ASELSAN and Its Subsidiaries

Audited Consolidated Balance Sheet as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

ASSETS	NOTE	Current Period 31.12.2012	Prior Period 31.12.2011
CURRENT ASSETS		**1.943.880.942**	**1.387.664.347**
Cash and cash equivalents	4	371.895.213	179.460.161
Financial assets	5	-	2.267.100
Trade receivables	7	524.368.164	275.148.250
Other receivables	8	42.707.917	19.674.394
Inventories	9	584.822.894	551.915.159
Order advances given	17	233.904.863	229.778.048
Other current assets	18	186.181.891	129.420.843
Assets classified as held for sale		-	392
NON - CURRENT ASSETS		**1.380.333.829**	**1.004.379.900**
Long-term trade receivables	7	247.117.400	186.339.307
Other long term receivables	8	176.799	108.542
Long-term financial assets	5	12.017.562	9.484.215
Fixed assets	11	412.092.736	350.345.056
Intangible assets	12	297.687.497	172.200.257
Order advances given	17	250.406.586	183.468.477
Deferred tax assets	26	132.604.753	91.928.877
Other non-current assets	18	28.230.496	10.505.169
TOTAL ASSETS		**3.324.214.771**	**2.392.044.247**

ASELSAN and Its Subsidiaries

Audited Consolidated Balance Sheet as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

LIABILITIES	NOTE	Current Period 31.12.2012	Prior Period 31.12.2011
CURRENT LIABILITIES		**776.838.100**	**426.813.385**
Financial liabilities	6	211.353.364	15.090.003
Trade payables	7	295.592.060	161.381.235
Other payables	8	20.870.303	23.354.593
Other financial liabilities		93.312	-
Government grants and incentives	13	7.433.936	6.162.438
Corporate tax liability	26	304.275	107.422
Expense accruals	14	76.764.254	76.612.776
Provisions for employee benefits	16	18.656.924	13.993.659
Order advances received	17	142.716.946	125.804.222
Other current liabilities	18	3.052.726	4.307.037
NON - CURRENT LIABILITIES		**1.281.281.080**	**946.414.472**
Long-term financial liabilities	6	113.764.741	124.627.727
Long-term trade payables	7	11.014.753	32.653.975
Other long term trade payables	8	20.326	82.297
Other long-term financial liabilities		252.761	-
Government grants and incentives	13	785.936	-
Expense accruals	14	9.039.061	11.128.448
Provisions for employee benefits	16	104.434.432	73.537.472
Order advances received	17	1.041.940.108	704.377.488
Other non-current liabilities	18	28.962	7.065
EQUITY		**1.266.095.591**	**1.018.816.390**
Equity attributable to equity holders of the parent		**1.265.551.399**	**1.018.805.470**
Share capital	19	500.000.000	235.224.000
Share capital adjustment	19	98.620.780	132.773.042
Restricted profit reserves	19	52.071.680	42.731.216
Retained earnings	19	321.656.271	447.322.067
Net profit for the period		293.202.668	160.755.145
Non-controlling interests		**544.192**	**10.920**
TOTAL LIABILITIES AND EQUITY		**3.324.214.771**	**2.392.044.247**

ASELSAN and Its Subsidiaries

Audited Consolidated Income Statement as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

	NOTE	Current Period 1 January - 31 December 2012	Prior Period 1 January - 31 December 2011
OPERATING INCOME			
Sales revenue	20	1.632.896.367	1.501.878.990
Cost of sales (-)	20	(1.240.603.203)	(1.105.775.054)
GROSS PROFIT		**392.293.164**	**396.103.936**
Marketing, selling and distribution expenses (-)	21	(38.575.081)	(31.616.522)
General administrative expenses (-)	21	(99.626.320)	(83.804.962)
Research and development expenses (-)	21	(70.259.436)	(48.925.095)
Other operating income	23	26.743.358	4.216.949
Other operating expenses (-)	23	(7.515.634)	(1.598.532)
OPERATING PROFIT		**203.060.051**	**234.375.774**
Non-operating financial income	24	297.403.835	362.037.662
Non-operating financial expenses (-)	25	(246.742.392)	(472.447.199)
PROFIT BEFORE TAXATION		**253.721.494**	**123.966.237**
Tax Income		**40.019.446**	**36.436.808**
- Current corporate tax expense	26	(656.430)	(917.110)
- Deferred tax income	26	40.675.876	37.353.918
PROFIT FOR THE PERIOD		**293.740.940**	**160.403.045**
Distribution of profit for the period			
Non-controlling interest		538.272	(352.100)
Parent company		293.202.668	160.755.145
		293.740.940	**160.403.045**
Earnings per 100 shares	**27**	**0,59**	**0,32**

ASELSAN and Its Subsidiaries

Audited Consolidated Income Statement as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

	NOTE	Current Period 1 January - 31 December 2012	Prior Period 1 January - 31 December 2011
PROFIT FOR THE PERIOD		293.740.940	160.403.045
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		293.740.940	160.403.045
Distribution of total comprehensive income:			
Parent company		293.202.668	160.755.145
Non-controlling interest		538.272	(352.100)
		293.740.940	160.403.045

ASELSAN and Its Subsidiaries

Audited Consolidated Statement of Changes in Equity as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

	Share capital	Share capital adjustments	Restricted profit reserves	Retained earnings	Profit for the period	Equity Attributable to Parent Company	Non-controlling interest	Total
Balance as of 1 January 2011	**235.224.000**	**132.773.042**	**29.813.447**	**260.354.440**	**226.880.489**	**885.045.418**	**231.736**	**885.277.154**
The effect of the entities included in consolidation	-	-	300.857	5.400.185	-	**5.701.042**	131.284	**5.832.326**
Transfers	-	-	12.616.912	181.567.442	(194.184.354)	**-**	-	**-**
Payment of dividends	-	-	-	-	(32.696.135)	**(32.696.135)**	-	**(32.696.135)**
Total comprehensive income	-	-	-	-	160.755.145	**160.755.145**	(352.100)	**160.403.045**
Balance as of 31 December 2011	**235.224.000**	**132.773.042**	**42.731.216**	**447.322.067**	**160.755.145**	**1.018.805.470**	**10.920**	**1.018.816.390**
Transfers	264.776.000	(34.152.262)	9.340.464	(125.665.796)	(114.298.406)	**-**	-	**-**
Payment of dividends	-	-	-	-	(46.456.739)	**(46.456.739)**	(5.000)	**(46.461.739)**
Total comprehensive income	-	-	-	-	293.202.668	**293.202.668**	538.272	**293.740.940**
Balance as of 31 December 2012	**500.000.000**	**98.620.780**	**52.071.680**	**321.656.271**	**293.202.668**	**1.265.551.399**	**544.192**	**1.266.095.591**

ASELSAN and Its Subsidiaries

Audited Consolidated Statement of Cash Flow as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

	NOTE	1 January- 31 December 2012	1 January - 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period		293.740.940	160.403.045
Adjustments to reconcile net profit for the period to cash provided by operating activities			
Depreciation and amortization	11-12	68.283.872	58.072.210
Provision for employee benefits	16	40.480.077	18.224.374
Allowances for doubtful receivables –net	7	(70.887)	226.053
Provision for guarantee expenses (cancellation) -net	14	4.584.147	11.619.350
Provision for delay penalties and fines	14	(348.152)	11.836.723
Provision for pending claims and lawsuits- net	14	(216.020)	(175.616)
Impairment provision for inventory -net	9	2.945.538	1.602.054
Other provisions	14	(5.957.884)	9.105.214
Tax income -net	26	(40.019.446)	(36.436.808)
Interest income	24	(12.883.616)	(17.724.493)
Interest expense	25	3.352.490	1.680.505
Net cash generated by operating activities before movements in working capital		**353.891.059**	**218.432.611**
Movements in working capital			
Trade receivables		(309.927.120)	(158.857.525)
Other receivables		(23.101.780)	(9.266.422)
Inventories		(35.853.273)	(75.223.270)
Order advances given		(71.064.924)	(68.530.027)
Other current assets		(56.760.656)	(33.689.400)
Other non-current assets		(17.725.327)	1.803.159
Trade payables		112.571.603	16.544.750
Other payables		(2.546.261)	11.974.043
Government grants and incentives		2.057.434	3.069.082
Order advances received		354.475.344	(115.168.533)
Other liabilities		(886.340)	3.732.788
Net cash (used in)/provided by operations		**305.129.759**	**(205.178.744)**
Interest received	24	12.883.616	17.724.493
Tax paid		(459.577)	(967.700)
Interest paid		(2.663.899)	(597.923)
Employee termination benefits paid	16	(4.919.852)	(4.163.260)
Cash generated by operating activities		**309.970.047**	**(193.183.134)**

ASELSAN and Its Subsidiaries

Audited Consolidated Statement of Cash Flow as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

		1 January- 31 December 2012	1 January - 31 December 2011
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for fixed assets		(107.172.826)	(114.851.349)
Proceeds from disposal of fixed assets		4.222.433	730.468
Payments for intangible assets		(152.568.399)	(80.498.738)
Change in the financial investments		(266.247)	4.398.387
Change in the non-controlling interest		-	131.284
Net cash used in investing activities		**(255.785.039)**	**(190.089.948)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		428.498.958	330.788.384
Repayments of borrowings		(243.787.175)	(336.055.803)
Dividends paid		(46.461.739)	(32.696.135)
Net cash used in financing activities		**138.250.044**	**(37.963.554)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**192.435.052**	**(421.236.636)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**179.460.161**	**600.696.797**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**371.895.213**	**179.460.161**

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

1. ORGANIZATION AND OPERATIONS OF THE GROUP

ASELSAN Elektronik Sanayi ve Ticaret A.Ş. (the Company) was established in order to engage principally in research, development, engineering, production, tests, assembly, integration and sales, after sales support, consultancy and trading activities, to provide and conduct all sorts of activities for project preparation, engineering, consultancy, service providing, training, contracting, construction, publishing, trading, operation and internet services regarding various software, equipment, system, tools, material and platforms in the fields of electrical, electronics, microwave, electro-optics, guidance, computer, data processing, encryption, security, mechanics, chemistry and related subjects within the army, navy, air force and aerospace applications to all institutions, organizations, companies and individual consumers.

The Company was established at the end of 1975 as a corporation by Turkish Land Forces Foundation. The Company commenced its production activities in Macunköy facilities in early 1979. The Company has been organized in four main divisions: The Communication and Information Technologies Division (HBT), Radar, Electronic Warfare and Intelligence Systems (REHİS), Defense Systems Technologies (SST) and Microelectronics, Guidance & Electro-Optics Division (MGEO) based on the investment and production requirements of projects carried out. The Company carries out its manufacturing and engineering activities in Macunköy and Akyurt facilities and the Head office is located in Ankara, Macunköy.

Turkish Armed Forces Foundation ("TAFF") is the main shareholder of the Company which holds 84,58% of the capital and maintains control of the Company. TAFF was established on 17 June 1987 with the law number 3388, in order to manufacture or import guns, equipment and appliances needed for Turkish Armed Forces.

The Company is registered to Capital Markets Board of Turkey ("CMB") and its shares are quoted in Istanbul Stock Exchange ("ISE") since 1990. 15,30% of the shares of the Company are publicly held as of 31 December 2012 (31 December 2011: 15,30%) (Note: 19).

The Company's trade registry address is Mehmet Akif Ersoy Mahallesi 296. Cadde No:16 06370 Yenimahalle/Ankara. The number of personnel employed by the Group as of 31 December 2012 is 5.205 (31 December 2011: 4.888).

The Company, and its consolidated subsidiaries Mikrodalga Elektronik Sistemleri Sanayi ve Ticaret A.Ş. (MİKES) and AselsanNet Elektronik ve Haberleşme Sistemleri Sanayi Ticaret İnşaat ve Taahhüt Ltd. Şti. (AselsanNet), operating in the same sector with the Company, are collectively referred as the "Group" in the accompanying notes.

The main operations of the companies included in the consolidation and the share percentage of the Group for these companies are as follows:

		31 December 2012	31 December 2011
Company name	**Operation**	**Share (%)**	
Mikrodalga Elektronik Sistemler Sanayi ve Ticaret A.Ş.	Research and development on microwave projects	96,36	96,36
AselsanNet Elek. ve Hab. Sis. San. Tic. İnş. ve Taah. Ltd. Şti.	Communication systems	95,00	95,00

The subsidiaries Mikroelektronik Ar-Ge Tasarım ve Ticaret Limited Şirketi ve ASELSAN Bakü Şirketi which are classified as non-current financial assets are excluded from consolidation as their inclusion does not materially affect the consolidated financial results of the Group (Note: 5). Besides, the Company opened up a branch as "ASELSAN Elektronik Sanayi ve Ticaret A.Ş. EP Co." in 2011 in South Africa which aims to design optic systems and marketing and selling the Company's products in South Africa and nearby countries.

