BORUSAN MANNESMANN BORU
SANAYİ VE TİCARET
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
TOGETHER WITH INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş.

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. (the "Company") and its subsidiaries (together the "Group") as at 31 December 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholder's equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and "Independent Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed the key audit matter***
Revenue recognition The Group's activities are monitored under two main industrial segments: steel pipe and engineering. A significant portion of the revenue generated by the Group is pipe sales. The reason why we focused on this issue is significance of revenue amounts in the consolidated income statements of the Group as of 31 December 2018. Accordingly, taking into consideration the importance of revenue in the consolidated financial statements, accounting of the revenue in the consolidated financial statements correctly is determined as the key audit matter. Please see Note 2 and 28 in the consolidated financial statements for accounting policies and amount of revenue held by the Group as of 31 December 2018.	We performed the following procedures in relation to the revenue recognition: • Understanding the sales processes and evaluating the design and efficiency of the controls related to these processes, • Evaluating of appropriateness of Group's Accounting Policy regarding the revenue recognition, • Testing of customer invoices by sampling method and matching these invoices with shipments and customer collections, • • Evaluation of sales contracts made with the customers and evaluation of the timing of receipt of revenue for delivery methods, • Testing the completeness of the revenue by matching the accounting records and the related invoices with the selections from the shipment documents by sampling method, We had no material findings as a result of these procedures.

Key audit matter	*How our audit addressed the key audit matter*
Fair value calculation of property plant and equipment Please see Note 18 in the consolidated financial statements for property, plant and equipment held by the Group as of 31 December 2018 accounted with their fair values amounting to USD 592,516,766. The Group's land, buildings, machineries and equipments were revalued by independent valuation firm in 2014 and recorded in 2015. The reason why we focused on this issue; • The determination of fair value has data which are not easily observable on the market and are audited by an expert, • The calculation of fair value is affected by market conditions, • Significance of property, plant and equipment amounts in the consolidated financial statements.	We performed the following procedures in relation to the fair value calculation of property plant and equipment: • Checking the frequency of revaluation of property, plant and equipment in accordance with International Accounting Standards ("IAS 16"), • Discussing with the Group Management and the independent valuation firm which made the valuation in 2014, and observing that there is no material and irregular change in the fair value of the property, plant and equipment, • According to discussions with the management and the independent valuation firm, observing that the assumptions and factors considered for the fair value calculation have not been changed significantly. • Testing of land registry and real estate ownership ratios of the real estates. We had no material findings as a result of these procedures.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Coşkun Şen, SMMM
Partner

Istanbul, 9 April 2019

BORUSAN MANNESMANN BORU SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

İÇİNDEKİLER **SAYFA**

BORUSAN MANNESMANN BORU SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

(Amounts expressed in US Dollars unless otherwise stated)

		Audited	Audited
ASSETS	**Note**	**31 December 2018**	**31 December 2017**
Current assets		**608.224.662**	**442.143.067**
Cash and cash equivalents	6	148.021.249	136.938.565
Trade receivables	10	223.720.087	97.172.330
- Due from related parties	37	3.376.324	12.772.726
- Trade receivables from other parties		220.343.763	84.399.604
Other receivables	11	4.170.647	2.605.889
- Other receivables from other parties		4.170.647	2.605.889
Inventories	13	200.200.224	172.497.587
Prepaid expenses	14	14.173.946	20.142.076
Current income tax assets	15	1.213.193	385.550
Other current assets	26	16.261.582	11.937.336
- Other current assets from related parties	37	9.687	177.865
- Other current assets from other parties		16.251.895	11.759.471
		607.760.928	**441.679.333**
Assets held for sale	34	463.734	463.734
Non-current assets		**688.895.481**	**661.907.174**
Available-for-sale financial assets	7	48.707.194	38.056.325
Property, plant and equipment	18	624.095.978	622.020.080
Intangible assets		1.126.033	847.032
- Other intangible assets	19	1.126.033	847.032
Prepaid expenses	14	14.933.617	948.443
Other non-current assets	26	32.659	35.294
TOTAL ASSETS		**1.297.120.143**	**1.104.050.241**

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2018

(Amounts expressed in US Dollars unless otherwise stated**)**

		Audited	**Audited**
LIABILITIES	**Note**	**31 December 2018**	**31 December 2017**
Current liabilities		**552.741.404**	**402.537.031**
Short-term borrowings	8	194.334.209	149.566.088
Short-term portion of long-term borrowings	8	64.985.579	67.761.116
Trade payables	10	249.734.371	163.448.613
- Due to related parties	37	5.708.789	2.898.545
- Trade payables to other parties		244.025.582	160.550.068
Employee benefit obligations	17	1.070.085	687.233
Other payables	11	4.898.713	4.684.169
- Other payables from third parties		4.898.713	4.684.169
Derivative financial instruments	12	1.225.973	35.833
Deferred revenue	16	262.610	551.524
Other current liabilities	26	36.229.864	15.802.455
Non-current liabilities		**217.538.719**	**216.270.541**
Long-term borrowings	8	145.573.037	158.568.001
Provisions for employee benefits	24	2.765.352	4.211.943
Deferred tax liabilities	35	69.200.330	53.490.597
Total liabilities		**770.280.123**	**618.807.572**
EQUITY		**526.840.020**	**485.242.669**
Equity attributable to equity holders of the parent		**526.430.401**	**484.833.645**
Paid -in capital	27	68.996.872	68.996.872
Other comprehensive income/expense not to be reclassified to profit or loss		248.318.639	238.784.230
-Revaluation and measurement gains (losses)	27	218.661.333	219.085.064
-Investment revaluation reserves		28.757.621	19.173.976
-Reserve for actuarial loss on employee termination benefits		899.685	525.190
Other comprehensive income/expense to be reclassified to profit or loss		(2.519.022)	(548.012)
-Currency translation differences		(1.293.049)	(512.178)
-Cash flow hedge reserve		(1.225.973)	(35.834)
Retained earnings		153.000.212	110.828.268
Net profit for the period		58.633.700	66.772.287
Non-controlling Interest	27	409.619	409.024
TOTAL LIABILITIES AND EQUITY		**1.297.120.143**	**1.104.050.241**

The accompanying notes form an integral part of these consolidated financial statements.

BORUSAN MANNESMANN BORU SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars unless otherwise stated**)**

	Note	Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017
Revenue	28	1.011.061.863	779.013.389
Cost of sales (-)	28	(872.098.495)	(653.216.782)
Gross profit		**138.963.368**	**125.796.607**
General administrative expenses (-)	29	(39.789.401)	(39.479.689)
Marketing expenses (-)	29	(13.160.032)	(11.985.048)
Other operating income	31	15.772.920	11.397.799
Other operating expenses (-)	31	(724.238)	(950.123)
Operating profit		**101.062.617**	**84.779.546**
Income from investing activities	32	7.954.369	7.855.591
Operating profit before financial income and expense		**109.016.986**	**92.635.137**
Financial income	33	4.494.195	1.644.217
Financial expense (-)	33	(39.910.639)	(28.713.615)
Profit before tax from continued operations		**73.600.542**	**65.565.739**
Tax expense from continued operations		**(14.958.356)**	**1.210.526**
- Current tax (expense)	35	(300.000)	(8.588.252)
- Deferred tax income/(expense)		(14.658.356)	9.798.778
Profit from continued operations		**58.642.186**	**66.776.265**
Profit for the period		**58.642.186**	**66.776.265**
Attributable to:		**58.642.186**	**66.776.265**
- Non-controlling interest	27	8.486	3.978
- Equity holders of the parent		58.633.700	66.772.287
Earnings per share			
Earnings per share from continuing operations	36	0,0004136	0,0004711

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts expressed in US Dollars unless otherwise stated**)**

	Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017
Profit for the period	**58.642.186**	**66.776.265**
Other comprehensive income:		
Items not to be reclassified to profit or loss	**9.958.140**	**1.316.568**
Current year revaluation on property, plant and equipment	9.583.645	-
Remeasurement of employee benefit obligations	374.495	1.316.568
Items to be reclassified to profit or loss	**(1.978.901)**	**1.408.457**
Cash flow hedging reserve	(1.190.139)	(420.513)
Currency translation differences	(788.761)	1.828.970
Other comprehensive (loss)/income	**7.979.239**	**2.725.025**
Total comprehensive income	**66.621.425**	**69.501.290**
Attributable to:		
- Non-controlling interest	595	22.268
- Equity holders of the parent	66.620.830	69.479.022

The accompanying policies and notes form an integral part of these consolidated financial statements.

BORUSAN MANNESMANN BORU SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts expressed in US Dollars unless otherwise stated)

		Other comprehensive income/expense not to be reclassified to profit or loss			Other comprehensive income/expense to be reclassified to profit or loss						
	Issued share capital	Revaluation reserve	Investment revaluation reserve	Reserve for actuarial loss on employment termination benefits	Currency translation reserve	Investment revaluation reserve	Cash flow hedge reserve	Legal reserves and retained earnings	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 January 2017	**68.996.872**	**233.389.130**	**-**	**(791.378)**	**(2.322.858)**	**19.173.976**	**384.679**	**136.215.338**	**455.045.759**	**386.756**	**455.432.515**
Transfer of 2017 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	-	(117.565)	-	-	-	-	-	117.565	-	-	-
Disposals from revaluation reserve	-	(6.590.748)	-	-	-	-	-	-	(6.590.748)	-	(6.590.748)
Total comprehensive income / (loss) for the period	-	-	-	1.316.568	1.810.680	-	(420.513)	66.772.287	69.479.022	22.268	69.501.290
Dividends paid	-	-	-	-	-	-	-	(25.504.635)	(25.504.635)	-	(25.504.635)
Reveluation Fund change due to tax rate change		(7.595.753)	-	-	-	-	-	-	(7.595.753)	-	(7.595.753)
Balance at 31 December 2017	**68.996.872**	**219.085.064**	**-**	**525.190**	**(512.178)**	**19.173.976**	**(35.834)**	**177.600.555**	**484.833.645**	**409.024**	**485.242.669**
Balance at 1 January 2018 reported before	**68.996.872**	**219.085.064**	**-**	**525.190**	**(512.178)**	**19.173.976**	**(35.834)**	**177.600.555**	**484.833.645**	**409.024**	**485.242.669**
IFRS 9 accounting policy change effect	-	-	**19.173.976**	-	-	**(19.173.976)**	-	-	-	-	-
Balance at 1 January 2018 restated	**68.996.872**	**219.085.064**	**19.173.976**	**525.190**	**(512.178)**	**-**	**(35.834)**	**177.600.555**	**484.833.645**	**409.024**	**485.242.669**
Transfer of 2018 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	-	(423.731)	-	-	-	-	-	423.731	-	-	-
Total comprehensive income / (loss) for the period	-	-	9.583.645	374.495	(780.871)	-	(1.190.139)	58.633.700	66.620.830	595	66.621.425
Dividends paid	-	-	-	-	-	-	-	(25.024.074)	(25.024.074)	-	(25.024.074)
Balance at 31 December 2018	**68.996.872**	**218.661.333**	**28.757.621**	**899.685**	**(1.293.049)**	**-**	**(1.225.973)**	**211.633.912**	**526.430.401**	**409.619**	**526.840.020**

The accompanying notes from an integral part of these consolidated financial statements.

