsuits and execution proceedings filed by or against the Group as of 30 June 2021 are summarized in the table;

Detail	June 30, 2021 (Thousand TL)
Ongoing lawsuits filed by the Group	122.687
Execution proceedings carried on by the Group	298.125
Lawsuits proceedings carried against the Group	21.528
Execution proceedings carried against the Group	4.769
Lawsuits finalized against the Group within the period	9.845
Lawsuits finalized in favor of the Group within the period	958

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 2021.

10. Information Regarding the Transactions Made within the Reporting Period

a. Changes in the Articles of Association

There are no changes in the Articles of Association within the reporting period.

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

The Group recruited a total number of 651 people as the personnel including fixed-term contracted personnel, disabled and terror-stricken personnel during the period 1 January – 30 June 2021 and the number of people quit for the same period is 299.

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, and childcare and kindergarten benefits. The average number of personnel employed by the Group as of 30 June 2021 is 9.644.

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

There has not been such an event within the reporting period.

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

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

e. Information Regarding the Donations and Social Responsibility

Within the period of 1 January – 30 June 2021, the donations made by the Group are as below.

Institution	June 30, 2021 (Thousand TL)
Ministry of Education	110
ASELSAN Vocational Technical High School	37
ASiL Foundation	30
Others	16
TOTAL	193

f. Events After the Reporting Period

After the reporting period, the Group has signed contracts amounting to USD 262 Million.

ASELSAN ELEKTRONİK SANAYİ VE TİCARET A.Ş.
SIGNATURE SECTION OF ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE PERIOD
BETWEEN 1 JANUARY – 30 JUNE 2021

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

Alpaslan KAVAKLIOĞLU
Vice Chairman of the Board of
Directors

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

Yavuz ÇELİK
Member of the Board of
Directors

Prof. Dr. Turan EROL
Member of the Board of
Directors

Mehmet Fatih KACIR
Member of the Board of
Directors

Salih KUL
Member of the Board of
Directors

Nurşen SARI
Member of the Board of
Directors

Mustafa Murat ŞEKER
Member of the Board of
Directors