In addition, the joint ventures IGG ASELSAN Integrated Systems LLC (United Arab Emirates) and Kazakhstan ASELSAN Engineering LLP (Kazakhstan) established in 2011 and ASELSAN Middle East PSC LTD (Jordan) established in 2012, which are classified as non-current financial assets are excluded from consolidation as their inclusion does not materially affect the consolidated financial results of the Group (Note: 5).

Approval of the consolidated financial statements:

These consolidated financial statements for the period between 1 January 2012 and 31 December 2012 have been approved for issue by the Board of Directors with the decision number 757 on 5 March 2013. No authority other than Board of Directors and General Assembly has the right to amend the consolidated financial statements.

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 The basis of presentation

The basis of preparation of consolidated financial statements and significant accounting policies

The company and its subsidiaries registered in Turkey, MİKES and AselsanNet maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with accounting principles in the Turkish Commercial Code ("TCC") and tax legislation in Turkish Lira ("TL").

CMB has established principles, procedures and basis on the preparation of financial reports by enterprises and the representation of the reports with Communiqué Series XI, No: 29 "Communiqué on Capital Market Financial Reporting Standards". This Communiqué is applicable for the first interim financial statements to be prepared after 1 January 2008. In accordance with this Communiqué, the companies are supposed to prepare their financial statements in accordance with the International Financial Reporting Standards ("IAS/IFRS") accepted by European Union. Nevertheless, until the discrepancies between the IAS/IFRS accepted by the European Union, and the IAS/IFRS declared by IASB are announced by the Turkish Accounting Standards Board ("TASB"), IAS/IFRS will be in use. Under these circumstances, Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/TFRS"), which are the standards published by TASB, not contradicting with IAS/IFRS will be adopted.

The accompanying consolidated financial statements comply with CMB's decree announced on 17 April 2008 and 9 January 2009 regarding the format of the financial statements and footnotes.

According Statutory Decree No: 660 published on 2 November 2011 in the Official Gazette, the Additional Clause 1 of the Law No: 2499 was cancelled and Public Oversight, Accounting and Auditing Standards Authority ("Institution") was established. Current arrangements related with this Statutory Decrees, in accordance with the Temporary Law No.1, is continued to be applied until the standards and amendments go in effect. Therefore, the stated situation does not cause any amendment in the "Basis of Presentation of Financial Statements" stated in the notes of financial statements as of balance sheet date.

The consolidated financial statements are prepared according to historical cost accounting. In order to determine the historical cost, the fair values paid for assets are considered.

Preparation of Financial Statements in Hyperinflationary Periods

CMB, with its resolution dated 17 March 2005 declared that companies operating in Turkey which prepare their financial statements in accordance with CMB Accounting Standards, effective 1 January 2005, will not be subject to the application of inflation accounting. Consequently, in the accompanying financial statements IAS 29 "Financial Reporting in Hyperinflationary Economies" was not applied since 1 January 2005.

Functional Currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional, and presentation currency of the Company and the reporting currency for the consolidated financial statements.

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

Consolidation Principals

Subsidiaries:

The details of the subsidiaries of the Group are as follows:

		Group's proportion of ownership and voting power held (%)		
Subsidiaries	**Location**	**31 December 2012**	**31 December 2011**	**Principal Activity**
MİKES Mikrodalga Elektronik Sistemleri	Turkey	96,36	96,36	Microwave R&D projects
AselsanNet Ltd. Şti.	Turkey	95	95	Telecommunication system
ASELSAN Baku(*)	Azerbaijan	100	100	Marketing and sales of the group products
Mikroelektronik Ar-Ge Tasarım ve Ticaret Limited A.Ş. (*)	Turkey	85	85	Microelectronic R&D projects

(*) Excluded from group consolidation as it does not significantly affect the consolidated financial results.

The accompanying consolidated financial statements include the financial statements of the Company and entities controlled or jointly controlled by the Company's subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed in the current year are included in the consolidated comprehensive income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Total comprehensive income is distributed over parent company share and non-controlling interests although the total non-controlling interest turns into a negative balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Interests in joint ventures:

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. The details of the Group's interests in joint ventures as of 31 December 2012 and 2011 are as follows:

		Group's proportion of ownership and voting power held (%)		
Joint Ventures	**Country of incorporation and operation**	**2012**	**2011**	**Principal Activity**
IGG ASELSAN Integrated Systems LLC	U.A.E.	49	49	Marketing and sales of the group products
Kazakhstan ASELSAN Engineering LLP	Kazakhstan	49	49	Marketing and sales of the group products
ASELSAN Middle East PSC LTD	Jordan	49	-	Marketing and sales of the group products

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

IGG ASELSAN Integrated Systems LLC and Kazakhstan ASELSAN Engineering LLP established in 2011 and ASELSAN Middle East PSC LTD (Jordan) established in 2012, which are classified as non-current financial assets, were not included in the consolidation, have not started operations and their effect on the consolidated financial statements of the Group are deemed to be immaterial.

2.2 Changes in the Accounting Policies

Significant changes in accounting policies are applied retrospectively and prior period financial statements are restated.

2.3 Changes in the Accounting Estimates and Errors

If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes are for the following periods, changes are applied both on the current and following years prospectively. The Group has no significant changes to the accounting estimates in the current period.

The estimated errors in the accounting policies are applied retrospectively and the prior year's financial statements are restated accordingly.

2.4 Adoption of New and Revised International Financial Reporting Standards

(a) New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have been adopted in the current period. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and previous years, but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 7 Disclosures - Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

These amendments to IFRS 7 did not have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

Amendments to IAS 12 Deferred Taxes – Recovery of Underlying Assets

The amendment is effective for annual periods beginning on or after 1 January 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, through sale. The Group does not have investment property. The amendment did not have any effect on the consolidated financial statements.

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

(b) New and revised IFRSs in issue but not yet effective and not early adopted by the Group

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IAS 1	*Presentation of Items of Other Comprehensive Income*[1]
Amendments to IAS 1	*Clarification of the Requirements for Comparative Information*[2]
IFRS 9	*Financial Instruments*[5]
IFRS 10	*Consolidated Financial Statements*[3]
IFRS 11	*Joint Arrangements*[3]
IFRS 12	*Disclosure of Interests in Other Entities*[3]
IFRS 13	*Fair Value Measurement*[3]
Amendments to IFRS 7	*Disclosures – Offsetting Financial Assets and Financial Liabilities*[3]
Amendments to IFRS 9 and IFRS 7	*Mandatory Effective Date of IFRS 9 and Transition Disclosures*[5]
IFRS 10, IFRS 11	*Consolidated Financial Statements, Joint Arrangements* [3]
Amendments to IFRS 12	*Disclosures of Interests in Other Entities: Transition Guide*[3]
IAS 19 (as revised in 2011)	*Employee Benefits*[3]
IAS 27 (as revised in 2011)	*Separate Financial Statements*[3]
IAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*[3]
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*[4]
Amendments to IFRSs	*Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[3]

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012.
[3] Effective for annual periods beginning on or after 1 January 2013.
[4] Effective for annual periods beginning on or after 1 January 2014.
[5] Effective for annual periods beginning on or after 1 January 2015.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* is effective for the annual periods beginning on or after 1 July 2012. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the “statement of comprehensive income” is renamed as the “statement of profit or loss and other comprehensive income” and the “income statement” is renamed as the “statement of profit or loss”. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income either in a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments may be applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* are effective for the annual periods beginning on or after 1 January 2013.

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Group management anticipates that the application of IFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below:

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation - Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Venturers will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time. The Group management anticipates that the application of these five standards may have a significant impact on amounts reported in the consolidated financial statements. A detailed review will be performed by the Group management to quantify the impact on the application of IFRS 10.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the Related Disclosures

The Group management anticipates that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement".

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

IAS 19 Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs.

The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a "net-interest" amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application.

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However, the Group management has not yet performed a detailed analysis of the impact of the application of the amendments and hence has not yet quantified the extent of the impact.

Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009 - 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- Amendments to IAS 16 *Property, Plant and Equipment*; and
- Amendments to IAS 32 *Financial Instruments: Presentation*

Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Group management does not anticipate that the amendments to IAS 16 will have a significant effect on the Group's consolidated financial statements.

Amendments to IAS 32

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The Group management does not anticipate that the amendments to IAS 32 will have a significant effect on the Group's consolidated financial statements.

2.5 Summary of Significant Accounting Policies

Revenue

Revenue is measured at the fair value of the received or receivable. Revenue is reduced for estimated customer returns, rebates, and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Installation fees are recognized by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date,
- Servicing fees included in the price of products sold are recognized by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold and
- Revenue from time and material contracts is recognized at the contractual rates as labor hours are delivered and direct expenses are incurred.

Revenue from construction contracts is recognized in accordance with the accounting policy outlined in the following pages.

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Dividend and interest revenue

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income

Rental income from properties is recognized on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are stated at the lower of cost and net realizable value. Inventories are valued on the basis of the project according to the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to realize sales. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

Fixed Assets

Fixed assets are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Borrowing cost is capitalized when the assets took a substantial period of time to get ready for their intended use or sale.

These assets are classified to fixed assets when the assets are completed and ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets If the ownership of the finance lease is not obvious at the end of the leasing period, it is depreciated over their expected useful lives or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The maintenance and repair expenses arising from changing any part of the fixed assets can be realized if the economic benefit of the asset is increased. All other expenses are recorded in the expense accounts in the consolidated income statement when they are realized.

The useful lives of fixed assets are as follows:

	Useful life
Buildings	10-50 years
Land improvements	15-16 years
Machinery and equipment	3-21 years
Motor Vehicles	4-8 years
Furniture and fixtures	2-10 years
Other tangible assets	5-10 years

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Intangible Assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in accounting estimates for on a prospective basis.

Trademarks and licenses

Acquired trademarks and licenses are shown at historical cost. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

Internally generated intangible assets – R&D expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognized for internally-generated intangible assets is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The useful lives of the intangible assets are as follows:

	Useful life
Rights	2-6 years
Computer software	1-2 years
Development expenditure	2-5 years

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

When the Group borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

Financial Instruments

Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as “at fair value through profit or loss” (FVTPL), “held-to-maturity investments”, “available-for-sale” (AFS) financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Available-for-sale financial assets

Quoted equity investments and quoted certain debt securities held by the Group that are traded in an active market are classified as being available- for-sale financial assets and are stated at fair value. The Group also has investments in unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets and stated at cost since their value can’t be reliably measured. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group’s right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as “loans and receivables”. Loans and receivables are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Any increase in fair value subsequent to an impairment loss is recognized in their comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial Liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in "other gains/losses" line in the statement of comprehensive income.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial Leasing

Leasing- the group as lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Foreign Currency Transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the operational results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation for consolidated financial statements

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

Earnings per Share

Earnings per share, disclosed in the consolidated income statement, are determined by dividing the net income attributable to equity holders of the parent by the weighted average number of shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the weighted average number of shares is computed by taking into consideration of the retrospective effects of the share distributions.

Subsequent Events

Subsequent events include all events that take place between the balance sheet date and the date of authorization for the release of the financial statements, although the events occurred after the announcements related to the net profit/loss or even after the public disclosure of other selective financial information.

In the case that events occur requiring an adjustment, the Group adjusts the amount recognized in its consolidated financial statements to reflect the adjustments after the balance sheet date.

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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Segmental Information

Operations of the Group are technical system design, development, production, and after-sales services for various products for defense industry. Group operates mainly for the Ministry of Defense via Communication and Information Technologies (HBT), Defense System Technologies (SST), Radar Electronic Warfare and Intelligence Systems (REHİS), Microelectronics, Guidance and Electro-optics (MGEO). The Group does not report segmental information in accordance with IFRS 8 “Operating Segments” considering the operations and organizational structure not reporting according to segments due to its nature of products and services, its customer segment or type for its products and services, not having a profit based reporting structure and having project based reporting structure to the Board of Directors based on contracts not segments. The operations of the divisions generally determined according to the volume of orders at the group level rather than specific planning at group’s level. Due to the level of orders new groups may be established in order to increase the management activities.

Construction Contracts

Cost of contracts is recognized when incurred. These costs include the costs that relate directly to the specific contract and the costs that are attributable to contract activity in general and can be allocated to the contract and the other costs that are specifically chargeable to the customer under the terms of the contract. A major part of the costs include the development expenses of the projects.

Where the outcome of a construction contract cannot be estimated reliably, revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable.