(Amounts expressed in US Dollars unless otherwise stated)

	Notes	Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017
Cash flows from operating activities:			
Profit before tax		73.600.542	65.565.739
Reconciliation of profit before tax to operating profit before changes in working capital			
Depreciation and amortization expenses	18, 19	25.200.588	24.522.370
Provision for employee termination benefits	24	914.299	1.211.530
Interest income	33	(4.494.195)	(1.644.217)
Interest expense	33	39.910.639	28.713.615
Provision for impairment of invesments in associates and financial assets	7	44.615	93.494
Gain on sale of property, plant and equipment and intangibles	32	(227.265)	(775.885)
Provision for impairment on inventories	13	-	(3.364.016)
Currency translation differences		(1.544.332)	(2.042.851)
Dividend income	32	(7.727.104)	(7.079.706)
Operating profit before changes in working capital		**125.677.787**	**105.200.073**
Changes in working capital:			
Trade receivables	10	(125.699.880)	(25.323.559)
Inventories	13	(27.702.637)	3.588.913
Other current assets and liabilities, net		20.815.017	1.244.314
Trade payables	10	86.285.758	(65.879.315)
Other non-current assets and liabilities, net		(13.982.539)	2.414.963
Collection of doubtful receivables	10	9.210	-
Taxes paid	35	(1.127.643)	(5.829.717)
Employee benefit obligations paid	24	(756.471)	(1.079.020)
Net cash provided by/(used in) operating activities		**63.518.603**	**14.336.652**
Cash flow from investing activities:			
Purchase of property, plant and equipment and intangible assets	18, 19	(29.534.009)	(22.051.405)
Proceeds from sale of property, plant and equipment and intangibles		916.368	22.959.262
Net change in available for sale financial assets	7	(102.484)	(63.066)
Proceeds from sale of available held for sale assets	34	-	369.259
Dividend received	32	7.727.104	7.079.706
Net cash provided by/(used in) investing activities		**(20.993.021)**	**8.293.756**
Cash flow from financing activities:			
Redemption of borrowings		4.203.659.390	(4.048.622.578)
Proceeds from borrowings		(4.173.471.630)	4.187.340.184
Dividends paid		(25.024.074)	(25.504.635)
Interest paid		(41.100.778)	(29.134.128)
Interest received	33	4.494.195	1.644.217
Net cash (used in)/provided by financing activities		**(31.442.898)**	**85.723.060**
Net increase/(decrease) in cash and cash equivalents		11.082.684	108.353.468
Cash and cash equivalents at the beginning of the year		136.938.565	28.585.097
Cash and cash equivalents at the end of the period		**148.021.249**	**136.938.565**

(Amounts expressed in US Dollars unless otherwise stated)

1. CORPORATE INFORMATION

General

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. (Borusan Mannesmann Boru) ("the Company") is a joint stock company incorporated in Turkey. The Company's shares are traded in İstanbul Stock Exchange since 1994. The Company is registered in Turkey and the address of the registered office is as follows:
Meclis-i Mebusan Caddesi No: 35 - 37
34427 Fındıklı - İstanbul

The avarege number of the personnel in the reported period in terms of category is as follows :

Period	Worker	Official	Manager	Executive	Total
31 December 2018	1614	295	29	7	1945
31 December 2017	1367	270	34	6	1677

Consolidated financial statements covering accounting period of 1 January - 31 December 2018 are approved with Board of Directors' decision dated on February 28, 2019. General assembly has the authority to amend the financial statements.

In the extraordinary General Assembly meeting of Borusan Birleşik Boru Fabrikaları A.Ş. (Borusan Boru) held on 25 November 2004, the merger with Mannesmann Boru Endüstrisi T.A.Ş. (Mannesmann Boru) was approved. The merger of these entities under common control is effected legally through dissolution without liquidation and takeover of Mannesmann Boru by Borusan Boru by transferring all its assets, liabilities, rights and obligations. Following the merger, the registered name of Borusan Boru has been changed to Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and the change was registered on the Trade Registry Gazette dated 13 December 2004.

The parent and the ultimate parent of the Company are Borusan Mannesmann Boru Yatırım Holding A.Ş. and Borusan Holding A.Ş., respectively.

Business segments, the location and the Group's ultimate effective shareholding in its subsidiaries' equity are as follows:

Business Segment	Subsidiary	Location	(%) of Ownership
Holding	Borusan Mannesmann Holding BV "(BM Holding BV)"	Netherlands	100.0
Steel Pipe	Borusan Mannesmann Pipe US Inc. "(BM Pipe)"	USA	100.0
Steel Pipe	Borusan Mannesmann Vobarno Tubi SPA "(BM Vobarno)"	Italy	99.0
Engineering Services	Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş. "(Borusan Mühendislik)"	Turkey	97.2

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis of preparation

2.1.1. Accounting policies

The consolidated financial statements of the Company as at 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company maintains its accounting records and prepares its statutory accounting reports in Turkish Lira ("TRY") in accordance with the Turkish Commercial Code (the "TCC"), tax legislation and the Turkish Standard Chart of Accounts issued by the Ministry of Finance (collectively referred to as "Turkish statutory accounts" or "local GAAP"). The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered.

These financial statements are based on the statutory records, which are maintained under historical cost convention, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with IFRS.

As the Company is listed in Borsa Istanbul and is subject to requirements of Capital Markets Board of Turkey, it also prepares and published consolidated financial statements in accordance with Turkish Financial Reporting Standards. Due to financial reporting requirements of Capital Markets Board of Turkey, companies need to conform to specified presentation formats for their primary financial statements and use Turkish Lira as their presentation currency. The Company has applied those presentation formats in presenting these consolidated financial statements prepared in accordance with IFRS.

2.2. Functional and presentation currency

The consolidated financial statements are presented in US Dollars, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The US Dollar is used to a significant extent, or has a significant impact on the operations of the Company, Borusan Mannesmann Pipe US Inc.(BM Pipe) and Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş. ("Borusan Mühendislik") and reflects the economic substance of the underlying events and circumstances relevant to these companies. Therefore, the Company and Borusan Mühendislik use the US Dollar (USD) as functional currency. All currencies other than the currency selected for measuring items in the financial statements are treated as foreign currencies.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to translation gain / (loss) in the consolidated income statement. Non-monetary items and equity balances (excluding profit or loss) that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The functional currency of the subsidiaries, Borusan Mannesmann Holding BV and Borusan Mannesmann Vobarno Tubi SPA is Euro. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group (USD) at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity as currency translation reserve. On disposal of such subsidiaries, the deferred cumulative amount recognized in equity relating to that particular subsidiary is recognized in the income statement.

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2. Functional and presentation currency (Continued)

The TRY exchange rates for the purchases of USD announced by the Central Bank of the Republic of Turkey for the last five years were as follows:

Year	Year-end USD/TRY rates	Average USD/TRY rates
2014	2,3189	2,1878
2015	2,9076	2,7200
2016	3,5192	3,0232
2017	3,7719	3,6477
2018	5,2609	4,8297

Consolidated subsidiaries, BM Holding BV and BM Vobarno's functional currency is Euro. In accordance with IAS 21, monetary items in the financial statements are converted via using prevailing Euro exchange rates at 31 December 2018 (1 Euro = 6,0280); income and expense and cash flows are converted with twelve-month average of the exchange rates (1 Euro = 5,6789) (As of 31 December 2017, 1 Euro = 4,5155; 31 December 2017 twelve-month average exchange rate 1 Euro= 4,1151).

2.3. Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are the companies which are controlled by the Group. The Group's control has been provided with exposure to variable returns from these companies, having rights in this return and directing of the power. Subsidiaries have been consolidated by the method of full consolidation from the date that controlling by the Group. Subsidiaries have been exculuded from scope of consolidation as of disappearing of the Group's control.

(i) The balance sheets and statements of income of the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by the Company is eliminated against the related equity accounts. Intercompany transactions and balances between the Company and its subsidiaries and unrealized gains and losses on transactions among them are eliminated.

(ii) Subsidiaries are consolidated from the date on when control is transferred to the Company.

(iii) Non-controlling share in the net assets of the consolidated subsidiaries is separately classified in the consolidated financial statements as non-controlling interest.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4. New and Revised International Financial Reporting Standards (Continued)

The accounting policies, applied in the preparation of the financial statements as of 31 December 2018, are consistent with those applied in the preparation of the financial statements as of 31 December 2017, except for the new and amended IFRS and IFRIC interpretations, which are valid as of 1 January 2018. The effects of these standards and interpretations on the Company's financial position and the performance have been disclosed in the related paragraphs.

a) Standards, amendments and interpretations applicable as at 31 December 2018

- IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. The effects of these standards and interpretations on the Company's financial position and the performance have been disclosed in the related paragraphs.

- Amendment to IFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. The effects of these standards and interpretations on the Company's financial position and the performance have been disclosed in the related paragraphs.

Amendment to IFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. The effects of these standards and interpretations on the Company's financial position and the performance have been disclosed in the related paragraphs.

- Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

    - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
    - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4. New and Revised International Financial Reporting Standards (Cntinued)

a) Standards, amendments and interpretations applicable as at 31 December 2018 (continued)

- **"Amendment to IAS 40, 'Investment property'"** relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- **"Amendments to IFRS 2, 'Share based payments'"** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- **"Annual improvements 2014-2016"**; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

  - IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
  - IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

- **"IFRIC 22"**, 'Foreign currency transactions and advance consideration'; effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

b) ***Standards, amendments and interpretations that are issued but not effective as at 31 December 2018:***

- **"Amendment to IFRS 9, 'Financial instruments'"**; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

- **"Amendment to IAS 28, 'Investments in associates and joint venture'"**; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4. New and Revised International Financial Reporting Standards (Continued)

b) ***Standards, amendments and interpretations that are issued but not effective as at 31 December 2018 (continued):***

- **"IFRS 16, 'Leases'"**; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. As a result, all right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). As at the reporting date, the assessment of the Company related to the impacts of IFRS 16 on its financial statements continues.

- **"IFRIC 23, 'Uncertainty over income tax treatments'";** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

- **"IFRS 17, 'Insurance contracts**'"; effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

- **"Annual improvements 2015-2017**"; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4. New and Revised International Financial Reporting Standards (Continued)

b) ***Standards, amendments and interpretations that are issued but not effective as at 31 December 2018 (continued):***

- IFRS 3, ‘Business combinations’, – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, ‘Joint arrangements’, – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, ‘Income taxes’ – a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, ‘Borrowing costs’ – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

\- ***“*Amendments to IAS 19, ‘Employee benefits’”** on plan amendment, curtailment or settlement’; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

- use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
- recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

\- Amendments to IAS 1 and IAS 8 on the definition of material; effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, ‘Presentation of financial statements’,and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs:

i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
ii) clarify the explanation of the definition of material; and
iii) incorporate some of the guidance in IAS 1 about immaterial information.

\- Amendments to IFRS 3 - definition of a business; effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

The impacts of the standard on the financial position and performance of the Company is being assessed.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of Significant Accounting Policies

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liabilities simultaneously.

Comparative information and restatements on prior year's financial statements

Significant changes in accounting policies and significant accounting errors detected are applied retrospectively and prior period financial statements are restated. Changes in accounting estimates, if only for one period, are made in the current period; if they relate to future periods, are made in future period as well as in the period of change, are applied prospectively. The accounting policies applied in the preparation of these financial statements for the year ended at 31 December 2018 are consistent with those applied in the preparation of financial statements for the year ended at 31 December 2017.

IFRS 15 "Revenue From Contracts with Customers"

Revenue recognition

The Company adopted IFRS 15 "Revenue From Contracts with Customers" from 1 January 2018 which proposes a five step model framework mentioned below for recognizing the revenue.

- Identification of the contract with customers
- Identification of the seperate performance obligations in the contract
- Determination of the transaction price in contract
- Allocation of the transaction price to the performance obligations in the contract
- Recognition revenue

The Company assess the goods or services promised in a contract with a customer and identify as a performance obligation each promise to transfer to the customer.

For each performance obligation identified, the entity determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. If the Company transfers control of a good or service over time and therefore satisfies a performance obligation and recognises revenue over time.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5. Summary of Significant Accounting Policies (Continued)

The Company recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to the customer. An asset is transferred when the customer obtains control of that asset or service.

The Company considers the following in the assessment of transfer of control of goods sold and services,

a) The entity has a right to payment for the goods or service,
b) The customer has legal title to the goods or service,
c) The entity has transferred physical possession of the asset,
d) The customer has the significant risks and rewards related to the ownership of the goods or services,
e) The customer has accepted the goods or services.

First time adoption of IFRS 15 "Revenue From Contracts with Customers"

The Company assessed the cumulative effect of initial application of IFRS 15 "Revenue From Contracts with Customers" which replaced "TMS 18 Revenue" retrospectively ("cumulative effect approach") as of the date of first time adoption which is 1 January 2018 and concluded that the standard did not have a significant retrospective effect.

IFRS 9 "Financial Instruments"

Classification and measurement

Company classified its financial assets in three categories; financial assets carried at amortized cost, financial assets carried at fair value though profit of loss, financial assets carried at fair value though other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. Management performs the classification of financial assets at the acquisition date.

(a) Financial assets carried at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. They are included in current assets, except for maturities more than12 months after the balance sheet date. Those with maturities more than 12 months are classified as non-current assets. The Group's financial assets carried at amortized cost comprise "trade receivables" and "cash and cash equivalents" in the statement of financial position. In addition, with recourse factoring receivables classified in trade receivables are classified as financial assets carried at amortized cost since collection risk for those receivables are not transferred to counterparty.

Impairment

Group has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, Group measures expected credit loss from these receivables by the life-time expected credit loss.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5. Summary of Significant Accounting Policies (Continued)

The calculation of expected credit loss is performed based on the past experience of the Group and its expectations for the future indications.

(b) Financial assets carried at fair value

Assets that are held by the management for collection of contractual cash flows and for selling the financial assets are measured at their fair value. If the management do not plan to dispose these assets in 12 months after the balance sheet date, they are classified as non-current assets. Group make a choice for the equity instruments during the initial recognition and elect profit or loss or other comprehensive income for the presentation of fair value gain and loss:

i) Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise of “derivative instruments” in the statement of financial position. Derivative instruments are recognized as asset when the fair value of the instrument is positive, as liability when the fair value of the instrument is negative. Group’s financial instruments at fair value through profit or loss consist of forward contracts, currency swaps and cross currency fixed interest rate swap.

ii) Financial assets carried at fair value through other comprehensive income

Financial assets carried at fair value through other comprehensive income comprise of “financial assets” in the statement of financial position. Group carried these assets at their fair values. The fair value gains and losses are recognized in other comprehensive income after the deduction of impairment losses and foreign exchange income and expenses. When the financial assets carried at fair value through other comprehensive income are sold, fair value gain or loss classified in other comprehensive income is classified to retained earnings.

The changes in the classification of financial assets and liabilities in accordance with IFRS 9 is explained below. Those reclassification differences do not have any impact of the measurement of financial instruments asset for financial assets:

Financial assets	**Classification in accordance with TMS 39**	**New classification in accordance with IFRS 9**
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade receivables	Loans and receivables	Amortised cost
Derivative financial instruments	Fair value through other compherensive income	Fair value through other compherensive income
Financial assets	Available for sale financial assets	Fair value through other compherensive income

Financial liabilities	**Classification in accordance with TMS 39**	**New classification in accordance with IFRS 9**
Derivative financial instruments	Fair value through other compherensive income	Fair value through other compherensive income
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5. Summary of Significant Accounting Policies (Continued)

Trade receivables

The Group has chosen "practical expedient" explained in IFRS 9 for the calculation of impairment of trade receivables (with maturities less than one year) that do not contain a significant financing component and accounted at amortised cost. Accordingly, the Group measured the loss allowance for trade receivables at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

The Group uses a provision matrix in the calculation of expected credit losses. Provision rate is calculated based on the overdue days of trade receivables and the rates are revised each reporting period if necessary. The change in expected credit losses is recognised in operational expense/income in income statement.

In consolidated financial statement of equity, "Gains on financial assets measured at fair value through other comprehensive income", which used to classified to "Other comprehensive income to be reclassified to profit or loss", amounting to USD19.173.976; has been classified to "Other comprehensive income not to be reclassified to profit or loss " in accordance to transition to IFRS 9 "Financial Instruments" standards as of 31 December 2017.

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.

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Receivables are measured at discounted cost using the effective interest method less any impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, credit card receivables from banks 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 not subject to a significant risk of changes in value.

IFRS 16 "Lease operations" standard

IASB has issued IFRS 16 Leases TF standard in April 2018. The new standard eliminates the leasing of operating leases and leasing, and requires many leases for leasing companies to be included in the balance sheet under a single model. For leasing companies, the recognition has not changed substantially and the difference between operating leases and financial leasing continues. IFRS 16 replaces IAS 17 and IAS 17 and is effective for annual periods beginning on or after 1 January 2019.

(Amounts expressed in US Dollars unless otherwise stated)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5. Summary of Significant Accounting Policies (Continued)

IFRS 16 "Lease operations" standard (Continued)

Tenants have the exception of not applying this standard to short-term rentals (leases with a rental period of 12 months or less) or to leases where the underlying asset is of low value (eg personal computers, some office equipment, etc.). At the date when the leasing is actually started, the lessee measures the leasing liability on the present value of the lease payments that were not paid at that date (leasing liability) and depreciates the existence of the right of use related to the same date as the same date. Lease payments are discounted using this rate if the implied interest rate in the lease can be easily determined. If the ratio is not easily determined, the lessee shall use the tenant's alternative borrowing interest rate. The lessee should record the interest expense on the lease liability and the depreciation expense of the right to use separately.

In the certain situations, the lessee shall re-measure the lease obligation (eg changes in the lease term, future lease payments vary due to changes in a certain index or rate, etc.). In this case, the lessee shall record the restatement effect of the lease obligation as a correction on the right to use.

Effects on the statement of financial position at 31 December 2018:

Assets	0,25%
Liabilities	0,43%

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank deposits with original maturities of more than three months and shorter than 1 year are classified under short-term financial investments.

If any provision provided to the cash and cash equivalents as a result of a specific events, Group measures expected credit loss from these cash and cash equivalents by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Group and its expectations for the future indications.

Trade receivables

Trade receivables are arised from product sales or service providing to the customers. If the expected time for the collection of trade receivables is one year or less, these receivables are classified as short-term receivables. Otherwise, they are classified as long-term receivables. Trade receivables are recognized at original invoice amount and are carried at amortized cost less an allowance for any uncollectible amounts. Interest rates used for amortized cost computation for TRY denominated trade receivables is 24% (2017: 15%) and for foreign currency denominated trade receivables Libor rate is used (2017: Libor). The average collection period of trade receivables is 58 days (2017: 54 days). Trade receivables for which risks and rewards are transferred to third parties as part of factoring transaction are derecognized.

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Related parties

If an entity has control over another entity or an entity has significant influence on another entity's financial and operational decisions, these two entities are considered as related parties. In consolidated financial statements, shareholders, available for sale investments and related parties of the shareholders are presented as related parties. Related parties also include the ultimate parent, key management personnel, board members and their families.

Inventories

Inventories are valued at the lower of cost and net realizable value after provision for obsolete stock. Cost is determined by using the monthly weighted average cost. Cost of work in progress and finished goods includes materials, direct labor and an appropriate portion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale. Provision for slow moving items is recognized in cost of sales at the time it is incurred. Obsolete inventories are written off accounting records.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost. At 31 December 2014, the Group's land, buldings, machineries and equipments were revalued based on expertise review by an independent valuation firm and as a result of this valuation the Group has adjusted its assets to the asset's fair values. Fair values were determined by the methods of imputed price, discounted cash flow, replacement cost, etc. The value increases or decreases were reflected to "revaluation gain/loss" account located in equity (Note 27). Depreciation of these assets are recognized over the fair value and related depreciation expenses are recognized in the income statement. All other tangible assets are stated at historical cost less accumulated depreciation and any accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. On disposal of revalued assets, amounts in revaluation reserves relating to that asset are transferred to retained earnings. Further, the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is realized from the revaluation surplus to retained earnings on an annual basis as the asset is used by the Group.

The cost value of the tangible fixed asset consists of the purchase price, import taxes if any, non-refundable taxes and expenses made in order to make the tangible fixed asset ready to use. The repair and maintenance expenses, which arise after arise after the tangible fixed asset is started to be used, are recorded as expense in the period they arise. If the expenses made, create an economic value increase for the tangible fixed asset in the future use, these expenses can be added to the cost of the asset.

Property, plant and equipment are capitalized and depreciated when they are fully commissioned and in a physical state to meet their designed production capacity.

For the assets which requires a significant amount of time to be used and ready to be sold, the borrowing costs are capitalised.

The depreciation periods for property plant and equipment, which approximate the estimated economic useful lives of the related assets and the depreciation methods applied, are as follows:

	Years	Method
Land improvements	10 - 50	Straight-line
Buildings	25 - 50	Straight-line
Machinery and equipment	12 - 40	Straight-line
Furniture and fixtures	5 - 17	Straight-line
Motor vehicles	5	Straight-line

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of the property, plant and equipment.

Intangible assets

Intangible assets comprising software licenses and rights are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses and intangible assets are amortized on a straight line basis over the estimated useful life of the asset (5 years). Amortization expenses are recognized in selling, general and administrative expenses in the consolidated income statement.

Impairment of assets

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income. The recoverable amount is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit. If the impairment provision is not valid or has been decreased, the related impairment is reversed and recorded in income statements. Impairment loss related to the land, buildings and machinery and equipment which are carried at revalued amounts are treated as a revaluation decrease to the extent that impairment loss does not exceed the amount held in revaluation surplus.

As of December 31, 2017, the Group is not exposed to any impairment risk for its subsidiaries Mannesmann Pipe US Inc and Borusan Mannesmann Vobarno Tubi SPA. The Group has reached positive operating cash flows that they have budgeted for these assessments and revenue growth that has been increasing over the years.