Where the outcome of a construction contract can be estimated reliably, revenue is recognized over the terms of the contract term. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

The group uses the “percentage-of-completion method” to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

Each project contract is evaluated by the technical teams regarding the expected change in the upcoming costs and the profitability of the contracts that is determined as of the balance sheet dates. If purchases and collections made by more than one currency regarding a contract, then the upcoming purchasing and invoicing is forecasted based on the amount stated in the contract and the weighted average currency in the following financial years. Besides the amounts of the contracts subjected to escalation as of the balance sheet date, are estimated based on the contract details.

Government grants, if any, are also taken into consideration while calculating the profitability of the contract. The grants are recognized by netting-off from the costs in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”.

The Group presents the amount as an asset if the gross amount due from customers for customer work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within “trade and other receivables”.

The Group presents the amount as a liability if the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Taxes Calculated on the Basis of the Company's Earnings

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities overcost.

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Employee Benefits

Termination and retirement benefits:

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the consolidated financial statements represents the present value of the defined benefit obligation.

Dividend and bonus plans

The Group recognizes a liability and an expense for bonuses and dividend, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Group recognizes the cost of providing additional retirement bonuses comprising two months gross salary to employees who have completed 20 years of service and earned the right to retirement benefits. These compensations are deducted from the net present values of the unrealized liability amounts and are recognized in the accompanying consolidated financial statements

Statement of Cash Flows

Current period statements of cash flows are categorized and reported as operating, investing and financing.

Cash flows from operating activities reflect cash flows generated from Group's operating activities.

Cash flows from investing activities summarize the Group's cash flows used in or generated from investing activities (fixed and financial investments).

Cash flows from investing activities summarize the Group's cash flows from liabilities and repayments of these liabilities benefited in financing needs of the Group.

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Netting-off

Financial assets and liabilities are disclosed with their net amounts in the balance sheet if there is a legal right to net-off or recoverability is possible, or if acquisition of asset and performance of obligation are realized simultaneously.

Non-Current Assets Held for Sale

Non-current assets are classified as assets "held for sale" when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. The assets can be a part of the Group, disposal group as a single fixed asset.

2.6 Critical Accounting Judgments and Estimates

Critical judgments in applying the entity's accounting policies

In the process of applying the entity's accounting policies, which are described in note 2.5, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements:

Deferred tax

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize

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the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then some portion of or all of the deferred tax assets are not recognized (Note: 26).

Liabilities with respect to employment benefits

The Group makes various assumptions on discount, inflation rate, wage increase rate, the probability of quitting voluntarily for calculating provisions for severance and retirement pays (Note: 16).

Useful lives of tangible and intangible assets

The Group amortizes the non-current assets based on the useful lives of those assets stated in the accounting policies (Note: 11-12).

Percentage of completion

The Group uses the percentage of completion method in accounting for contracts in accordance with IAS 11 "Construction Contracts". Use of percentage of completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. Moreover for projects that are estimated to end up with a loss, provision for loss is calculated (Note: 10). The estimation of the total cost of the projects consists of the risks that may cause major changes in the adjustments of the fair values of assets and liabilities for the subsequent periods.

Estimation of foreign exchange rates

If purchases and collections made by more than one currency regarding the projects, in accordance with IAS 11 the upcoming purchasing and invoicing is forecasted based on the amount stated in the contract and the weighted average currency in the following financial years.

Escalation

As of the balance sheet dates, the amounts of the projects subject to escalation are calculated with respect to the provisions of the contracts and estimated in accordance with IAS 11 "Construction Contracts".

Provision for guarantee expenses

The Group calculates provision, according to the budgeted estimations for specific parts of the sales under the scope of warranty that needs specific guarantee calculations, and according to the realizations in previous years for the remaining part of the sales. The guarantee period for the projects completed by the Group are 2 years on the average after the delivery (Note: 14).

Development expenses

As of balance sheet dates, the Management assess the recoverability of the expenses regarding the Group's development activities. These expenses are started to be amortized with respect to their useful lives when their development phases are completed and it becomes probable that there is an associated economic benefit. When the development phase is completed and no economic benefit is foreseen, the related expenses are recognized in consolidated income statement (Note: 12).

3. JOINT VENTURES

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other ventures are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

The joint ventures IGG ASELSAN Integrated Systems LLC and Kazakhstan ASELSAN Engineering LLP established in 2011 and ASELSAN Middle East PSC LTD (Jordan) established in 2012, which are recorded under long-term financial investments, were excluded from the consolidation and as they do not significantly affect the consolidated results of the Group.

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4. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash	87.124	42.751
Cheques received	3.408	30.496
Demand deposits –TL	978.948	2.693.726
Foreign currency demand deposits	7.869.491	42.707
Time deposits-TL	237.266.855	96.654.421
Foreign currency time deposits	125.319.465	79.689.049
Accrued income	347.422	289.016
Other cash equivalents	22.500	17.995
Total	**371.895.213**	**179.460.161**

As of 31 December 2012, the Group has TL 125.319.465 of foreign currency time deposits at various banks with maturities in January-April 2013 and interest rates between 0,50% and 3,30%.

As of 31 December 2012, the Group has TL 237.266.855 of time deposits at various banks with maturities between January 2013 and interest rates between 4,50% and 8,50%.

As of 31 December 2011, the Group has TL 79.689.049 of foreign currency time deposits at various banks with maturities in January 2012 and interest rates between 1,00% and 5,65%.

As of 31 December 2011, the Group has TL 96.654.421 of time deposits at various banks with maturities between January-February 2012 and interest rates between 10,50% and 12,30%.

5. FINANCIAL INVESTMENTS

Current Financial Investments

a) Financial investments at fair value through profit or loss

	31 December 2012	31 December 2011
Eurobonds	-	2.267.100
Total	**-**	**2.267.100**

Non-Current Financial Investments

a) Investments that do not have quoted market prices and carried at cost

The details of the Group's investments and share percentages of subsidiaries, joint ventures and associates are as follows:

Company's name	Ratio (%)	31 December 2012	Ratio (%)	31 December 2011
ASELSAN Baku	100	3.059.234	100	3.059.234
ROKETSAN Roket Sanayii ve Ticaret A.Ş. (ROKETSAN)	15	5.141.213	15	5.134.992
Mikroelektronik Ar-Ge Tasarım ve Ticaret Limited A.Ş.	85	624.714	85	624.714
Aspilsan A.Ş.	1	147.462	1	147.462
Havaalanı İşletme ve Havacılık End. A.Ş.	<1	86.953	<1	86.953
ASELSAN Kazakhstan Engineering LLP	49	388.023	49	388.023
IGG ASELSAN Integrated Systems LLC	49	42.837	49	42.837
ASELSAN Middle East PSC LTD	49	2.527.126	-	-
Total		**12.017.562**		**9.484.215**

The above available-for-sale equity investments amounting to TL 12.017.562 (31 December 2011: TL 9.484.215) do not have a quoted market value and their fair values cannot be reliably measured as the range of reasonable fair value estimates is significant and

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the probabilities of the various estimates cannot be reasonably assessed. For this reason they are stated at cost less provision for diminution in value, if any.

6. FINANCIAL LIABILITIES

	31 December 2012	31 December 2011
Short-term financial liabilities	206.323.350	12.897.976
Current portion of long-term financial liabilities	564.806	993.918
Other short-term financial liabilities	4.465.208	1.198.109
Total short-term financial liabilities	211.353.364	15.090.003
Other long-term financial liabilities	113.764.741	124.627.727
Total long-term financial liabilities	113.764.741	124.627.727
Total financial liabilities	**325.118.105**	**139.717.730**

As of 31 December 2012, current term financial liabilities amounting to TL 8.175.302 consist of interest free loans provided for Social Security Institution (SGK) payments with a maturity of January 2013. Current term financial liabilities amounting to TL 115.256.638 was drawn for financial investment with an interest rate of 6,19% and with a maturity of January 2013. The other current financial liabilities amounting to TL 82.891.410 consist of Preshipment Export Loan with the maturities are between the 1-4 months and with an interest rate of the ranges of 1%-1,2%.

As of 31 December 2012, other current and non-current term financial liabilities amounting to TL 1.966.536 consist of the interest free borrowings obtained from Technology Development Foundation of Turkey (TTGV). A major part of non-current financial liabilities is composed of the loan amounting to USD 40.000.000 (31 December 2011:USD 40.000.000) with an interest rate of 2,1% (31 December 2011:2,1%) obtained from Undersecretariat for Defense Industries. A letter of guarantee of USD 40.000.000 was given for the related loan. The rest of the other non-current financial liabilities consists of the loan obtained from Undersecretariat for Defense Industries amounting to USD 25.000.000 (31 December 2011:USD 25.000.000) with an interest rate of 3,5% (31 December 2011: 3,5%).

As of 31 December 2011, all of the current financial liabilities consist of Preshipment Export Loan with a maturity of March 2012 and with an interest rate of 1,3%.

As of 31 December 2011, other current and non-current term financial liabilities amounting to TL 3.101.606 consist of the non-interest bearing borrowings obtained from TTGV.

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

	31 December 2012	31 December 2011
Within 1 year	211.353.364	15.090.003
Between 1-2 years	21.374.201	4.087.069
Between 2-3 years	35.530.121	7.527.118
Between 3-4 years	35.530.121	7.484.985
Between 4-5 years	7.160.889	83.128.653
Between 5-6 years	7.160.889	7.569.171
Between 6-7 years	7.008.520	7.565.731
Between 7-8 years	-	7.265.000
Total	**325.118.105**	**139.717.730**

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7. TRADE RECEIVABLES AND PAYABLES

a) Short-term trade receivables

	31 December 2012	31 December 2011
Trade receivables	459.134.156	242.548.808
Receivables from related parties (Note: 28)	58.410.923	27.849.372
Uninvoiced receivables from construction contracts in progress	-	2.324.771
Uninvoiced receivables from construction contracts in progress – related party (Note: 28)	7.800.198	4.354.621
Notes receivables	2.131.621	1.585.923
Discount on trade and notes receivables	(1.127.796)	(1.467.586)
Other trade receivables	4.901	9.067
Provision for doubtful trade receivables (-)	(1.985.839)	(2.056.726)
Total	**524.368.164**	**275.148.250**

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

	1 January-31 December 2012	1 January-31 December 2011
Opening balance	2.056.726	1.819.535
The effect of the entity included in the consolidation	-	11.138
Provision for the period	857	231.429
Provision released	(71.744)	(5.376)
Closing balance	**1.985.839**	**2.056.726**

b) Long-term trade receivables

	31 December 2012	31 December 2011
Long-term trade receivables	22.413.157	-
Trade receivables from related parties (Not 28)	2.714.378	-
Uninvoiced receivables from construction contracts in progress	197.078.422	143.232.352
Uninvoiced receivables from construction contracts in progress – related party (Note: 28)	24.921.092	43.106.955
Notes Receivables	373.698	-
Discount on trade and notes receivables	(383.347)	-
Total	**247.117.400**	**186.339.307**

The distribution of trade receivables is as follows:

	31 December 2012	31 December 2011
Receivables from the public sector	488.005.407	246.623.661
Receivables from the private sector	144.438.253	92.026.122
Receivables from companies operating abroad	139.041.904	122.837.774
Total	**771.485.564**	**461.487.557**

Receivables from public sector represent the receivables that are due from Ministry of Defense, Undersecretariat for Defense Industries and other public enterprises. The Group's operations are based on contracts. Generally, no collaterals are obtained from the customers.

The characteristics and level of risks with respect to the trade receivables are disclosed in Note 29.

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c) Short-term trade payables

	31 December 2012	31 December 2011
Trade payables	163.064.174	128.102.347
Payables related to construction contracts in progress	83.664.782	18.160.329
Payables related to construction contracts in progress- related party (Note: 28)	32.486.209	-
Due to related parties (Note: 28)	16.505.501	17.155.153
Notes payables	34.412	-
Discount on trade and notes payables (-)	(641.475)	(2.359.188)
Other trade payables	478.457	322.594
Total	**295.592.060**	**161.381.235**

d) Long-term trade payables

	31 December 2012	31 December 2011
Long-term trade payables	7.557.931	6.104.648
Payables related to construction contracts in progress	1.921.135	26.747.061
Payables related to construction contracts in progress- related party (Note: 29)	1.639.370	-
Notes payable	-	34.412
Discount on trade and notes payable (-)	(103.683)	(232.146)
Total	**11.014.753**	**32.653.975**

The characteristics and level of risks with respect to the trade payables are disclosed in Note 29.