Finance leases

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments (Leased assets are included in related line item in consolidated financial statements). When calculating the present value of the minimum lease payments rate of interest on leasing agreement is used if it can be calculated practically; otherwise interest rate on borrowings is used as discount rate. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Expenses incurred during the acquisition of leased asset are included in cost. Lease payments are apportioned between finance charges and reduction of the lease obligation. Interest charges are calculated by using the constant interest rate and charged directly against income.

The Group has an option to buy the leased asset for nominal amount at the end of lease period.

The Group's financial lease agreements are mainly subject to car and computer rentals.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Trade payables

Trade payables which generally have an average repayment period of 31 days (2017: 34 days) are carried at amortized cost which is the fair value of consideration to be paid in the future for goods and services received, whether or not billed to the Group. Interest rate used for TRY denominated trade payables is 24% (2017: 15%) and interest rates used for foreign currency denominated trade payables are Libor (2017: Libor rate).

The major part of the trade payables result from the purchase of raw materials and indirect materials. The trade payables resulting from the purchase of raw materials and indirect materials are interest bearing and the average maturities are 180-360 days and the average interest rates applied are in the interval of %0,90 - %1,26 (2017: 180-360 days and the average interest rates applied are in the interval of %0,80 - %1,26%).

Provisions, contingent assets and liabilities

i) Provisions

A provision is recognized when, and only when, the enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. When present value method is used, the increase attributable to the current period is recorded in finance expense.

ii) Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements but disclosed when an outflow of resources embodying economic benefits is not highly probable. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Income taxes

Tax expense is the aggregate amount of current and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the period. 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 tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

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 income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Employment termination 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 IAS 19 “Employee Benefits”. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation. Provision for employee termination benefit is made for the present value of the defined benefit obligation calculated. All actuarial gains and losses are recognized in the other comprehensive income as incurred.

Revenue

The Group adopted IFRS 15 “ Revenue From Contracts with Customers” from 1 January 2018 which proposes a five step model framework mentioned below for recognizing the revenue.

- Identification of the contract with customers
- Identification of the seperate performance obligations in the contract
- Determination of the transaction price in contract
- Allocation of the transaction price to the performance obligations in the contract
- Recognition revenue

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

The Group assess the goods or services promised in a contract with a customer and identify as a performance obligation each promise to transfer to the customer.

For each performance obligation identified, the entity determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. If the Group transfers control of a good or service over time and therefore satisfies a performance obligation and recognises revenue over time.

The Group recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to the customer. An asset is transferred when the customer obtains control of that asset or service.

The Group considers the following in the assessment of transfer of control of goods sold and services,

a) The entity has a right to payment for the goods or service,
b) The customer has legal title to the goods or service,
c) The entity has transferred physical possession of the asset,
d) The customer has the significant risks and rewards related to the ownership of the goods or services,
e) The customer has accepted the goods or services.

Revenue from steel pipes is measured at the fair value of the consideration received or receivable and is reduced for estimated customer returns, rebates, and other similar allowances. Sales discounts are given as a constant percentage at the time of sale and deducted from revenue. Sales discounts given vary regarding the type of the sale.

Steel pipe sales:

Revenue from 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.

Engineering sales:

Engineering revenue is recognized proportionally to the level of completion.

Interest and dividend income:

Interest revenue 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. Dividend revenue from investments is recognized when the shareholders' rights to receive payment have been established.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, one that takes a substantial period of time to get ready for use or sale, are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. The Group's qualifiying assets mainly comprises from the investments in BM Pipe, Gemlik and Halkalı factories.

All other borrowing costs are recognized directly in the statement of income the period in which they are incurred.

Financial Assets

Classification and measurement

The Group classified its financial assets in three categories; financial assets carried at amortized cost, financial assets carried at fair value though profit of loss, financial assets carried at fair value though other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. Management performs the classification of financial assets at the acquisition date.

a) Financial assets carried at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. They are included in current assets, except for maturities more than12 months after the balance sheet date. Those with maturities more than 12 months are classified as non-current assets. The Group's financial assets carried at amortized cost comprise "trade receivables" and "cash and cash equivalents" in the statement of financial position. In addition, with recourse factoring receivables classified in trade receivables are classified as financial assets carried at amortized cost since collection risk for those receivables are not transferred to counterparty.

Impairment

Group has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, Group measures expected credit loss from these receivables by the life-time expected credit loss.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Financial Assets (Continued)

The calculation of expected credit loss is performed based on the past experience of the Group and its expectations for the future indications.

b) Financial assets carried at fair value

Assets that are held by the management for collection of contractual cash flows and for selling the financial assets are measured at their fair value. If the management do not plan to dispose these assets in 12 months after the balance sheet date, they are classified as non-current assets. Group make a choice for the equity instruments during the initial recognition and elect profit or loss or other comprehensive income for the presentation of fair value gain and loss:

iii) Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise of “derivative instruments” in the statement of financial position. Derivative instruments are recognized as asset when the fair value of the instrument is positive, as liability when the fair value of the instrument is negative. Group’s financial instruments at fair value through profit or loss consist of forward contracts, currency swaps and cross currency fixed interest rate swap.

iv) Financial assets carried at fair value through other comprehensive income

Financial assets carried at fair value through other comprehensive income comprise of “financial assets” in the statement of financial position. Group carried these assets at their fair values. The fair value gains and losses are recognized in other comprehensive income after the deduction of impairment losses and foreign exchange income and expenses. When the financial assets carried at fair value through other comprehensive income are sold, fair value gain or loss classified in other comprehensive income is classified to retained earnings.

Trade receivables

The Group has chosen “practical expedient” explained in IFRS 9 for the calculation of impairment of trade receivables (with maturities less than one year) that do not contain a significant financing component and accounted at amortised cost. Accordingly, the Group measured the loss allowance for trade receivables at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that is no longer met, the entity shall measure the loss

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Trade receivables (Continued)

allowance at an amount equal to 12-month expected credit losses at the current reporting date.

The Group uses a provision matrix in the calculation of expected credit losses. Provision rate is calculated based on the overdue days of trade receivables and the rates are revised each reporting period if necessary. The change in expected credit losses is recognised in operational expense/income in income statement.

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.

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘receivables’. Receivables are measured at discounted cost using the effective interest method less any impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, credit card receivables from banks 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 not subject to a significant risk of changes in value.

Derivative financial instruments and hedge accounting

The Group’s activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivative financial instruments to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

These derivative instruments are recorded at fair value at the beginning of the contract and subsequently measured with its fair value. If the fair value is positive, derivatives are classified as financial asset or otherwise financial liability.

Such derivative instruments are generally accounted as trading derivative instruments in consolidated financial statements, because they do not have related specifications in terms of hedge accounting. The gains and losses related to the changes in fair values of such financial instruments are shown in the profit or loss statement.

Fair value differences of forward transactions, sourcing from trading contracts in scope of main activities of the Group, are recognised under other real operating income (expense) since they are in scope of main activities of the Group while exchange rate differences, sourcing from forward exchange and exchange of interest rate, are recognised under financing income (expense).

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Cash flow hedges

Hedges of exposures to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit and loss are designated as cash flow hedges by the Group.

Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognised in equity as "hedge reserves". Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously recognised under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts recognised under equity are transferred to the consolidated income statement in the period in which the hedged firm commitment or forecasted transaction affects the consolidated income statement

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or losses previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains until the forecast transaction or firm commitment affects profit or loss.

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 results and financial position of each entity are expressed in TRY, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the Company and its subsidiaries, transactions in currencies other than the functional currency 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. The foreign currency income or expenses incurred from the translation of foreign currency denominated transaction or restatement of monetary items is reflected within the statement of income in the related period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are accounted in profit or loss in the period of occured except the cases specified below:

- Exchange differences which related to assets under construction for future usage and the adjustment item to be considered as interest costs on debts shown in foreign currency and included in these cost of assets,
- Exchange differences arising from transactions carried out in order to provide financial protection against risks arising from foreign currency (accounting policies to providing financial protection against risks are described below).

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Foreign currency transactions (Continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in USD using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Earnings per share

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income by the weighted average number of shares in existence during the period concerned. The weighted average number of shares in circulation during the period have been calculated considering the shares issued without an increase in resources. However, in terms of legal records, calculating earnings per share is subject to local regulations and laws.

Events after balance sheet date

An explanation for any significant event between the balance sheet date and the publication date of the financial statements, which are disclosed and adjusted in the financial statements if necessary.

Statements of cash flows

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

Cash flows from operating activities show that cash flows provided from Group's pipe production and sales, engineering operations.

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 financing activities summarize the Group's cash flows from liabilities and the back payments 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.

Capital and dividends

Common stocks are classified as equity. Dividends paid are recorded at the Board's payment decision date retained earnings balance less the dividend amount paid.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Significant accounting judgements and estimations

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the estimates are based on the Group management's best information on the current events and transactions, actual results could differ from those estimates.

Significant accounting judgements that the Group makes in the application of accounting principles

- Deferred taxes

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 tax losses carried-forward 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 realised. The main factors taken into consideration 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 realise 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 utilise some portion of these deferred tax assets, therefore some portion of or all of the deferred tax assets are not recognised.

- Employee termination benefits

The Group made actuarial calculation to calculate the amount of liability in accordance with IAS 19. The Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. The assumptions made by the Group management have been explained in Note 24. For the period 1 January - 31 December 2018, if the discount rate used in the calculation was higher/lower by 1%, the comprehensive income of the period would have been USD156,880 lower/higher. For the same period, if the retirement probability rate used in the calculation was higher/lower by 1%, the comprehensive income of the period would have been USD203,480 lower/higher.

- Revaluation of property, plant and equipment

Land, buildings, machinery and equipment are stated at revalued amounts in accordance with IAS 16 revaluation method. Fair values in the financial statements dated 31 December 2018 are based on the appraisal reports prepared by Standart Gayrimenkul Değerleme Uygulamaları A.Ş. for real estate and machinery and equipment in Turkey and CBF s.r.l for real estate and machinery and equipment in Italy. Market prices have been used in valuation of such property, plant and equipment. Net book values of related assets have been adjusted to reflect the revalued amounts and the gain has been accounted for under the revaluation reserve in equity, net-off relevant deferred tax impact.

For the period 1 January - 31 December 2018, if the value determined in the expert's report was higher/lower by 1%, the comprehensive income of the period would have been USD893.036 lower/higher (2017: USD893.036).

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Significant accounting judgements and estimates (Continued)

- Fair value of financial assets

Group management estimated the fair value of the financial assets whose market is not active by utilizing commonly used valuation techniques.

Significant changes and errors in the accounting policies

Significant changes in the accounting policies and errors are applied retrospectively; and the financial information of the prior periods are restated.

Going concern

The consolidated financial statements were prepared in accordance with the going concern assumption.

3. BUSINESS COMBINATIONS

None (31 December 2017: None).

4. JOINT VENTURES

None (31 December 2017: None).

(Amounts expressed in US Dollars unless otherwise stated)

5. SEGMENT REPORTING

Board of Directors is determined as the chief operating decision maker. Board of Directors monitors the Group's activities in two main industrial segments:

- Steel Pipe: Manufacturing and sale of longitudinally and spirally welded steel pipes and pipes.

- Engineering: Production, maintenance and repair of the machinery and equipment which are related with the steel industry, design and production of spare parts and to design investment projects and conduct the projects.

Basic assets of the segments are tangible assets, intangible assets, inventories, receivables and make up operational cash which deferred tax asset was excluded. Segments' liabilities consist of operational liabilities, which deferred tax liabilities and tax provision were excluded. Investment expenditures consist of the tangible and intangible asset purchases. Segment reporting of the period ended on 31 December 2018 is mentioned below:

1 January 2018 - 31 December 2018	Steel Pipe	Engineering	Total
Total segment revenue	1.007.232.058	3.829.805	1.011.061.863
Gross profit	138.294.910	668.458	138.963.368
Depreciation and amortisation	25.175.515	25.073	25.200.588
Capital expenditures	29.514.768	19.241	29.534.009

31 December 2018	Steel Pipe	Engineering	Total
Total assets	1.287.887.499	9.232.644	1.297.120.143
Total liabilities (*)	699.884.651	1.195.142	701.079.793

(*) Deferred tax liability and current income tax payable are excluded.

Segment reporting of the period ended on 31 December 2017 is mentioned below:

1 January 2017 - 31 December 2017	Steel Pipe	Engineering	Total
Total segment revenue	775.526.321	3.487.068	779.013.389
Gross profit	124.671.372	1.125.235	125.796.607
Depreciation and amortisation	24.474.503	47.867	24.522.370
Capital expenditures	22.041.094	10.311	22.051.405

31 December 2017	Steel Pipe	Engineering	Total
Total assets	1.093.209.233	10.841.008	1.104.050.241
Total liabilities (*)	563.187.894	2.129.081	565.316.975

(*) Deferred tax liability and current income tax payable are excluded.

(Amounts expressed in US Dollars unless otherwise stated)

5. SEGMENT REPORTING (Continued)

As of 31 December 2018, a breakdown of property, plant and equipments in respect of the geographical positions is presented below;

31 December 2018	Turkey	Outside Turkey	Total
Tangible assets	472.747.351	151.348.627	624.095.978

31 December 2017	Turkey	Outside Turkey	Total
Tangible assets	471.311.203	150.708.877	622.020.080

6. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash in hand	3.257	13.685
Cash at banks	148.017.992	136.924.880
- Demand deposits	51.670.300	44.269.757
- Time deposits	96.347.692	92.655.123
	148.021.249	**136.938.565**

The details of time deposits as of 31 December 2018 and 31 December 2017 are as follows:

			31 December 2018	
Currency	Effective interest date	Maturity (days)	Original currency amount	Amount in USD
USD	1.5 -3.65%	3	62.615.000	62.615.000
Euro	1.30%	3	29.440.000	33.732.692
				96.347.692

			31 December 2017	
Currency	Effective interest date	Maturity (days)	Original currency amount	Amount in USD
TL	12.90%	4	335.000	88.815
USD	3.05 -3.50%	4	85.575.000	85.575.000
Euro	1.50%	4	5.840.000	6.991.308
				92.655.123

(Amounts expressed in US Dollars unless otherwise stated)

7. FINANCIAL INVESTMENTS

a) Short-term financial investments

None (31 December 2017: None).

b) Available-for-sale financial assets

Available-for sale financial assets as of 31 December 2018 and 31 December 2017 are stated below:

	31 December 2018		31 December 2017	
	Amount	Share (%)	Amount	Share (%)
Borçelik Çelik Sanayii Ticaret A.Ş. ("Borçelik")	46.438.000	10,7	35.845.000	10,7
Borusan Mannesmann Cooperatie U.A. (BM Coop) (*)	4.826.912	99,0	4.802.423	99,0
Other	343.124		265.129	
Impairment in fair values of subsidiaries (**)	(2.900.842)		(2.856.227)	
	48.707.194		**38.056.325**	

All financial assets are recorded at cost, except for Borçelik which is carried at fair value.

(*) BM Coop. participated 100% to Borusan Mannesmann Espana S.A. which was established in Spain and has no operations. The financial statements of Borusan Mannesmann Espana S.A. were not consolidated due to their immateriality.

(**) Impairment is made for BM Coop and other companies.

The Group owns 10.7% of the shares of Borçelik Çelik Sanayi ve Ticaret A.Ş. ("Borçelik Grup). Financial assets at fair value through profit or loss are classified as financial assets at fair value through profit or loss. Fair value changes are recognized in other comprehensive income. The fair value of Borçelik is calculated by giving 50% weight to the discounted cash flows and market approach methods. In consideration of this calculation, steel sector beta and company dynamics, the cost of capital to the environment is calculated as 10.7%.

If the long-term growth rates were 100 basis points high / low and all other variables remained constant, the calculated fair value would be higher/lower by USD534.095. If the discount rates were 100 basis points high / low and all other variables remained constant, the calculated fair value would be lower/higher than USD373.759.

The movements for impairment provision of subsidiaries for the periods ended 31 December 2018 and 31 December 2017 are stated below:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening	2.856.227	2.762.733
Provision for the period	44.615	93.494
Closing	**2.900.842**	**2.856.227**

(Amounts expressed in US Dollars unless otherwise stated)

8. BORROWINGS

a) Short-term borrowings

	31 December 2018			31 December 2017		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Short-term borrowings:						
USD	164.322.875	164.322.875	3.12 -5.25%	112.248.472	112.248.472	2.10 -4.30%
EURO	6.645.723	7.614.746	0.45-0.85%	16.056.172	19.221.519	0.35-1.00%
TL	119.946.640	22.799.643	28-33.34%	68.652.087	18.200.930	12.50%
Transaction costs directly attributable to borrowings		(403.055)			(104.833)	
		194.334.209			**149.566.088**	

As of 31 December 2018, none of short-term borrowings of the Group are secured (31 December 2017: None).

b) Short-term portion of long-term borrowings

	31 December 2018			31 December 2017		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Short-term portion of long term borrowings:						
USD	45.930.567	45.930.567	4.75-6.08%	67.109.493	67.109.493	3.80-5.62%
EURO	12.527.628	14.354.300	2.80-5.20%	554.433	663.736	5.20%
TL	25.200.104	4.790.075	16.95%	53.051	14.065	16.95%
Transaction costs directly attributable to borrowings		(89.363)			(26.178)	
		64.985.579			**67.761.116**	

As of 31 December 2018; none of the short-term portion of long-term borrowings of the Group are secured (31 December 2017: None).

(Amounts expressed in US Dollars unless otherwise stated)

8. BORROWINGS (Continued)

c) Long-term borrowings

	31 December 2018			31 December 2017		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Long-term borrowings:						
USD	128.769.231	128.769.231	4.75-6.47%	119.153.846	119.153.846	5.90-4.75%
EURO	15.000.000	17.187.173	2.80-5.20%	27.391.669	32.791.718	2.80-5.20%
TL	-	-	-	25.000.000	6.627.959	16.95%
Transaction costs directly attributable to borrowings		(383.367)			(5.522)	
		145.573.037			**158.568.001**	

The interest rates of a certain portion of long-term borrowings are linked LIBOR rates.

As of 31 December 2018; none of the long-term borrowings of the Group are secured (31 December 2017: None).

The redemption schedule of the long-term borrowings for 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
2019	-	64.852.685
2020	83.460.677	78.341.745
2021	27.162.393	15.379.093
2022	11.777.778	-
2023	11.777.778	-
2024	11.777.778	-
	145.956.404	**158.573.523**

9. OTHER FINANCIAL LIABILITIES

Long-term borrowings of the Group have variable interest rates. In order to reduce interest rate risk, a portion of the long-term borrowings' interest rates are fixed via interest swap agreements.

There is no fair value of interest-rate swap agreements as of 31 December 2018 (2017: None). This amount is recorded in equity under the cash flow hedge reserve.

(Amounts expressed in US Dollars unless otherwise stated)

10. TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

	31 December 2018	31 December 2017
Trade receivables	246.237.658	137.721.858
Notes receivable	802.578	809.211
Receivables from related parties (Note 37)	3.448.622	12.848.263
Receivables factored	(23.952.163)	(50.524.097)
Allowance for doubtful receivables (-) (*)	(2.816.608)	(3.682.905)
	223.720.087	**97.172.330**

(*) As of 31 December 2018, USD72.298 (31 December 2017: USD75.537) of doubtful receivables are due from related parties.

The movement of the provision for doubtful receivables during the periods ended 31 December 2018 and 31 December 2017 is as follows:

	1 January - 31 Dcember 2018	1 January - 31 Dcember 2017
Opening	3.682.905	3.804.833
Currency translation differences	(857.087)	(121.928)
Collections	(9.210)	-
Closing balance	**2.816.608**	**3.682.905**

As of 31 December 2018, the Group does not have the long-term trade receivables (31 December 2017: None).

Nature and level of the risks arising from trade receivables are disclosed in Note 38.

b) Trade Payables

	31 December 2018	31 December 2017
Trade payables	244.025.582	160.550.068
Due to related parties (Note 37)	5.708.789	2.898.545
	249.734.371	**163.448.613**

USD 109.504.859 of trade payables are interest bearing. The weighted average interest rate applied to USD trade payables is 4,25% and EUR trade receviables is %0,93, and the average maturity of the payables is 360 days (31 December 2017: USD 139.344.800 and EUR6.036.498; interest rates are: 3,37% for USD , for 1,05 for EUR and average maturity is 360 days).

There are no long-term trade payables (31 December 2017: None).

Detailed information about the nature and level of risks arising from trade payables are disclosed in Note 38.

(Amounts expressed in US Dollars unless otherwise stated)

11. OTHER RECEIVABLES AND PAYABLES

a) Other receivables

	31 December 2018	31 December 2017
Receivables from tax authority	4.089.880	2.590.353
Due from personnel	80.767	15.536
	4.170.647	**2.605.889**

b) Other payables

	31 December 2018	31 December 2017
Advances received	3.015.970	2.006.513
Taxes and charges payable	1.882.743	2.677.656
	4.898.713	**4.684.169**

12. Financial Instruments

Forward transactions are being performed in order to reduce risks deriving from foreign currency exchange rate fluctuations (GBP/USD) and (EUR/USD). As of 31 December 2018; total value of foreign currency receivables is GBP 450.000 and the total value of foreign currency payables is TRY 92.145.125 (2017: EUR 1.403.000 GBP 915.000 and the total value of foreign currency payables is TRY 5.664.000) (Note 38).

	31 December 2018	31 December 2017
Expense accrual from derivative financial instruments	1.225.973	35.833
	1.225.973	**35.833**

As of 31 December 2018, USD 1.225.973 amounting income has been accrued from forward foreign exchange transactions (31 December 2017: USD 35.833).