8. OTHER RECEIVABLES AND PAYABLES

a) Other current receivables

	31 December 2012	31 December 2011
Receivables from tax office (*)	21.397.392	18.610.453
Other current receivables from related parties (Note: 28)	18.512.763	171.350
Deposits and guarantees given	256.502	90.868
Due from personnel	112.502	143.956
Other	2.428.758	657.767
Total	**42.707.917**	**19.674.394**

(*) Due to VAT returns and which are expected to be offset in the subsequent period.

b) Other non-current receivables

	31 December 2012	31 December 2011
Deposits and guarantees given	176.799	108.542

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c) Other current payables

	31 December 2012	31 December 2011
Social security premiums payable	8.159.366	13.444.857
Taxes and funds payable	10.371.915	6.937.900
Other current payables	376.391	991.401
Deposits and guarantees received	14.261	23.061
Other current payables due to related parties (Note: 28)	24.707	22.047
Due to personnel	1.768.168	1.787.267
Due to shareholders (Note: 28)	155.495	148.060
Total	**20.870.303**	**23.354.593**

d) Other non-current payables

	31 December 2012	31 December 2011
Deposits and guarantees received	20.326	82.297

9. INVENTORIES

	31 December 2012	31 December 2011
Raw materials	337.325.150	325.808.643
Work in progress	155.786.545	123.231.391
Finished goods	37.023.242	41.801.240
Other inventories	12.614.279	9.448.480
Trade goods	11.754.173	9.247.845
Goods in transit (*)	38.518.041	47.630.558
Allowance for impairment on inventories (-)	(8.198.536)	(5.252.998)
Total	**584.822.894**	**551.915.159**

(*) Goods in transit includes the goods for which significant risks and rewards of ownership has passed to the Group as in FOB sales.

The Group has allocated an impairment provision for raw materials, work in progress and finished goods in cases when their net realizable values are lower than their costs or when they are classified as slow-moving inventories. The provision was recognized in the cost of sales.

The movement of the allowance for impairment on inventories:

	1 January-31 December 2012	1 January-31 December 2011
Opening balance	5.252.998	6.814.224
Provision released	(121.528)	(3.163.280)
Provision for the period	3.067.066	1.602.054
Closing balance	**8.198.536**	**5.252.998**

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10. ASSETS AND LIABILITIES REGARDING CONSTRUCTION CONTRACTS

	31 December 2012	31 December 2011
Construction costs incurred plus recognized profits less recognized losses to date	3.642.174.999	2.808.427.671
Less: earned allowances	(3.532.086.783)	(2.660.316.362)
Total	**110.088.216**	**148.111.309**
Amounts due from customers under construction contracts (Note: 7)	229.799.712	193.018.699
Amounts due to customers under construction contracts (Note: 7)	(119.711.496)	(44.907.390)
Total	**110.088.216**	**148.111.309**

11. FIXED ASSETS

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other fixed assets (*)	Leasehold improvements	Construction in progress (**)	Total
Cost Value										
Opening balance as of 1 January 2012	19.680.542	12.495.005	145.064.985	417.601.131	3.659.050	80.546.215	34.911.404	4.717.698	28.110.666	746.786.696
Additions	-	-	58.400	47.866.251	285.294	6.076.053	-	98.603	52.811.101	107.195.702
Disposals	-	-	(4.108)	(195.564)	(392.116)	(67.853)	(55.088)	-	(4.005.984)	(4.720.713)
Transfers	-	1.572.548	502.442	1.053.802	-	559.290	4.758.873	356.730	(8.826.561)	(22.876)
Closing balance as of 31 December 2012	19.680.542	14.067.553	145.621.719	466.325.620	3.552.228	87.113.705	39.615.189	5.173.031	68.089.222	849.238.809
Accumulated Depreciation										
Opening balance as of 1 January 2011	-	6.166.921	43.101.399	260.103.818	2.366.299	61.135.751	21.713.054	1.854.398	-	396.441.640
Charge for the period	-	622.553	5.005.805	25.334.663	459.291	5.267.554	3.643.292	869.555	-	41.202.713
Disposals	-	-	(822)	(152.867)	(308.895)	(11.278)	(24.418)	-	-	(498.280)
Closing balance as of 31 December 2012	-	6.789.474	48.106.382	285.285.614	2.516.695	66.392.027	25.331.928	2.723.953	-	437.146.073
Net book value as of 31 December 2012	19.680.542	7.278.079	97.515.337	181.040.006	1.035.533	20.721.678	14.283.261	2.449.078	68.089.222	412.092.736

(*) Includes the mould model devices manufactured by the Group with net book value of TL 14.267.299 (31 December 2011: TL 13.137.008).
(**) The financing expenses capitalized in the current period is TL 2.068.070 (31 December 2011: TL 581.853).

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	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other fixed assets (*)	Leasehold improvements	Construction in progress (**)	Total
Cost Value										
Opening balance as of 1 January 2011	19.296.252	10.219.623	107.009.672	360.213.811	2.966.780	70.969.139	31.973.850	2.448.130	29.914.004	635.011.261
The effect of the entity included in consolidation	-	-	-	477.912	774.886	567.649	55.088	-	-	1.875.535
Additions	-	15.237	7.641	56.778.193	49.058	9.651.575	-	58.668	48.543.536	115.103.908
Disposals	-	(918)	-	(3.218.281)	(131.674)	(834.272)	(109.616)	-	(656.688)	(4.951.449)
Transfers	384.290	2.261.063	38.047.672	3.349.496	-	192.124	2.992.082	2.210.900	(49.690.186)	(252.559)
Closing balance as of 31 December 2011	19.680.542	12.495.005	145.064.985	417.601.131	3.659.050	80.546.215	34.911.404	4.717.698	28.110.666	746.786.696
Accumulated Depreciation										
Opening balance as of 1 January 2011	-	5.706.022	38.458.001	241.235.314	1.721.562	56.928.508	17.936.472	1.161.029	-	363.146.908
The effect of the entity included in consolidation	-	-	-	164.956	209.398	273.848	18.350	-	-	666.552
Charge for the period	-	461.817	4.643.398	21.904.391	516.479	4.767.667	3.862.379	693.369	-	36.849.500
Disposals	-	(918)	-	(3.200.843)	(81.140)	(834.272)	(104.147)	-	-	(4.221.320)
Closing balance as of 31 December 2011	-	6.166.921	43.101.399	260.103.818	2.366.299	61.135.751	21.713.054	1.854.398	-	396.441.640
Net book value as of 31 December 2011	19.680.542	6.328.084	101.963.586	157.497.313	1.292.751	19.410.464	13.198.350	2.863.300	28.110.666	350.345.056

The breakdown of the depreciation expenses with respect to the fixed assets is as follows:

	31 December 2012	31 December 2011
Marketing, sales and distribution expenses	530.159	351.571
General administrative expenses	4.416.103	3.752.725
Inventories	14.656.433	9.131.773
Cost of sales	21.600.018	23.613.431
Total	**41.202.713**	**36.849.500**

12. INTANGIBLE ASSETS

	Rights	Capitalized Development Costs	Other intangible assets (*)	Total
Cost Values				
Opening balance as of 1 January 2012	18.185.015	194.050.788	40.948.728	253.184.531
Additions	-	149.757.904	9.462.372	159.220.276
Disposals	-	(6.618.631)	(87.905)	(6.706.536)
Transfers	-	-	22.876	22.876
Closing balance as of 31 December 2011	18.185.015	337.190.061	50.346.071	405.721.147
Accumulated Amortization				
Opening balance as of 1 January 2012	17.906.747	30.855.811	32.221.716	80.984.274
Charge for the period	65.117	19.936.512	7.079.530	27.081.159
Disposals	-	(424)	(31.359)	(31.783)
Closing balance as of 31 December 2012	17.971.864	50.791.899	39.269.887	108.033.650
Net book value as of 31 December 2012	213.151	286.398.162	11.076.184	297.687.497

(*) Other intangible assets include computer software licenses.

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	Rights	Capitalized Development Costs	Other intangible assets (*)	Total
Cost Values				
Opening balance as of 1 January 2011	18.109.665	128.308.616	32.843.822	179.262.103
The effect of the entity included in consolidation	59.446	-	141.556	201.002
Additions	15.904	79.672.165	7.967.813	87.655.882
Disposals	-	(13.929.993)	(4.463)	(13.934.456)
Closing balance as of 31 December 2011	18.185.015	194.050.788	40.948.728	253.184.531
Accumulated Amortization				
Opening balance as of 1 January 2011	17.836.312	22.608.106	26.015.031	66.459.449
The effect of the entity included in consolidation	8.235	-	100.780	109.015
Charge for the period	62.200	15.051.062	6.109.448	21.222.710
Disposals	-	(6.803.357)	(3.543)	(6.806.900)
Closing balance as of 31 December 2011	17.906.747	30.855.811	32.221.716	80.984.274
Net book value as of 31 December 2011	**278.268**	**163.194.977**	**8.727.012**	**172.200.257**

The breakdown of amortization expenses related to intangible assets is as follows:

	31 December 2012	31 December 2011
Marketing, sales and distribution expenses	151.049	157.895
General administrative expenses	2.690.676	1.075.720
R&D expenses	19.936.833	15.884.937
Inventories	2.401.721	1.181.209
Cost of sales	1.900.880	2.922.949
Total	**27.081.159**	**21.222.710**

13. GOVERNMENT GRANTS AND INCENTIVES

The deferred incentive income shown under short and long-term liabilities in the consolidated balance sheet is as follows:

	31 December 2012	31 December 2011
Government grants and incentives	8.219.872	6.162.438

Government grants shows the unearned proportion of the grant after the costs related with the completed parts of the projects are deducted from the grants taken by the Group for the ongoing projects that was obtained as of the balance sheet date.

The incentive obtained consists of the incentives that are accrued in accordance with TÜBİTAK's R&D recognition letter prepared with respect to the Group's ongoing projects.

The Group obtains capital support from "Support and Price Stabilization Fund" of Central Bank of Turkey via Undersecretariat for Foreign Trade's consent. The Scientific and Technological Research Council of Turkey (TÜBİTAK) and TTGV act as intermediary in accordance with Communiqué No:98/10 published by the Money-Loans and Coordination Board.

The R&D expenditure deduction rate used as a tax benefit has been increased from 40% to 100% in accordance with the amended article 10 of the Tax Law numbered 5520 as a result of the amendment in article 35 of Law No. 5746 with respect to the Support of Research and Development Activities. The aforementioned law was enacted as of April 2008 after its issue in the Official Gazette dated 12 March 2008, numbered 26814. R&D expenditure may be used as a tax deduction in the determination of the taxable income. If taxable income levels are not sufficient to absorb all available tax deductions, any unused research and development tax deduction is allowed to be carried forward to the next tax period. According to the item No.8 of the related law, all the costs related with research and development can be subjected to deduction until 31 December 2023.

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14. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Short-term expense accruals

	31 December 2012	31 December 2011
Provision for delay penalties and fines	11.738.479	9.997.244
Provision for lawsuits	846.568	1.062.588
Provision for guarantee expenses	57.925.813	53.341.666
Provision for allowance of cost expenses	2.101.899	8.274.098
Provision for royalty expenses	522.916	1.048.411
Provision for insurance expense	3.321.929	2.887.434
Other	306.650	1.335
Total	**76.764.254**	**76.612.776**

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

	1 January- 31 December 2012	1 January- 31 December 2011
Opening balance	9.997.244	244.869
Provision for the period	1.996.180	9.997.244
Provision released (-)	(254.945)	(244.869)
Closing balance	**11.738.479**	**9.997.244**

The movement of the provision for the pending lawsuits is as follows:

	1 January- 31 December 2012	1 January- 31 December 2011
Opening balance	1.062.588	1.238.204
Provision for the period	165.000	175.000
Provision released (-)	(381.020)	(350.616)
Closing balance	**846.568**	**1.062.588**

The movement of the provision for guarantee expenses is as follows:

	1 January- 31 December 2012	1 January- 31 December 2011
Opening balance	53.341.666	41.494.380
The effect of the company included in the consolidation	-	227.936
Provision for the period	40.621.741	37.878.214
Provision released (-)	(36.037.594)	(26.258.864)
Closing balance	**57.925.813**	**53.341.666**

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The movement of the provision for royalty expenses is as follows:

	1 January-31 December 2012	1 January-31 December 2011
Opening balance	1.048.411	633.024
Provision for the period	522.916	1.048.412
Provision released (-)	(1.048.411)	(633.025)
Closing balance	**522.916**	**1.048.411**

b) Long-term expense accruals

	31 December 2012	31 December 2011
Provision for delay penalties and fines	9.039.061	11.128.448

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

	1 January-31 December 2012	1 January-31 December 2011
Opening balance	11.128.448	9.044.100
Provision for the period	-	2.084.348
Provision released (-)	(2.089.387)	-
Closing balance	**9.039.061**	**11.128.448**

c) Lawsuits

As of 31 December 2012 and 2011, according to the declarations written by the legal counselors, the lawsuits and executions in favor of and against the Group are as follows:

Description	31 December 2012	31 December 2011
i) Ongoing lawsuits filed by the Group	4.636.063	4.580.406
ii) Execution proceedings carried on by the Group	3.231.786	3.360.407
iii) All types of ongoing lawsuits filed against the Group	846.568	1.062.588
iv) Lawsuits finalized in favor of the Group within the period	212.000	-
v) Lawsuits finalized against the Group within the period	100.000	119.128

15. COMMITMENTS AND CONTINGENCIES

a) Letters of guarantees received:

	31 December 2012	31 December 2011
Letters of guarantees received from the customers	1.291.900	1.398.375
Letters of guarantees received from the suppliers	485.747.109	477.871.781
Collaterals received from the customers	29.917.770	11.657
Collaterals received from the suppliers	3.518.112	1.519.693
Cheques received from the customers	6.000	-
Cheques received from the suppliers	57.639	78.589
Mortgages received from the customers	739.600	784.600
Total	**521.278.130**	**481.664.695**

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b) Deposits and guarantees given

The Collaterals/Pledges and Mortgages (CPM) given by the Group as of 31 December 2012 is as follows:

31 December 2012	TL Amount	TL	US Dollar	EURO	UAE Dirham	Polish zloty	Indian rupee
A. Total amount of CPM given on behalf of the legal entity							
-Collateral	4.106.677.271	564.789.344	1.317.424.829	500.206.017	26.759.651	2.424.322	82.006.151
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
B. Total amount of CPM given against the subsidiaries included in full consolidation							
-Collateral	44.565.000	-	25.000.000	-	-	-	-
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
C. Total amount of CPM given to maintain operations and collect payables from third parties							
-Collateral	-	-	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
D. Total amount of other CPM given							
i. Total Amount of CPM on behalf of the main partner							
-Collateral	-	-	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies that do not cover B and C							
-Collateral	438.000	438.000	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
iii. Total amount of CPM on behalf of third parties that do not cover C.							
-Collateral	-	-	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
Total	**4.151.680.271**	**565.227.344**	**1.342.424.829**	**500.206.017**	**26.759.651**	**2.424.322**	**82.006.151**

The ratio of the given other CPM to the Group's equity as of 31 December 2012 is 0,03%.

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b) Deposits and guarantees given

The breakdown of the collateral/pledge/mortgage ("CPM") of the Group as of 31 December 2011 is as follows:

31 December 2011	TL Amount	TL	US Dollar	EURO	UAE Dirham	Polish zloty	Indian rupee
A. Total amount of CPM given on behalf of the legal entity							
-Collateral	3.663.220.332	376.866.008	1.301.555.876	332.149.124	26.759.651	2.424.322	30.000.000
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
B. Total amount of CPM given against the subsidiaries included in full consolidation							
-Collateral	47.222.500	-	25.000.000	-	-	-	-
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
C. Total amount of CPM given to maintain operations and collect payables from third parties							
-Collateral	-	-	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
D. Total amount of other CPM given							
i. Total Amount of CPM on behalf of the main partner							
-Collateral	-	-	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
ii. Total amount of CPM given on behalf of other group companies that do not cover B and C							
-Collateral	-	-	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
iii. Total amount of CPM on behalf of third parties that do not cover C.							
-Collateral	-	-	-	-	-	-	-
-Pledge	-	-	-	-	-	-	-
-Mortgage	-	-	-	-	-	-	-
Total	**3.710.442.832**	**376.866.008**	**1.326.555.876**	**332.149.124**	**26.759.651**	**2.424.322**	**30.000.000**

The ratio of the given other CPM by the Group's equity as of 31 December 2011 is 0%.

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16. EMPLOYMENT BENEFITS

a) Short-term employment benefits

	31 December 2012	31 December 2011
Provision for annual leave and overtime	18.656.924	13.993.659

The movement of the provision for annual leave and overtime is as follows:

	1 January - 31 December 2012	1 January - 31 December 2011
Opening balance	13.993.659	9.459.381
The effect of the entity included in consolidation	-	230.119
Provision released (-)	(9.044.374)	(6.331.377)
Provision for the period	13.707.639	10.635.536
Closing balance	**18.656.924**	**13.993.659**

b) Long-term employment benefits

	1 January - 31 December 2012	1 January - 31 December 2011
Provision for severance pay	94.969.281	66.788.754
Provision for retirement pay	9.465.151	6.748.718
	104.434.432	**73.537.472**

The movement for provisions for severance and retirement pays is as follows:

	1 January - 31 December 2012	1 January - 31 December 2011
Opening balance	73.537.472	63.377.093
The effect of the entity included in consolidation	-	403.424
Cost of service	32.813.215	10.934.703
Interest cost	3.003.597	2.985.512
Severance and retirement pays	(4.919.852)	(4.163.260)
Closing balance	**104.434.432**	**73.537.472**

Retirement pay provisions:

Under the Turkish Labor Law, the Group is required to pay employment termination benefits to each employee who has qualified for such payment. Also, employees are required to be paid their retirement pay who retired by gaining right to receive according to in accordance with the provisions set out in law no: 2422 issued at 6 March 1981, law no: 4447 issued at 25 August 1999 and the amended Article 60 of the existing Social Insurance Law No: 506. Some transitional provisions related to the pre-retirement service term were excluded from the law since the related law was amended as of 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of TL 3.129,25 (2011: TL 2.805,04) for each period of service at 31 December 2012.

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The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. IAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the entity's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 December 2012	31 December 2011
Interest rate (%)	7,25	10,00
Inflation rate (%)	5,00	5,10
Discount ratio (%)	2,14	4,66
Estimation of probability of retirement ratio (%)	99,09	99,07

17. ORDER ADVANCES GIVEN AND RECEIVED

a) Short-term order advances given

	31 December 2012	31 December 2011
Short-term order advances given	217.562.266	216.719.273
Short-term order advances given to related parties (Note: 28)	16.342.597	13.058.775
Total	**233.904.863**	**229.778.048**

b) Long-term order advances given

	31 December 2012	31 December 2011
Long-term order advances given	50.003.569	139.280.366
Long-term order advances given to related parties (Note: 28)	200.403.017	44.188.111
Total	**250.406.586**	**183.468.477**

c) Short-term order advances received

	31 December 2012	31 December 2011
Order advances received	132.362.456	113.566.645
Order advances received from related parties (Note: 28)	10.354.490	12.237.577
Total	**142.716.946**	**125.804.222**

Short-term order advances received consists of the advances taken from 48 customers (31 December 2011: 54 customers) of which first 10 form 96,96% (31 December 2011: 95,39%) of the total advances.

d) Long-term order advances received

	31 December 2012	31 December 2011
Order advances received	995.791.348	688.013.584
Order advances received from related parties (Note: 28)	46.148.760	16.363.904
Total	**1.041.940.108**	**704.377.488**

The long-term order advances received consists of the advances taken from 29 customers (31 December 2011: 28 customers) of which first 10 form 99,64% (31 December 2011: 99,59%) of the total advances.

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18. OTHER ASSETS AND LIABILITIES

a) Other current assets

	31 December 2012	31 December 2011
Prepaid expenses	30.939.947	13.228.396
VAT carried forward (*)	143.136.419	111.681.578
Other VAT	10.344.366	2.678.862
Prepaid taxes and funds	1.139.471	974.719
Job advances given	281.869	439.401
Due from personnel	4.539	3.078
Other	335.280	414.809
Total	**186.181.891**	**129.420.843**

(*) To the taxpayers (Contractor/the Group) who deliver goods and give services to the Natural Security Institutions (such as MOD and UFDI) that are to be approved by the customers (contacting authority) in terms of content and nature, Value Added Tax (VAT) is being exempted as of 1 March 2009 in accordance with General Declaration on Value Added Tax with the Serial Number 112 in the Official Gazette as of 12 February 2009. These amounts are usually not collected, but they are offset with other tax liabilities.

b) Other non-current assets

	31 December 2012	31 December 2011
Prepaid expenses	2.641.720	3.076.217
Advances given for fixed assets	23.040.087	5.376.051
Prepaid taxes and funds	2.523.862	2.052.901
Other	24.827	-
Total	**28.230.496**	**10.505.169**

c) Other current liabilities

	31 December 2012	31 December 2011
Deferred income	3.026.317	4.056.800
Accrued expenses	26.409	250.237
Total	**3.052.726**	**4.307.037**

d) Other non-current liabilities

	31 December 2012	31 December 2011
Deferred income	28.962	7.065

19. SHARE CAPITAL

Capital

Shareholders	Share (%)	31 December 2012	Share (%)	31 December 2011
TAFF	84,58	422.912.812	84,58	198.958.487
Other shareholders	0,12	577.846	0,12	271.846
Quoted in stock exchange	15,30	76.509.342	15,30	35.993.667
Nominal capital	100,00	500.000.000	100,00	235.224.000
Share capital adjustment		98.620.780		132.773.042
Inflation adjusted capital		**598.620.780**		**367.997.042**

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The Group's nominal capital is TL 500.00.000 that consists of 50.000.000.000 shares each of which is 1 kuruş (1% of 1 Turkish Lira). A total of 30.272.727.273 of the shares consists of Group A and 19.727.272.727 of the shares consists of Group B shares. All of the shares are nominative. Moreover, when new shares are issued the proportion of nominative Group A shares prevalent in the issued capital are preserved. In accordance with the CMB's requirements, except for Independent members of the Board of Directors, group A shares are nominative and Members of the Board are assigned from the holders of A type shareholders or from the ones nominated by A type shareholders. The Company increased its upper limit of authorized capital from TL 500.000.000 to TL 1.000.000.000 in accordance with the meeting of the Board of Directors as of 31 October 2012.

Increase in the Company's issued capital from TL 235.224.000 to TL 500.000.000 was registered in the CMB on 23 July 2012. Increase in the issued capital was netted of/met by TL 34.152.262 from share capital adjustment and TL 230.623.738 from retained earnings.

Restricted profit reserves

The legal reserves consist of first and second legal reserves, appropriated in accordance with the TCC. The first legal reserve is appropriated out of historical statutory profits of the prior year at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. After the 5% of the dividend is paid to shareholders, 10% of the total distributed to shareholders and employees can be added in general legal reserve.

As of 31 December 2012, The Group's restricted reserves set aside from profit consists of the legal reserves. The total of the Group's legal reserves are TL 52.071.680 (31 December 2011: TL 42.731.216).

Accumulated losses arising out of first time application of inflation adjustments could be deducted from the distributable profit as per inflation adjusted financial statements. In addition, this amount could be netted of from the period profit, accumulated profits, extraordinary reserves, legal reserves and inflation reserves.

In addition, in accordance with the CMB's requirements which were effective until 1 January 2008, at the first-time application of inflation adjustments on financial statements, equity items named "Capital issue premiums", "Legal reserves", "Statutory reserves", "Special reserves" and "Extraordinary reserves" were carried out nominal value in the balance sheet and restatement differences of such items were presented in equity under the "Shareholder's equity inflation restatement differences" line item in aggregate. "Shareholders' equity inflation restatement differences" related to all equity items could only be subject to the capital increase by bonus issue or loss deduction, while the carrying value of extraordinary reserves could be subject to the capital increase by bonus issue, cash profit distribution or loss offsetting.

However, in accordance with the Communiqué Series XI No: 29 issued on 1 January 2008, and other related CMB's announcements, "Paid-in capital", "Restricted profit reserves" and "Premium in capital stock" should be carried at their registered amounts in statutory records. Restatement differences (e.g. inflation restatement differences) arising from the application of the Communiqué should be associated with:

- "Capital restatement differences" account, following the "Paid-in capital" line item in the financial statements, if such differences are arising from "Paid-in capital" and not added to capital.

- "Retained earnings/accumulated loss", if such differences are arising from "Restricted profit reserves" and "Premium in capital stock" and has not been subjected to profit distribution or capital increase. Other equity items are carried at the amounts that are valued based on the CMB's Financial Reporting Standards.

Capital restatement differences can only be included in capital.

Retained Earnings

Accumulated profits apart from the net profit for the year and extraordinary reserves which is accumulated profit by nature are shown under the retained earnings/losses. As of 31 December 2012 the extraordinary reserves balance presented in retained earnings/losses is TL 359.696.952 (31 December 2011: TL 451.128.533).

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According to the statutory records, the Company's profit for the year is TL 244.902.216 TL(31 December 2011:TL 181.508.285) and its other funds available for profit distribution is TL 364.393.120 (31 December 2011: TL 464.536.727) the details of funds is as follows:

	31 December 2012	31 December 2011
Capital reserves and ve extraordinary reserves	364.393.120	464.536.727
	364.393.120	**464.536.727**

Profit distribution

In accordance with the CMB, decree issued as of 27 January 2010, in relation to the profit distribution of earnings derived from the operations in 2009, minimum profit distribution is not required for listed companies, and accordingly, profit distribution should be made based on the requirements set out in the Boards' Communiqué Serial: IV, No:27 "Principles of Dividend Advance Distribution of Companies that are subject to the Capital Markets Board Regulations", terms of articles of corporations and profit distribution policies publicly disclosed by the companies.