13. INVENTORIES

	31 December 2018	31 December 2017
Raw materials	98.714.593	102.693.829
Work in progress	38.389.122	20.277.460
Finished goods	62.796.741	42.123.871
Trade goods	177.307	134.038
Goods-in-transit	122.461	7.268.389
Impairment	-	-
	200.200.224	**172.497.587**

(Amounts expressed in US Dollars unless otherwise stated)

13. INVENTORIES (Continued)

The movements in the provision for impairment of inventories are as follows:

	1 January - 31 Dcember 2018	1 January - 31 Dcember 2017
1 January	-	3.364.016
Provision for the year	-	-
Reversal of provision (-)	-	(3.364.016)
Closing	**-**	**-**

14. PREPAID EXPENSES

Details of current and non-current prepaid expenses of the Group as of 31 December 2018 and 31 December 2017 are as follows:

a) Short-term prepaid expenses

	31 December 2018	31 December 2017
Advance payments for raw materials	10.370.355	17.794.763
Insurance fees	547.213	570.652
Other short term prepaid expenses	3.256.378	1.776.661
	14.173.946	**20.142.076**

b) Long-term prepaid expenses

	31 December 2018	31 December 2017
Advance payments for fixed assets	14.184.535	449.055
Other long term prepaid expenses	749.082	499.388
	14.933.617	**948.443**

(Amounts expressed in US Dollars unless otherwise stated)

15. CURRENT INCOME TAX ASSETS

As of 31 December 2018, income tax asset is USD 1.213.193 (31 December 2017: USD 385.550).

16. DEFERRED REVENUE

As of 31 December 2018, the short-term deferred income of the Group is as follows:

	31 December 2018	31 December 2017
Deffered revenue	262.610	551.524
	262.610	**551.524**

17. EMPLOYEE BENEFIT OBLIGATIONS

As of 31 December 2018, accrued salaries of employees USD 1.070.085 (31 December 2017: USD 687.233).

(Amounts expressed in US Dollars unless otherwise stated)

18. PROPERTY, PLANT AND EQUIPMENT

	1 January 2018	Currency transaction differences	Additions	Disposals	Transfers	Transfer from asset held for sale to fixed assets	31 December 2018
Cost							
Land	179.917.999	-	-	-	-	-	179.917.999
Land improvements	7.771.431	-	-	-	1.071.956	-	8.843.386
Buildings	165.905.754	(807.864)	13.636	-	2.445.881	-	167.557.407
Machinery and equipment	327.776.887	(1.095.075)	3.180	(1.104.989)	15.699.381	-	341.279.385
Motor vehicles	3.941.615	(14.321)	-	(94.000)	243.545	-	4.076.838
Furniture and fixtures	27.082.379	(11.033)	-	(29.680)	2.803.766	-	29.845.432
Construction in progress	8.528.437	(1.795)	28.828.775	-	(22.264.528)	-	15.090.889
	720.924.501	**(1.930.088)**	**28.845.591**	**(1.228.668)**	**-**	**-**	**746.611.336**
Less: Accumulated depreciation							
Land improvements and leaseholds	(668.053)	-	(231.905)	-	-	-	(899.958)
Buildings	(16.740.826)	106.135	(4.585.533)	-	-	-	(21.220.224)
Machinery and equipment	(58.278.435)	520.429	(17.741.548)	481.753	-	-	(75.017.801)
Motor vehicles	(2.528.801)	10.295	(336.220)	28.133	-	-	(2.826.593)
Furniture and fixtures	(20.688.306)	9.595	(1.901.750)	29.680	-	-	(22.550.782)
	(98.904.421)	**646.455**	**(24.796.957)**	**539.565**	**-**	**-**	**(122.515.358)**
Net book value	**622.020.080**						**624.095.978**

As of 31 December 2018, the total amount of capitalized finance expense is equal to USD1.191.654. (31 December 2017: None).

(Amounts expressed in US Dollars unless otherwise stated)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2017	Currency transaction differences	Additions	Disposals	Transfers	Transfer from asset held for sale to fixed assets	31 December 2017
Cost							
Land	209.018.000	-	-	(22.162.371)	-	(6.937.630)	179.917.999
Land improvements	7.569.769	-	-	-	201.662	-	7.771.431
Buildings	162.924.493	2.245.531	-	-	735.730	-	165.905.754
Machinery and equipment	309.072.518	2.943.322	9.851	(80.000)	15.831.195	-	327.776.886
Motor vehicles	3.509.919	25.539	-	(11.060)	417.216	-	3.941.614
Furniture and fixtures	26.363.048	31.925	1.735	(155.692)	841.364	-	27.082.380
Construction in progress	4.831.633	28.681	21.695.290	-	(18.027.167)	-	8.528.437
	723.289.380	**5.274.998**	**21.706.876**	**(22.409.123)**	**-**	**-**	**720.924.502**
Less: Accumulated depreciation							
Land improvements and leaseholds	(478.027)	-	(190.026)	-	-	-	(668.053)
Buildings	(11.536.720)	(279.228)	(4.924.878)	-	-	-	(16.740.826)
Machinery and equipment	(40.217.082)	(1.299.502)	(16.841.851)	80.000	-	-	(58.278.435)
Motor vehicles	(2.215.038)	(22.504)	(302.319)	11.060	-	-	(2.528.801)
Furniture and fixtures	(18.909.665)	(25.416)	(1.887.912)	134.686	-	-	(20.688.306)
	(73.356.532)	**(1.626.650)**	**(24.146.986)**	**225.746**	**-**	**-**	**(98.904.422)**
Net book value	**649.932.848**						**622.020.080**

(Amounts expressed in US Dollars unless otherwise stated)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

The historical cost of revalued land, buildings and machinery and equipment as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018		31 December 2017	
	Land and buildings	Machinery and equipment	Land and buildings	Machinery and equipment
Cost	87.028.155	245.192.002	87.474.362	232.533.448
Accumulated depreciation (-)	(18.299.758)	(106.737.900)	(16.691.709)	(94.184.418)
Net book value	**68.728.397**	**138.454.102**	**70.782.653**	**138.349.030**

The table below shows net book value of property, plant and equipments which the Group purchased by financial leasing:

	Cost		Accumulated depreciation		Net book value	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Machinery and equipment	3.255.788	3.397.478	(2.639.233)	(2.591.567)	616.555	805.911

19. INTANGIBLE ASSETS

	31 December 2018	31 December 2017
Cost:		
Costs on 1January	5.498.906	5.083.095
Currenct transaction differences	(35.567)	71.281
Additions	688.418	344.529
	6.151.757	**5.498.906**
Less: Accumulated depreciation		
Accumulated amortisation at 1 January	4.651.874	4.206.510
Currenct transaction differences	(29.781)	69.980
Amortisation of current period	403.631	375.384
	5.025.724	**4.651.874**
Net book value	**1.126.033**	**847.032**

Current period amount of depreciation and amortization recorded to cost of goods sold and services provided is USD20.017.864, to selling and marketing expenses is USD469.477 and to general administrative expenses is USD4.713.247 (31 December 2017: cost of goods sold and services USD19.447.743, selling and marketing expenses USD318.873 and general administrative expenses USD4.755.754 respectively).

(Amounts expressed in US Dollars unless otherwise stated)

20. GOODWILL

None (31 December 2017: None).

21. GOVERNMENT GRANTS

None (31 December 2017: None).

22. CONTINGENT ASSETS AND LIABILITIES

None (31 December 2017: None)

23. COMMITMENTS

- **Export Commitments**

Export commitments amount to USD230.317.676 as of 31 December 2018 (31 December 2017: USD270.440.973).

- **Letters of credit**

As of 31 December 2017, the Group has open letter of credit agreements for the future purchases from suppliers amounting to USD10.997.461; EUR5.232.622 and GBP13.000 (31 December 2017: USD19.281.334 and EUR2.388.934).

- **Guarantees, Pledges and Mortgages**

As of 31 December 2018, the Group is contingently liable for safeguards which are USD 78.179.518 (31 December 2017: USD66.410.111). No guarantees are given during this period (31 December 2017: None).

	USD	EUR	TL	31 December 2018
A. GPM's given in the name of its own legal personality	36.580.394	5.886.175	32.182.293	78.179.518
B. GPM's given on behalf of the fully consolidated companies	-	-	-	-
C. GPM's given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other GPM's given	-	-	-	-
i. Total amount of GPM's given on behalf of the majority shareholder	-	-	-	-
ii. Total amount of GPM's given on behalf of other group companies which	-	-	-	-
iii. Total amount of GPM's given on behalf of third parties which are not in scope of C	-	-	-	-
Total	**36.580.394**	**5.886.175**	**32.182.293**	**78.179.518**

(Amounts expressed in US Dollars unless otherwise stated)

23. COMMITMENTS (Continued)

There are no CPMs that the Group is liable on its immediate parent company (31 December 2017: None)

	USD	EUR	TL	31 December 2017
A. GPM's given in the name of its own legal personality	52.731.313	8.219.937	14.477.932	66.410.111
B. GPM's given on behalf of the fully consolidated companies	-	-	-	-
C. GPM's given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other GPM's given	-	-	-	-
i. Total amount of GPM's given on behalf of the majority share	-	-	-	-
ii. Total amount of GPM's given on behalf of other group companies which	-	-	-	-
iii. Total amount of GPM's given on behalf of third parties which are not in scope of C	-	-	-	-
Total	**52.731.313**	**8.219.937**	**14.477.932**	**66.410.111**

24. PROVISONS FOR EMPLOYEE BENEFITS

In accordance with the Turkish Labour Law, the Group is responsible for paying severance pay for staff who have completed one year of service and cut ties from the Group or retired, who have completed 25 years of service (20 for women) and are entitled to a pension, who have been called up for military service or who die. The severance pay to be paid is equal to the employee's monthly wage for each year of service and this amount is limited to TRY5.434,42 as of 31 December 2018 (TRY4.732,48 as of 31 December 2017).

In accordance with IAS 19, an actuarial calculation is required to calculate the Group's liabilities. The Group has calculated the provisions for severance pay using the "Projection Method", based on the Group's experience regarding the completion of the period of service by the employee and being entitled to the severance pay, and has reflected these in the financial statements. Provisions for severance pay, calculated based on the current value of the possible liability that will need to be paid, are set aside in case of employees' retirement.

As of 31 December 2018 and 31 December 2017 the actuarial assumptions that are used in the calculation of liability are as follows:

	31 December 2018	31 December 2017
Discount rate	%4.70	%4.70
Probability of retirement	%92	%94

(Amounts expressed in US Dollars unless otherwise stated)

24. PROVISONS FOR EMPLOYEE BENEFITS (Continued)

The movements of provision for employment termination benefits for the periods ended 31 December 2018 and 2017 are as follows:

	1 January - 31 Dcember 2018	1 January - 31 Dcember 2017
Opening (January)	4.211.943	6.079.189
Currency translation difference	(1.124.297)	(638.362)
Service cost	442.752	513.558
Finance cost	471.547	697.972
Actuarial loss	(480.122)	(1.361.394)
Paid during the period	(756.471)	(1.079.020)
	2.765.352	**4.211.943**

25. RETIREMENT PLANS

None (31 December 2017: None).

26. OTHER ASSETS AND LIABILITIES

a) Other current assets

	31 December 2018	31 December 2017
Income accruals	9.851.659	8.826.663
VAT receivable	5.627.104	2.932.808
Other current assets from related parties (Note 37)	9.687	177.865
Other job advances	773.132	-
	16.261.582	**11.937.336**

b) Other non-current assets

As of 31 December 2018, other non-current assets equal USD32.659 (2017: USD35.294).

c) Other short-term liabilities

	31 December 2018	31 December 2017
Accrued cost of sales expenses	12.451.546	9.628.422
Accrued export expenses (*)	21.272.574	2.632.299
Other	2.505.744	3.541.734
	36.229.864	**15.802.455**

(*) TRY 100.130.957 equivalent of USD 19.033.047 for export expense accruals arises from the import duty paid on sales to the US goverment. As of 13 August 2018, U.S. government started to apply 50% taxes to imports of steel products from Turkey.

(Amounts expressed in US Dollars unless otherwise stated)

27. EQUITY

a) Paid-in share capital

The legal capital structure of the group as of 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018		31 December 2017	
	TRY	**Share (%)**	**TRY**	**Share (%)**
Borusan Mannesmann Boru Yatırım Holding A.Ş.	104.157.266	73.48	104.157.266	73.48
Lumbro Nominees Jersey LTD.	9.450.000	6.67	9.450.000	6.67
Public Share and Other	28.142.734	19,9	28.142.734	2.47
	141.750.000	**100**	**141.750.000**	**100**
USD Equivalent	68.996.872		68.996.872	

As of 31 December 2018, there are 141.750.000.000 shares, each of which has 0.1 Kr nominal value. As of 31 December 2018, the paid-in capital of the group comprises Group A (10% of the total shares) and Group B (90% of the total shares) shares (2017: Group A 10%, Group B 90%). Also, the Group has 100 dividend shares that do not grant voting power (2017: 100 dividend shares).

Group A shareholders' rights are as follows:

- Half of the board of directors and additional one member are selected among the candidates nominated by A Group Shareholders.

- Each of A Group shareholders has 5 voting rights at ordinary and extraordinary general assembly meetings.

b) Revaluation funds

As of 31 December 2018 and 31 December 2017 the movement of revaluation funds are as follows:

	1 January 31 December 2018		1 January 31 December 2017	
	Property,plant and equipment reveluation reserve	**Investment revaluation reserve**	**Property,plant and equipment reveluation reserve**	**Investment revaluation reserve**
Balance at 1 January	219.085.064	19.173.976	233.389.130	19.173.976
Transfer of amortisation differences between revelued amounts and initially recognised amounts of available-for-sale financial assets	(423.731)	-	(117.565)	-
Current year revaluation of financial investments	-	9.583.645	-	-
Reveluation Fund change due to tax rate change	-	-	(7.595.753)	-
Disposals from revaluation funds	-	-	(6.590.748)	-
	218.661.333	**28.757.621**	**219.085.064**	**19.173.976**

27. EQUITY (Continued)

Revaluation funds of property, plant and equipment:

Revaluation funds of property, plant and equipment arises from the revaluation of buildings,lands and machinery equipments.In case of disposition of revalued land or buildings, the revalution funds associated with the assets sold are transferred directly to retained earnings.

Cash flow hedge reserve

Cash flow hedge reserve arises as a result recognition in equity of the effective changes in the fair value of the derivate financial instruments subject to a cash flow hedge. Total deferred income/loss earned by protection against financial risk has been accounted in profit/loss when the effect of hedged transaction effecting to profit/loss.

Investment revaluation reserve:

Investment revaluation reserve occurs as a result of valuation of the available-for-sale financial assets over their fair values. In the event of a disposal of a financial instrument that has been appraised over its fair value, the portion of the appreciation fund related to the disposed financial asset is recognised directly as a profit or loss. If the reappraised financial instrument is impaired, the portion of the appreciation fund related to the impaired financial asset is recognised directly as a profit or loss.

c) Legal reserves

First legal reserve is appropriated out of the statutory profits at the rate of 5% until the total reserves reach a maximum of 20% at the Company’s share capital. A second legal reserve is appropriated at the rate of 10% of all distribution in excess of 5% of the Company share capital. Amounts expressed in Turkish lira.

	31 December 2018	31 December 2017
Legal reserve	57.120.581	38.172.479
Special reserves	2.778	2.778
	57.123.359	**38.175.257**

d) Retained earnings

As per the Capital Markets Board (CMB) Decision dated 27 January 2010, minimum dividend distribution obligation will not be applied for joint stock corporations whose shares are traded in the stock market, regarding the distribution principles of the profits acquired from the activities of 2009, and within this framework, the profit distribution shall be executed in pursuance with the principles stated under the Board's Communique Serial: IV, No: 27 on Principles Regarding Distribution of Dividends and Interim Dividends to be Followed by the Publicly Held Joint Stock Corporations Subject to Capital Market Law, and as per the provisions under the partnerships' Articles of Association and the dividend distribution policies disclosed to public by the companies.

(Amounts expressed in US Dollars unless otherwise stated)

27. EQUITY (Continued)

d) Retained earnings (Continued)

In addition, the said Board Decision rules that, the companies which have the obligation to prepare consolidated financial statements, calculate the net distributable profit amount by taking into account the net profits for the period stated in the consolidated financial statements that will be prepared and announced to the public according to the Communiqué, Serial: IX, No: 29 as long as the profit are sufficient for dividend distribution on their statutory records.

- Sources Which Can be Subjected to Dividend Distribution:

The Group has a profit amounting to TRY 87.962.546 in its statutory records as of the balance sheet date (period profit in 2017: TRY223.003.426) and the total of other sources which can be subjected to dividend distribution is TRY 64.020.609 (31 December 2017:TRY 47.666.551).

e) Non-controlling interests

The movement of non-controlling interests for the periods as of 31 December 2018 and 31 December 2017 are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Balance at 1 January	409.024	386.756
Currency translation difference	(7.891)	18.290
Share in current year result	8.486	3.978
Balance at 31 December	**409.619**	**409.024**

28. REVENUE AND COST OF SALES

a) Revenue

	1 January - 31 December 2018			1 January - 31 December 2017		
	Sales to Turkey	Sales outside Turkey	Total	Sales to Turkey	Sales outside Turkey	Total
Steel Pipe	230.494.178	776.737.880	1.007.232.058	256.303.511	519.222.810	775.526.321
Engineering	3.829.805	-	3.829.805	3.487.068	-	3.487.068
	234.323.983	**776.737.880**	**1.011.061.863**	**259.790.579**	**519.222.810**	**779.013.389**

(Amounts expressed in US Dollars unless otherwise stated)

28. REVENUE AND COST OF SALES (Continued)

b) Cost of sales

	1 January - 31 December 2018	1 January - 31 December 2017
Direct material	776.260.538	522.119.363
Direct labor	48.461.316	42.888.063
Depreciation and amortization	20.017.864	19.447.743
Repair, maintenance and other production	64.942.473	56.089.791
Net change in work-in-process	(18.111.662)	4.334.211
Net change in finished goods	(20.672.870)	6.313.745
Cost of trade goods sold	1.200.836	2.023.866
Impairment	-	-
	872.098.495	**653.216.782**

29. MARKETING AND GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2018	1 January - 31 December 2017
General administrative expenses	39.789.401	39.479.689
Marketing expenses	13.160.032	11.985.048
	52.949.433	**51.464.737**

30. EXPENSES BY NATURE

a) Marketing expenses

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel	2.811.650	3.099.328
Sales distribution	4.251.158	3.741.860
Consultancy	1.860.039	1.943.388
Direct selling expense	1.187.278	653.244
Transportation and travel	486.164	625.760
Rent	846.752	397.457
Vehicle expenses	353.636	346.692
Depreciation and amortisation	469.477	318.873
Energy	109.119	85.663
Communication	51.108	50.414
Other	733.651	722.369
	13.160.032	**11.985.048**

(Amounts expressed in US Dollars unless otherwise stated)

30. EXPENSES BY NATURE (Continued)

b) General administrative expenses

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel	17.842.389	17.808.255
Depreciation and amortisation	4.713.247	4.755.754
Consultancy	4.441.926	3.787.247
Information technology	1.593.542	1.805.880
Outsourced services	2.088.662	1.813.074
Donations	1.192.338	1.493.056
Insurance	1.593.619	1.244.024
Tax and charges	1.598.202	1.337.387
Rent	498.872	458.385
Maintenance	449.647	594.034
Vehicle expenses	464.069	430.661
Transportation and travel	442.851	416.745
Energy	304.901	303.392
Communication	150.090	158.875
Other	2.415.046	3.072.920
	39.789.401	**39.479.689**

Depreciation and amortization expenses:

	1 January - 31 December 2018	1 January - 31 December 2017
Cost of sales	20.017.864	19.447.743
General administrative expenses	4.713.247	4.755.754
Marketing expenses	469.477	318.873
	25.200.588	**24.522.370**

Personnel expenses:

	1 January - 31 December 2018	1 January - 31 December 2017
Cost of sales	48.461.316	42.888.063
General administrative expenses	17.842.389	17.808.255
Marketing expenses	2.811.650	3.099.328
	69.115.355	**63.795.646**

(Amounts expressed in US Dollars unless otherwise stated)

31. OTHER INCOME AND EXPENSE

a) Other income

	1 January - 31 December 2018	1 January - 31 December 2017
Interest on credit sales	11.440.495	7.730.030
Currency translation gain	722.084	2.239.116
Scrap sales	468.863	58.472
Insurance indemnity gain	523.185	99.000
Other	2.618.293	1.271.181
	15.772.920	**11.397.799**

b) Other expense

	1 January - 31 December 2018	1 January - 31 December 2017
Prior period expenses	201.491	90.256
Impairment on financial asset held for sale	44.615	93.494
Other	478.132	766.373
	724.238	**950.123**

32. INVESTMENT INCOME

	1 January - 31 December 2018	1 January - 31 December 2017
Dividend income	7.727.104	7.079.706
Gain on disposal of plant, property and equipment	227.265	775.885
	7.954.369	**7.855.591**

(Amounts expressed in US Dollars unless otherwise stated)

33. FINANCIAL INCOME AND EXPENSE

a) Financial income

	1 January - 31 December 2018	1 January - 31 December 2017
Income from derivative financial instruments	3.284.636	500.087
Interest income	1.209.559	1.144.130
	4.494.195	**1.644.217**

b) Financial expenses

	1 January - 31 December 2018	1 January - 31 December 2017
Interest expenses	27.314.274	21.004.275
Loss on derivative financial instruments	2.919.601	2.425.122
Factoring expense	4.000.053	2.213.761
Interest charges	1.218.370	2.071.179
Bank expense	4.458.341	999.278
	39.910.639	**28.713.615**

34. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

All fixed assets held for sale consist of machine equipments. The Group management considers that these machines and equipment are not often commodities traded and can be used to serve a specific purpose, and that the potential buyer masses are of special needs for this purpose. Group management thinks that sales process is a time-consuming process even if marketing of these fixed assets is being marketed because fixed assets that are ready for sale are not commodities.

The expenditures related to fixed assets held for sale, liabilities related to these assets and fixed assets held for sale are as follows:

	31 December 2018	31 December 2017
Tangible and intangible assets, net	463.734	463.734
Asset held for sale	**463.734**	**463.734**

35. INCOME TAX ASSETS AND LIABILITIES

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods.

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.

In Turkey, advance tax returns are filed and accrued on a quarterly basis. Advance corporate income tax rate applied in 2018 is 22% (2017: 20%).