Furthermore, based on the afore mentioned decree, companies that are required to prepare consolidated financial statements should calculate their net distributable profits, to the extent that they can be recovered from equity in their statutory records, by considering the net profit for the period in the consolidated financial statements which are prepared and disclosed in accordance with the Communiqué Serial XI No:29.

As of 31 March 2012 Annual Meeting, in accordance with the consolidated financial statements, the General Assembly of the Company has decided to allocate capital reserve amounting to TL 9.267.583 of the TL 160.755.145 which is based on the profit distribution, and to distribute TL 46.456.739 in cash to shareholders for dividend payment by leaving the amount of TL 105.030.823 within the Group.

As of 23 March 2012 MİKES Annual Meeting, the General Assembly of the company has decided to allocate capital reserve amounting to TL 70.449 (Company's share: TL 67.881, non-controlling interest: TL 2.568) from the its profit for the period in 2011.

Besides, as of 14 March 2012 AselsanNet Annual Meeting, the General Assembly of the company has decided to distribute dividend amounting to TL 100.000 (Company's share: TL 95.000, non-controlling interest: TL 5.000) and allocate capital reserve amounting to TL 5.000 TL from the its profit for the period in 2011.

As a result total amount of the funds remaining within the Group after profit distribution and transfers is TL 104.857.942.

The dividends paid to shareholders during 2012 is TL 0,093 per 100 shares (total dividend paid is TL 46.456.739) (2011: TL 0,065 per 100 shares, total dividend paid TL 32.696.135).

The Group Management decided to pay dividend TL 0,157 per 100 shares as of 5 March 2013 with respect to the current year. This dividend payment will be subject to the shareholders' approval in the General Assembly, and it has not been recognized as a liability in the financial statements yet. The total dividend payment to be made is TL 78.500.000.

20. SALES REVENUE AND COST OF SALES

a) Sales Revenue

	1 January - 31 December 2012	1 January - 31 December 2011
Domestic sales	1.362.700.772	1.365.298.573
Export sales	271.984.690	141.282.643
Other revenues	542.235	1.276.141
Sales returns (-)	(1.247.670)	(4.292.969)
Sales discounts (-)	(1.067.402)	(1.685.398)
Other	(16.258)	-
Total	**1.632.896.367**	**1.501.878.990**

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b) Cost of Sales (-)

	1 January - 31 December 2012	1 January - 31 December 2011
Cost of raw materials used	606.580.057	495.333.788
Personnel expenses	69.820.605	51.713.525
General production expenses	76.833.732	65.774.002
Provision for project guarantee, delay and losses	12.399.228	58.483.101
Change in work in progress	(32.555.154)	10.759.457
Change in finished goods	4.777.998	(2.047.316)
Development expenses (*)	394.738.961	335.827.675
Cost of services given	70.937.153	43.080.909
Cost of merchandise goods sold	7.267.250	8.224.950
Other cost of sales	29.803.373	38.624.963
Total	**1.240.603.203**	**1.105.775.054**

(*) Development expenses consist of raw material, design, personnel, amortization and depreciation expenses.

21. R&D EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2012	1 January - 31 December 2011
Marketing, sales and distribution expenses (-)	(38.575.081)	(31.616.522)
General administrative expenses (-)	(99.626.320)	(83.804.962)
R&D expenses (-)	(70.259.436)	(48.925.095)
Total	**(208.460.837)**	**(164.346.579)**

22. OPERATING EXPENSES BY NATURE

a) Marketing, sales and distribution expenses (-)

	1 January - 31 December 2012	1 January - 31 December 2011
Personnel expenses	(13.991.781)	(11.913.017)
Stamp duty expenses	(6.183.853)	(5.153.034)
Overseas travel expenses	(2.120.903)	(1.703.233)
Exhibition expenses	(2.012.266)	(3.763.906)
Shipping and delivery expenses	(1.464.806)	(493.246)
Advertising expenses	(1.547.250)	(1.483.696)
Insurance expenses	(477.273)	(403.695)
Commission expenses	(3.930.913)	(979.134)
Depreciation and amortization expenses	(681.208)	(509.466)
Packaging expenses	(604.358)	(395.443)
Domestic travel expenses	(408.509)	(475.103)
Specimen expenses	(641.981)	(1.360.563)
Electricity expenses	(384.440)	(316.515)
Maintenance and repair expenses	(268.473)	(326.926)
Agency and entertainment expenses	(274.676)	(277.568)
Personnel transportation expenses	(262.196)	(274.182)
Rent expenses	(187.362)	(55.855)
Other	(3.132.833)	(1.731.940)
Total	**(38.575.081)**	**(31.616.522)**

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

a) General administrative expenses (-)

	1 January - 31 December 2012	1 January - 31 December 2011
Personnel expenses	(71.202.920)	(58.580.645)
Depreciation and amortization expenses	(7.106.779)	(4.828.445)
Maintenance and repair expenses	(1.921.208)	(2.632.972)
Electricity expenses	(3.483.458)	(2.599.507)
Personnel transportation expenses	(1.508.462)	(1.509.506)
Course and seminar expenses	(615.228)	(615.301)
Insurance expenses	(1.144.595)	(1.071.708)
Consultancy expenses	(1.282.276)	(737.565)
Personnel meal expenses	(855.859)	(875.098)
Furniture and fixture expenses	(243.135)	(594.278)
Rent expenses	(1.140.352)	(841.433)
Other	(9.122.048)	(8.918.504)
Total	**(99.626.320)**	**(83.804.962)**

c) R&D expenses (-)

	1 January - 31 December 2012	1 January - 31 December 2011
Equipment costs	(6.551.968)	(5.686.449)
Personnel expenses	(35.814.919)	(21.927.077)
Depreciation and amortization expenses	(19.936.833)	(15.884.937)
Other	(7.955.716)	(5.426.632)
Total	**(70.259.436)**	**(48.925.095)**

23. OTHER OPERATING INCOME/EXPENSE

a) Other operating income

	1 January - 31 December 2012	1 January - 31 December 2011
Provisions released	381.020	359.522
Social security incapacity income	84.329	793.069
Gain on sale of fixed assets	1.143.711	173.739
Insurance income for damages	626.506	561.313
Letters of guarantees and interest income due to delays (*)	21.023.053	-
Income from personnel	309.362	368.108
Other income	3.175.377	1.961.198
Total	**26.743.358**	**4.216.949**

(*) Includes the liquidation of the letter of guarantees and interest income of delay due to the result of the cancellation of a sub-contactor contracts.

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(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

b) Other operating expense

	1 January - 31 December 2012	1 January - 31 December 2011
Damage expense	(231.487)	(176.928)
Loss on sale of fixed assets	(358)	(311.360)
Special communication tax	(147.692)	(140.914)
Grants and donations (*)	(3.709.617)	(39.737)
Good and residual of the account expenses	(1.525.794)	(147.897)
Non-deductible VAT	(867.831)	(31.500)
Other expense and losses	(1.032.855)	(750.196)
Total	**(7.515.634)**	**(1.598.532)**

(*) Includes the construction expenses of ASELSAN primary school in VAN-Erciş

24. FINANCIAL INCOME

	1 January - 31 December 2012	1 January - 31 December 2011
Interest income	12.883.616	17.724.493
Gain on sale of securities	966.776	256.248
Foreign exchange gains	278.632.464	339.169.818
Discount interest income	1.290.165	3.256.561
Dividend income (*)	3.225.094	1.095.723
Other financial income	405.720	534.819
Total	**297.403.835**	**362.037.662**

(*) Includes the dividend payment of ROKETSAN.

25. FINANCIAL EXPENSE

	1 January - 31 December 2012	1 January - 31 December 2011
Foreign exchange losses	(239.742.238)	(467.894.880)
Discount interest expense	(3.221.052)	(2.441.517)
Short-term borrowing expense	(1.783.495)	(206.277)
Long-term borrowing expense	(1.568.995)	(1.474.228)
Fair value difference or depreciation of financial assets reflected to loss	(426.612)	(430.297)
Total	**(246.742.392)**	**(472.447.199)**

26. TAX ASSETS AND LIABILITIES

	31 December 2012	31 December 2011
Corporate tax liabilities:		
Current corporate tax provision	656.430	917.110
Prepaid taxes and funds (-)	(352.155)	(809.688)
	304.275	**107.422**

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Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

	1 January - 31 December 2012	1 January - 31 December 2011
Tax income/(expense):		
Current corporate tax expense	(656.430)	(917.110)
Deferred tax income	40.675.876	37.353.918
Total	**40.019.446**	**36.436.808**

Corporate tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying consolidated financial statements for the estimated change based on the Group's results for the year. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate entity bases.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective tax rate in 2012 is 20% (2011: 20%) for the Group.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2012 is 20%. (2011: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% between 24 April 2003 and 22 July 2006. This rate was changed to 15% commencing from 23 July 2006 with the Cabinet Decision 2206/10731. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Deferred tax:

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes and they are given below.

For calculation of deferred tax asset and liabilities, the rate of 20% (2011: 20%) is used.

In Turkey, the companies cannot declare a consolidated tax return, therefore subsidiaries that have deferred tax asset position were not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

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(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

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

Deferred tax assets:	31 December 2012	31 December 2011
Discount on receivables	(302.229)	(293.517)
Costs and provision for expected losses of construction contracts	(235.868.013)	(181.287.733)
Provision for doubtful receivables	(240.713)	(255.062)
Impairment provision for inventory	(1.604.512)	(1.014.881)
Provision for delay penalties and fines	(2.117.197)	(2.264.043)
Provision for guarantee expenses	(11.585.164)	(10.668.334)
Fair value adjustment on financial assets	-	(9.682)
Prepaid expenses	-	(95.718)
Provision for severance pay	(18.993.856)	(13.357.751)
Provision for retirement pay	(1.893.030)	(1.349.744)
Provision for annual leave and overtime	(3.731.385)	(2.798.734)
Provision for lawsuits	(22.200)	(22.200)
Accumulated Losses	(955.573)	(1.616.632)
Other	(57.453)	(1.933)
Accumulated R&D incentive	(107.820.011)	(70.872.246)

Deferred tax liabilities	31 December 2012	31 December 2011
Discount on payables	156.900	534.366
Adjustment of progress payments for long-term construction contracts	236.972.464	181.570.472
Fair value adjustment on financial assets	-	73.813
Adjustment on inventories	163.720	164.817
Revaluation of tangible and intangible assets	15.290.845	11.630.800
Other	2.654	5.065
Deferred tax assets	(385.191.336)	(285.908.210)
Deferred tax liabilities	252.586.583	193.979.333
Deferred tax assets – net	**(132.604.753)**	**(91.928.877)**

The Group realized deferred tax assets amounting to TL 107.820.011 (31 December 2011: TL 70.872.246) on the R&D expenses amounting to TL 539.100.055 (31 December 2011: TL 354.361.223) in accordance with Law No: 5746 about supporting R&D activities as disclosed in Note 13.

The Group realized tax assets amounting to TL 955.573 (31 December 2011: TL 1.616.632) on tax deductible losses of MİKES amounting to TL 4.777.864 (31 December 2011: TL 8.083.159).

Expiration schedule of carry forward tax losses is as follows:

	31 December 2012	31 December 2011
Expiring in 2014	4.777.864	8.083.159
Total	**4.777.864**	**8.083.159**

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

	1 January-31 December 2012	1 January-31 December 2011
Deferred tax (assets)/liabilities:		
Opening balance as of 1 January	91.928.877	54.573.131
The effect of the entity included in consolidation	-	1.828
Realized in the income statement	40.675.876	37.353.918
Total	**132.604.753**	**91.928.877**

Tax reconciliations:	1 January-31 December 2012	1 January-31 December 2011
Profit for the year	253.721.494	123.966.237
Income tax rate	20%	20%
Tax at the domestic income tax rate of 20%	50.744.299	24.793.247
Tax effects of:		
- Revenue that is exempt from taxation	(2.734.509)	(3.043.952)
- Expenses that are not deductible in determining taxable profit	8.067.102	6.637.976
- R&D incentives and other income exempt from taxation	(91.978.914)	(61.259.825)
- Effect of other adjustments	(4.117.424)	(3.564.254)
Tax income recognized in profit or loss	**(40.019.446)**	**(36.436.808)**

27. EARNINGS PER SHARE

	1 January - 31 December 2012	1 January - 31 December 2011
Common stock (*)	50.000.000.000	50.000.000.000
Net profit – TL	293.202.668	160.775.145
Earnings per 100 shares – TL	0,59	0,32

(*) As of 31 December 2011, the current number of shares after the capital increase which was financed by the internal sources is used while calculating the earnings per share in order to be comparable with the current period.

28. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries which are related parties of the Company have been eliminated on consolidation, and are not disclosed in this note.

The receivables from related parties usually arise from sales activities and are due 2 months after the date of sales. The receivables are unsecured by nature and bear no interest.

The payables to related parties usually arise from the purchase activities and are due 2 months after the date of purchase. The receivables bear no interest.

Total amount of salaries and other short-term benefits paid for key management year ended as of 31 December 2012 is TL 4.356.770 (31 December 2011: TL 3.957.166).

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

The details of transactions between the Group and other related parties are disclosed below:

	31 December 2012									
	Receivables					Payables				
	Short-term			Long-term		Short-term			Long-term	
Balances with related parties	**Trading**	**Advances given**	**Other**	**Trading**	**Advances given**	**Trading**	**Advances received**	**Non-trading**	**Trading**	**Advances received**
Main shareholder (TAFF), its subsidiaries and associates										
Axa Sigorta A.Ş.	-	-	-	-	-	7.227	-	24.707	-	-
Havelsan Ehsim A.Ş.	-	757.203	-	-	-	44.018	-	-	-	-
Havelsan Hava Elektronik San. ve Tic. A.Ş.	1.825.040	1.031.268	-	7.014.713	1.046.719	-	-	-	1.639.370	-
Havelsan Teknoloji Radar San. ve Tic. A.Ş.	-	261.616	-	-	-	214.766	-	-	-	-
İşbir Elektrik San. A.Ş.	-	1.776.615	-	-	-	1.977.477	-	-	-	-
Mercedes-Benz Türk A.Ş.	-	143.301	-	-	-	-	-	-	-	-
Nortel Networks Netaş Telekomünikasyon A.Ş.	-	4.834.484	-	-	1.385.373	13.511.571	-	-	-	-
STM Savunma Teknolojileri Müh. ve Tic. A.Ş.	-	5.706.896	-	-	799.777	1.491.322	175.883	-	-	4.245.160
Türk Havacılık ve Uzay San. A.Ş.	5.022.873	-	-	-	-	57.434	1.857.699	-	-	5.097.320
Türk Silahlı Kuvvetlerini Güçlendirme Vakfı	2.652.615	-	-	-	-	-	189.665	-	-	43.306
TUSAŞ Motor Sanayi A.Ş.	9.281	-	-	-	-	-	-	-	-	-
Subsidiaries										
ASELSAN Baku	498.585	-	-	-	-	428.086	-	-	-	-
Mikroelektronik Ar-Ge Tas. ve Tic. Ltd. Şti.	213.082	29.052	-	-	227.366	-	-	-	-	-
Associates and affiliates										
Askeri Pil San. ve Tic. A.Ş.	-	37.567	-	-	-	254.559	-	-	-	-
ROKETSAN Roket San. ve Tic. A.Ş.	7.038.093	984.640	-	1.287.037	195.402.948	8.972.549	7.764.378	-	-	36.664.202
Joint ventures and its releated parties										
International Golden Group	36.420.132	-	-	19.330.573	-	12.135.245	366.865	-	-	98.772
IGG ASELSAN Integrated Systems	3.310.192	779.955	-	-	1.540.834	-	-	-	-	-
Kazakhstan Engineering	5.913.838	-	-	-	-	-	-	-	-	-
Kazakhstan ASELSAN Engineering -KAE	3.307.390	-	18.512.763	-	-	9.897.456	-	-	-	-
ASELSAN Middle East PSC Ltd	-	-	-	3.147	-	-	-	-	-	-
Due to shareholders	-	-	-	-	-	-	-	155.495	-	-
	66.211.121	**16.342.597**	**18.512.763**	**27.635.470**	**200.403.017**	**48.991.710**	**10.354.490**	**180.202**	**1.639.370**	**46.148.760**

	31 December 2011								
	Receivables					Payables			
	Short-term			Long-term		Short-term			Long-term
Balances with related parties	**Trading**	**Advances given**	**Other**	**Trading**	**Advances given**	**Trading**	**Advances received**	**Non-trading**	**Advances received**
Main shareholder (TAFF), its subsidiaries and associates									
Axa Sigorta A.Ş.	-	-	-	-	-	12.580	-	22.047	-
Esdaş Elektronik Sis. San. ve Tic. A.Ş.	1.234	-	-	-	-	31.804	-	-	-
Havelsan Ehsim A.Ş.	-	285.759	-	-	-	692.923	-	-	-
Havelsan Hava Elektronik San. ve Tic. A.Ş.	-	659.649	-	2.587.585	1.046.718	-	-	-	-
Havelsan Teknoloji Radar San. ve Tic. A.Ş.	-	171.006	-	-	-	299.354	-	-	-
İşbir Elektrik San. A.Ş.	-	2.967.002	-	-	1.275.754	941.475	-	-	-
Mercedes-Benz Türk A.Ş.	-	213.621	-	-	-	-	-	-	-
Nortel Networks Netaş Telekomünikasyon A.Ş.	-	5.861.881	-	-	5.918.082	10.735.841	-	-	-
STM Savunma Teknolojileri Müh. ve Tic. A.Ş.	-	2.204.913	-	-	4.689.766	118.475	-	-	2.888.269
Türk Havacılık ve Uzay San. A.Ş.	4.217.904	60.000	-	3.009.803	-	294.000	3.696.256	-	1.517.300
Türk Silahlı Kuvvetlerini Güçlendirme Vakfı	2.453.939	-		-	-	-	515.191	-	-
Subsidiaries									
ASELSAN Baku	14.423	-	-	-	-	-	-	-	-
Mikroelektronik Ar-Ge Tas. ve Tic. Ltd. Şti.	170.413	-	-	-	-	133.338	-	-	-
Associates and affiliates									
Askeri Pil San. ve Tic. A.Ş.	-	-	-	-	-	794.404	-	-	-
ROKETSAN Roket San. ve Tic. A.Ş.	2.139.918	634.944	-	1.697.916	31.257.791	2.991.546	2.765.873	-	11.958.335
Joint ventures and its related parties									
International Golden Group	23.206.162	-	-	35.811.651	-	-	5.260.257	-	-
Kazakhstan Engineering	-	-	171.350	-	-	109.413	-	-	-
Due to shareholders	-	-	-	-	-	-	-	148.060	-
	32.203.993	**13.058.775**	**171.350**	**43.106.955**	**44.188.111**	**17.155.153**	**12.237.577**	**170.107**	**16.363.904**

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(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

	1 January - 31 December 2012		1 January - 31 December 2011	
Transactions with related parties	**Sales**	**Purchases**	**Sales**	**Purchases**
Main shareholder (TAFF), its subsidiaries and associates				
Axa Sigorta A.Ş.	-	-	303	172.900
Esdaş Elektronik Sis. San. ve Tic. A.Ş.	10.021	1.419.045	29.308	2.696.426
Havelsan Ehsim A.Ş.	-	259.481	-	160.694
Havelsan Hava Elektronik San. ve Tic. A.Ş.	48.246.751	54.964	44.982.966	389.780
Havelsan Teknoloji Radar San. ve Tic. A.Ş.	5.434	2.938.233	7.506	1.855.535
İşbir Elektrik San. A.Ş.	36.500	6.509.423	23.327	5.325.317
Mercedes-Benz Türk A.Ş.	-	819.989	-	221.487
Nortel Networks Netaş Telekomünikasyon A.Ş.	598	26.313.915	760.835	15.699.207
STM Savunma Teknolojileri Müh. ve Tic. A.Ş.	10.168.111	5.426.465	5.709.831	2.129.044
Türk Havacılık ve Uzay San. A.Ş.	24.796.467	449.474	32.009.979	311.309
Türk Silahlı Kuvvetlerini Güçlendirme Vakfı	5.885.442	483.480	5.514.028	419.300
TUSAŞ Motor Sanayi A.Ş.	7.865	-	-	-
Subsidiaries				
ASELSAN Baku	672.166	890.871	62.259	769.229
Mikroelektronik Ar-Ge Tas. ve Tic. Ltd. Şti.	180.578	2.445.126	144.417	2.116.759
Associates and affiliates				
Askeri Pil San. ve Tic. A.Ş.	131.600	3.367.103	171.000	3.949.158
Havaalanı İşletme ve Havacılık End. A.Ş.	4.196	-		
ROKETSAN Roket San. ve Tic. A.Ş.	66.689.047	98.600	35.748.416	872.795
Joint ventures and its related parties				
International Golden Group	85.881.968	-	60.392.874	202.204
IGG ASELSAN Integrated Systems	3.281.101	-		
Kazakhstan Engineering	11.863.198	-	-	106.632
Kazakhstan ASELSAN Engineering -KAE	12.184.351	1.293.716	-	-
KADDB Investment Group PSC	-	23.566	-	-
ASELSAN Middle East PSC Ltd	3.147	-	-	-
	270.048.541	**52.793.451**	**185.557.049**	**37.397.776**

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The risks that are associated with every equity item together with the Group's cost of capital are evaluated by the board of directors. Based on the recommendations of the board, the Group aims to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt on the redemption of existing debt.

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The Group's general strategy which was unchanged from 2011 and the ratio of liabilities to share capital as of 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Total liabilities	2.058.119.180	1.373.227.857
Less: Cash and cash equivalents	(371.895.213)	(179.460.161)
Net debt	1.686.223.967	1.193.767.696
Total equity	1.266.095.591	1.018.816.390
Total capital	2.952.319.558	2.212.584.086
Net debt/total equity ratio	57%	54%

b) Financial Risk Factors:

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is mainly working with public sector and obtaining advance payments where appropriate, both from public sector and private sector entities. Financing needs arising from new contracts are satisfied by advances received when the projects start and milestone payments during the projects. The receivables are generally from public sector and hence considered collectible. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually. Additionally, receivables are monitored regularly to minimize the collection risk.

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(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

The credit risks as of 31 December 2012 is as follows:

	Receivables					
	Trade receivables		Other receivables			
31 December 2012	Related Party	Third party	Related Party	Third party	Bank deposits	Other
Maximum net credit risk as of the balance date (A+B+C+D+E)	93.846.591	677.638.973	18.512.763	24.371.953	371.782.181	-
- The part of maximum risk under guarantee with collateral etc (*)	-	31.955.270	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	93.846.591	676.283.576	18.512.763	24.371.953	371.782.181	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	1.355.397	-	-	-	-
- The part under guarantee with collateral etc.	-	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	1.985.839	-	-	-	-
- Impairment (-)	-	(1.985.839)	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
- Undue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Factors that include off balance sheet credit risks	-	-	-	-	-	-

(*) The guarantees consist of the letters of guarantees, checks and mortgages (Not:15).

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(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

The credits risks as of 31 December 2011 is as follows:

	Receivables					
	Trade receivables		Other receivables			
31 December 2011	**Related Party**	**Third party**	**Related Party**	**Third party**	**Bank deposits**	**Other**
Maximum net credit risk as of the balance date (A+B+C+D+E)	75.310.948	386.176.609	465.803	19.317.133	179.368.919	2.267.100
- The part of maximum risk under guarantee with collateral etc (*)	-	2.194.632	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	75.310.948	369.012.954	465.803	19.317.133	179.368.919	2.267.100
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	17.163.655	-	-	-	-
- The part under guarantee with collateral etc.	-	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	2.056.726	-	-	-	-
- Impairment (-)	-	(2.056.726)	-	-	-	-
- The part of net value under guarantee with collateral etc.	-		-	-	-	-
- Undue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Factors that include off balance sheet credit risks	-	-	-	-	-	-

(*) The guarantees consist of the letters of guarantees, checks and mortgages.

The aging of the overdue receivables is as follows:

	31 December 2012	**31 December 2011**
Overdue by 1-30 days	623.613	727.166
Overdue by 1-3 months	519.013	6.050.199
Overdue by 3-12 months	203.414	10.386.290
Overdue by 12 months	9.357	-
Total receivables	**1.355.397**	**17.163.655**

No collateral is received for the overdue receivables.

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

Liquidity risk

Board of directors has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest payment date. The table includes both interest and principal cash flows.

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 31 December 2012 is as follows:

Contractual Maturity Analysis	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Financial liabilities	325.118.105	329.649.600	176.812.498	36.038.753	102.933.675	13.864.674
Financial leasing liabilities	346.073	412.800	51.150	69.284	292.366	-

Expected Maturity	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Trade payables	306.606.813	307.351.969	183.029.844	113.159.671	11.162.454	-
Other payables	20.890.629	20.890.629	20.856.042	14.261	20.326	-
Other liabilities	3.081.688	3.081.688	3.052.726	-	28.962	-

The distribution of the maturities of non-derivative financial liabilities as of 31 December 2011 is as follows:

Contractual Maturity Analysis	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Financial liabilities	139.717.730	146.598.268	13.514.685	3.165.046	107.477.723	22.440.814

Expected Maturity	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 Months (I)	3-12 Months (II)	1-5 Years (III)	More than 5 Years (IV)
Non-derivative financial instruments						
Trade payables	194.035.210	196.626.544	137.936.006	25.804.417	32.886.121	-
Other payables	23.436.890	23.436.890	23.354.593	-	82.297	-
Other liabilities	4.314.102	4.314.102	4.307.037	-	7.065	-

Market risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

Market risk exposures are supplemented by sensitivity analysis, and stress scenario analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk in the current year.

Foreign currency risk management

Foreign currency denominated transactions cause foreign currency risk. The core principle of the foreign risk management reduces to minimum foreign exchange position deficit or surplus and minimize the effect of exchange rate fluctuation. Group's net foreign currency position is due to the operational structure of the defense industry. No derivative instruments have been used for the foreign currency risk management.

FOREIGN EXCHANGE POSITION

31 December 2012	TL Equivalent (Functional currency)	US Dollar	EURO	Other (TL Equivalent)
1. Trade Receivables	308.867.574	74.817.504	74.617.074	20.918
2a. Monetary financial assets	133.259.589	25.777.276	37.110.561	36.112
2b. Non- monetary financial assets	158.302.828	38.456.575	37.369.154	1.869.101
3. Other	20.833.708	10.938.361	472.952	222.746
4. Current assets (1+2+3)	**621.263.699**	**149.989.716**	**149.569.741**	**2.148.877**
5. Trade receivables	203.090.990	72.012.858	28.328.091	8.101.698
6a. Monetary trade receivables	-	-	-	-
6b. Non-monetary trade receivables	161.626.292	19.831.009	53.695.427	-
7. Other	2.025.790	254.948	663.241	11.577
8. Long-term assets (5+6+7)	**366.743.072**	**92.098.815**	**82.686.759**	**8.113.275**
9. Total assets (4+8)	**988.006.771**	**242.088.531**	**232.256.500**	**10.262.152**
10. Trade payables	85.390.517	10.810.475	26.125.252	4.681.010
11. Financial liabilities	88.006.274	32.219.068	13.000.197	-
12a. Other monetary financial liabilities	159.522	89.488	-	-
12b. Other non-monetary financial liabilities	106.178.215	27.106.598	24.592.785	23.141
13. Current liabilities (10+11+12)	**279.734.528**	**70.225.629**	**63.718.234**	**4.704.151**
14. Trade payables	10.442.845	5.356.396	380.377	-
15. Financial liabilities	114.017.502	63.961.349	-	-
16a. Other monetary financial liabilities	8.989.028	5.042.650	-	-
16b. Other non-monetary financial liabilities	751.695.395	259.099.522	122.045.999	2.809.013
17. Non-current liabilities (14+15+16)	**885.144.770**	**333.459.917**	**122.426.376**	**2.809.013**
18. Total liabilities (13+17)	**1.164.879.298**	**403.685.546**	**186.144.610**	**7.513.164**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	-	-	-	-
19a. Hedged total financial assets	-	-	-	-
19b. Hedged total financial liabilities	-	-	-	-
20. Net foreign currency asset/liability (9-18+19)	(176.872.527)	(161.597.015)	46.111.890	2.748.988
21. Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	338.212.465	55.128.212	100.549.900	3.477.718
22. Fair value of derivative financial instruments used in foreign currency hedge	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-
25. Exports	271.984.690	72.087.943	55.452.195	15.029.211
26. Imports	581.834.155	174.425.157	99.223.356	37.560.303

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

As of 31 December 2012, the Company's financial statement which is prepared according to General Communiqué on Accounting System Application (GCASA), has TL 839.601.463 (31 December 2011: TL 632.687.725) open position. Accompanying foreign exchange position which was prepared in accordance with CMB's regulation, is different from the foreign exchange position of the financial statement which is prepared according to GCASA. The difference is mainly due to the adjustments and classifications which are related with IAS 11 "Construction Contracts".

FOREIGN EXCHANGE POSITION

31 December 2011	TL Equivalent (Functional currency)	US Dollar	EURO	Other (TL Equivalent)
1. Trade Receivables	149.307.359	40.620.339	29.699.485	-
2a. Monetary financial assets	82.179.928	38.786.158	3.639.676	22.115
2b. Non- monetary financial assets	167.577.409	46.386.745	30.916.790	4.403.036
3. Other	580.618	102.453	27.500	319.890
4. Current assets (1+2+3)	**399.645.314**	**125.895.695**	**64.283.451**	**4.745.041**
5. Trade receivables	160.659.723	51.785.782	25.714.690	-
6a. Monetary trade receivables	-	-	-	-
6b. Non-monetary trade receivables	138.461.350	56.389.612	13.072.577	245
7. Other	1.133.590	213.728	289.361	22.737
8. Long-term assets (5+6+7)	**300.254.663**	**108.389.122**	**39.076.628**	**22.982**
9. Total assets (4+8)	**699.899.977**	**234.284.817**	**103.360.079**	**4.768.023**
10. Trade payables	87.636.158	13.851.498	21.514.831	8.894.121
11. Financial liabilities	15.088.921	7.987.729	368	-
12a. Other monetary financial liabilities	781.493	200.115	142.320	55.694
12b. Other non-monetary financial liabilities	71.977.265	33.240.088	3.750.941	23.514
13. Current liabilities (10+11+12)	**175.483.837**	**55.279.430**	**25.408.460**	**8.973.329**
14. Trade payables	16.524.912	5.292.095	2.671.525	-
15. Financial liabilities	124.627.726	65.978.997	-	-
16a. Other monetary financial liabilities	11.071.862	5.860.000	1.190	-
16b. Other non-monetary financial liabilities	479.933.980	170.956.821	64.249.792	-
17. Non-current liabilities (14+15+16)	**632.158.480**	**248.087.913**	**66.922.507**	**-**
18. Total liabilities (13+17)	**807.642.317**	**303.367.343**	**92.330.967**	**8.973.329**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**-**	**-**	**-**	**-**
19a. Hedged total financial assets	**-**	**-**	**-**	**-**
19b. Hedged total financial liabilities	**-**	**-**	**-**	**-**
20. Net foreign currency asset/liability (9-18+19)	**(107.742.340)**	**(69.082.526)**	**11.029.112**	**(4.205.306)**
21. Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**136.415.938**	**32.021.845**	**34.723.617**	**(8.927.700)**
22. Fair value of derivative financial instruments used in foreign currency hedge	**-**	**-**	**-**	**-**
23. Hedged foreign currency assets	**-**	**-**	**-**	**-**
24. Hedged foreign currency liabilities	**-**	**-**	**-**	**-**
25. Exports	**141.282.643**	**33.592.378**	**36.399.172**	**534.474**
26. Imports	**564.578.465**	**175.687.242**	**88.714.401**	**23.656.876**

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

Foreign Currency Sensitivity

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and the EURO.

The following table details the Group's sensitivity to a 10% increase and decrease in the US Dollars and EURO. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. This analysis includes group companies' balance sheet items which are functional currency of the non TL. The effects of 10% changes in foreign currency rate on financial statements is as follows;

Foreign Currency Sensitivity Analysis

Foreign currency sensitivity table				
31 December 2012				
	Profit/Loss		**Equity**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Appreciation of US Dollars against TL by 10%				
1- USD denominated net assets/liabilities	(28.806.284)	28.806.284	-	-
2- Hedged amount against USD risk (-)	-	-	-	-
3- Net effect of USD (1+2)	**(28.806.284)**	**28.806.284**	**-**	**-**
Appreciation of EURO against TL by 10%				
4- EURO denominated net assets/ liabilities	10.844.133	(10.844.133)	-	-
5- Hedged amount against EURO risk (-)	-	-	-	-
6- Net effect of EURO (4+5)	**10.844.133**	**(10.844.133)**	**-**	**-**

Foreign currency sensitivity table				
31 December 2011				
	Profit/Loss		**Equity**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Appreciation of US Dollars against TL by 10%				
1- USD denominated net assets/liabilities	(13.048.998)	13.048.998	-	-
2- Hedged amount against USD risk (-)	-	-	-	-
3- Net effect of USD (1+2)	**(13.048.998)**	**13.048.998**	**-**	**-**
Appreciation of EURO against TL by 10%				
4- EURO denominated net assets/ liabilities	2.695.294	(2.695.294)	-	-
5- Hedged amount against EURO risk (-)	-	-	-	-
6- Net effect of EURO (4+5)	**2.695.294**	**(2.695.294)**	**-**	**-**

Interest rate risk management

As of 31 December 2012 and 2011, since all of the loans obtained by the Group are fixed-rate loans, the Group is not exposed to significant interest rate risk.

As of 31 December 2012, since the Group does not have interest bearing financial assets (31 December 2011: TL 2.267.100). No significant interest rate risk has been exposed by.

Price risk

The Group usually enters into fixed price contracts, therefore, is not exposed to any major price risk.

ASELSAN and Its Subsidiaries

Notes for the Audited Consolidated Financial Statements as of 31 December 2012

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

Hierarchy of fair value

The Group classifies the fair value calculations with respect to the base of the input data of each financial instrument using three levels of hierarchy. According to this, Level 1 contains the valuation techniques used for determining the market values of the financial instruments in the active market, Level 2 contains the direct and indirect valuation techniques that uses the observable current market transactions and Level 3 uses the valuation techniques without the observable current market transactions.

As of 31 December 2012 and 31 December 2011, the Group's financial assets at their fair values are as follows:

31 December 2012

None.

31 December 2011

Financial assets carried at the fair value in the balance sheet	Level 1	Level 2	Level 3
Eurobonds	2.267.100	-	-

As of 31 December 2012 and 31 December 2011, The Group does not hold any financial liabilities carried at fair value.

30. FINANCIAL INSTRUMENTS

Categories of the financial instruments and their fair values

31 December 2012	Financial assets at fair value	Loans and receivables (including cash and cash equivalents)	Assets held for sale	Financial liabilities at amortized cost	Carrying value	Note
Financial Assets						
Cash and cash equivalents	-	371.895.213	-	-	371.895.213	4
Financial investments	-	-	12.017.562	-	12.017.562	5
Trade receivables	-	771.485.564	-	-	771.485.564	7
Financial liabilities						
Borrowings	-	-	-	325.118.105	325.118.105	6
Trade payables	-	-	-	306.606.813	306.606.813	7
Other financial liabilities	-	-	-	346.073	346.073	
Other payables	-	-	-	20.890.629	20.890.629	8

31 December 2011	Financial assets at fair value	Loans and receivables (including cash and cash equivalents)	Assets held for sale	Financial liabilities at amortized cost	Carrying value	Note
Financial Assets						
Cash and cash equivalents	-	179.460.161	-	-	179.460.161	4
Financial investments	2.267.100	-	9.484.215	-	11.751.315	5
Trade receivables	-	461.487.557	-	-	461.487.557	7
Financial liabilities						
Borrowings	-	-	-	139.717.730	139.717.730	6
Trade payables	-	-	-	194.035.210	194.035.210	7
Other payables	-	-	-	23.436.890	23.436.890	8

(*) The Group's management assesses that the carrying value reflects the fair value of financial instruments.

31. EVENTS AFTER THE BALANCE SHEET DATE

The amount of contracts signed by the Group after the balance sheet date are approximately TL 32 million, USD 80 million and EURO 118 thousand.

ASELSAN and Its Subsidiaries

Independent Auditor's Report about Financial Statements with Respect to the Period 1 January-31 December 2012

CONVENIENCE TRANSLATION OF THE REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

To the Board of Directors of

ASELSAN Elektronik Sanayi ve Ticaret A.Ş.

ANKARA

We have audited the accompanying consolidated balance sheet of ASELSAN Elektronik Sanayi ve Ticaret A.Ş. (the "Company") and its subsidiaries (together the "Group") as of 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with financial reporting standards published by Capital Markets Board of Turkey ("CMB"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the auditing standards published by CMB. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, accompanying consolidated financial statements give a true and fair view of the consolidated financial position of ASELSAN Elektronik Sanayi ve Ticaret A.Ş. and its subsidiaries as of 31 December 2012 and of its financial performance and its consolidated cash flows for the year then ended in accordance with the financial reporting standards published by the Capital Markets Board of Turkey.

Ankara, 5 March 2013

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Erdem Taş

Partner