Law No. 6111 has entered into effect after being promulgated in the Official Gazette No. 27857 (1. Repeated) dated 25 February 2011. Pursuant to the Article 6 of the relevant law, in case the income and corporate taxpayers increase their tax bases in their annual tax returns, no income and corporate tax inspection will be made for the years that the increase was made on behalf of them and no further assessment will be made afterwards, for those taxes regarding these years. As per the Law, tax returns regarding the increase in corporate tax base have been submitted.

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.

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge 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% starting from 24 April 2003. This rate was changed to 15% with the code numbered 5520 article 15 commencing from 21 June 2006. However until the resolution of council of ministers, it was used as 10%. After the resolution, declared in Official Gazette in 23 July 2006, this rate is changed to %15 effective from 23 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

(Amounts expressed in US Dollars unless otherwise stated)

35. INCOME TAX ASSETS AND LIABILITIES (Continued)

For 2003 and the previous years, taxable profits were calculated without any inflation adjustment to the statutory records, except that fixed assets and the related depreciation were revalued annually. Law No. 5024 published in the Official Gazette No. 25332 on 30 December 2003 requires the application of inflation accounting in Turkey in 2004 and future years for tax purposes, if the actual rate of inflation meets certain thresholds, using principles which do not differ substantially from the principles in IAS 29 "Financial Reporting in Hyperinflationary Economies". As inflation met certain thresholds in 2004, the Group adjusted its statutory financial statements as of 31 December 2004 in accordance with Law No. 5024 and inflation adjusted balances as at 31 December 2004 were taken as the opening balances as of 1 January 2005. However, as inflation did not meet the required thresholds in 2005 and the following years, no further inflation adjustment made to the Group's statutory financial statements.

As of 31 December 2018 and 31 December 2017, the current statutory tax charges for the Group can be analyzed as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Statutory combined profit before taxes as per historical statutory financial statements (*)	16.518.616	59.400.872
Permanent non-tax deductible expenses	5.048.553	4.919.746
Permanent non-taxable income and loss carried forward utilized during the year	(34.411.505)	(24.629.357)
Taxable income per Turkish Tax Legislation	(12.844.336)	39.691.261
Corporation tax at 22% (2017: 20%)	-	7.938.252
USA Tax Expense	300.000	650.000
Italy Tax Expense	-	-
Foreign currency translation differences	-	-
Provision for current statutory taxes on income	**300.000**	**8.588.252**

(*) In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, the companies which have incurred losses for the year ended 31 December 2018 have not been included in combined profit before taxes as per historical statutory financial statements.

(Amounts expressed in US Dollars unless otherwise stated)

35. INCOME TAX ASSETS AND LIABILITIES (Continued)

Reconciliation of taxes by applying effective tax rates to profit before tax provision as reflected in the consolidated income statement for the years ended 31 December 2018 and 31 December 2017 is as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Profit before tax	73.600.542	65.565.739
At statutory income tax calculated with rate at 22% (2017: 20%)	16.192.119	13.113.148
Effects of:		
Disallowable expenses	1.245.010	810.974
Tax exempt income	(8.775.383)	(6.472.335)
Loss carried forward utilized during the year	(7.794.785)	(16.526.378)
Effect of using functional currency as Turkish Lira on financial statements prepared for current tax calculation	14.091.395	7.864.066
Tax expense	**14.958.356**	**(1.210.526)**

The Group accounts for deferred tax assets and liabilities considering the effects of temporary differences arising as a result of different assessments between TAS and tax legislation that are put into effect by the balance sheet of the balance sheet. The tax rate has been accepted as "Institutional Taxes and Temporary Taxes" of 22% over institutional gains for the period of 2018-2019-2020 with the "Draft Law on the Amendment of Certain Tax Laws and Decrees on the Decree Laws and Decrees" dated 28 November 2017. Impact from this change is TRY90.737.

Current income tax for the periods ended 31 December 2018 and 31 December 2017 are summarized below:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Provision for current taxes as per statements of income		
- Turkey tax charge	-	7.938.252
- ABD tax charge	300.000	650.000
- Italy tax charge	-	-
Total statutory income tax charge for the year	**300.000**	**8.588.252**
Prepaid taxes	(1.513.193)	(8.973.802)
Tax amnesty	-	-
Income taxes payable	**(1.213.193)**	**(385.550)**

As of 31 December 2018 and 31 December 2017 deferred tax rate used is 22% (2017: 20%) in Turkey, 21% for subsidiaries in the USA and 31.4% for subsidiaries in Italy. For the periods ended on these dates, deferred tax asset/(liability) calculated with temporary differences and effective tax rate is as follows:

(Amounts expressed in US Dollars unless otherwise stated)

35. INCOME TAX ASSETS AND LIABILITIES (Continued)

	Temporary differences		Deferred tax asset/(liability)	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Net difference between the tax base and the amounts reported based:				
- carrying value of tangible and intangible assets	(301.490.573)	(289.105.599)	(61.503.410)	(59.035.795)
- carrying value of lands	(156.619.416)	(156.619.416)	(15.661.942)	(15.661.942)
- carrying value of financial assets	(10.593.000)	(20.183.132)	(2.018.512)	(1.009.157)
- carrying value of inventories	(1.943.946)	(1.948.070)	(437.676)	(443.187)
Provision for employee benefits obligation	2.522.212	3.929.561	504.442	785.912
Temporary differences of trade receivables	746.575	424.889	164.247	93.475
Temporary differences of trade payables	(395.863)	(122.805)	(87.090)	(27.017)
Carry forward tax losses	34.075.714	92.856.625	7.156.000	19.500.000
Other provisions and accruals	12.725.103	10.897.285	2.683.611	2.307.113
Deferred tax liability, net			**(69.200.330)**	**(53.490.597)**

The distribution of deferred tax assets/(liabilities) for the periods ended on 31 December 2018 and 31 December 2017 are as follows:

Deferred tax assets:	**31 December 2018**	**31 December 2017**
Total amount of deferred tax assets to be settled in a year	10.003.858	21.900.589
Total amount of deferred tax assets to be settled in more than a year	504.442	785.911
	10.508.300	**22.686.500**

Deferred tax liabilities:	**31 December 2018**	**31 December 2017**
Total amount of deferred tax liabilities be settled in a year	(524.766)	(470.204)
Total amount of deferred tax liabilities be settled in more than a year	(79.183.864)	(75.706.893)
	(79.708.630)	**(76.177.097)**
Deferred tax liabilities, net	**(69.200.330)**	**(53.490.597)**

The distribution of deferred tax assets/(liabilities) for the periods ended on 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	**31 December 2017**
Deferred tax assets	-	7.486.000
Deferred tax liabilities	(69.200.330)	(60.976.597)
Deferred tax liabilities, net	**(69.200.330)**	**(53.490.597)**

Deferred tax liability for the periods ended on 31 December 2018 and 31 December 2017 are as follows:

(Amounts expressed in US Dollars unless otherwise stated)

35. INCOME TAX ASSETS AND LIABILITIES (Continued)

	1 January - 31 December 2018	1 January - 31 December 2017
1 January	(53.490.597)	(55.529.224)
Curreny translation reserve	63.605	(182.139)
Tax charge recognized in the equity	(1.114.982)	(7.578.012)
Tax charge recognized in the statement of income	(14.658.356)	9.798.778
	(69.200.330)	**(53.490.597)**

Since each company consolidated is a separate entity, the deferred tax assets / (liabilities) of these companies cannot be netted. Deferred tax assets /(liabilities) of the Company and its subsidiaries are as follows:

	31 December 2018		31 December 2017	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Borusan Mannesmann Boru San. ve Tic A.Ş.	-	61.789.697	-	58.323.397
Borusan Mühendislik	-	1.218.542	-	1.171.511
BM Pipe	-	4.785.000	7.486.000	-
BM Vobarno	-	1.407.091	-	1.481.689
	-	**69.200.330**	**7.486.000**	**60.976.597**

36. EARNINGS PER SHARE

Earning per share is determined by dividing net income by the weighted average number of shares circulating during the year concerned.

In Turkey, companies can increase their capital via transfers from retained earnings and revaluation funds; and distribute costless shares to shareholders in corresponding to the capital increases. Such shares are taken into account as dividend payments. Dividends that are included by the capital as they are distributed are also taken into consideration as shared granted as dividends.Thus, such shares are considered to be in circulation throuhout the entire period; when the earnings per share is calculated.

The Group’s earnings per share as of 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018	31 December 2017
Average number of shares existing during the period (total value)	141.750.000.000	141.750.000.000
Net profit for the period attributable to equity holders of the parent	58.633.700	66.772.287
Profit from continuing operations	58.633.700	66.772.287
Total comprehensive income attributable to equity holders of the parent	0,0004	0,0005
Earnings per share	**41,36**	**47,11**

(Amounts expressed in US Dollars unless otherwise stated)

37. RELATED PARTY BALANCES AND TRANSACTIONS

a) Receivables and Payables to Related Parties

	31 December 2018	31 December 2017
Trade receivables		
Borusan İstikbal Ticaret T.A.Ş. (İstikbal) (*)	3.309.166	12.433.101
Borusan Makine ve Güç Sistemleri Sanayi ve Tic. A.Ş.	80.122	81.325
Borçelik Çelik Sanayi Ticaret A.Ş.	97.249	244.256
Other	603	112.377
Less: Allowance for doubtful receivables	(72.298)	(75.537)
Less: Provision for unaccrued finance income	(38.518)	(22.796)
	3.376.324	**12.772.726**

(*) The receivable from İstikbal is derived from the export sales performed through İstikbal.

	31 December 2018	31 December 2017
Trade payables		
Borusan Lojistik Dağıtım Depolama Taşımacılık ve Tic. A.Ş.	5.069.587	2.370.369
Borusan Danışmanlık A.Ş.	151.259	224.022
Borçelik Çelik Sanayi Ticaret A.Ş.	307.632	69.182
Borusan Holding A.Ş. (Borusan Holding)	74.902	45.885
Other	149.625	193.066
Less: Provision for unaccrued finance expense	(44.216)	(3.979)
	5.708.789	**2.898.545**

Borusan Lojistik and Borusan Holding provides services to the Company, whereas Borçelik provides raw material. The average due for the purchases are 30-60 days, and no interest charges may apply. Furthermore, no securities and guarantees are provided for the purchases.

b) Other current assets from related parties

	31 December 2018	31 December 2017
Other current assets		
Personnel advances	9.687	58.664
Job advances	-	119.201
	9.687	**177.865**

(Amounts expressed in US Dollars unless otherwise stated)

37. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

c) Transactions with related parties

	1 January- 31 December 2018	1 January- 31 December 2017
Material purchases		
Borçelik	2.587.975	518.952
	2.587.975	**518.952**
Service purchases		
Borusan Lojistik	51.722.270	36.018.673
Borusan Holding	2.287.500	2.300.655
Borusan Birlik Danışmanlık	1.643.152	1.772.743
İstikbal	198.242	338.858
Other	311.050	299.185
	56.162.214	**40.730.114**

	1 January- 31 December 2018	1 January- 31 December 2017
Sales		
İstikbal	14.260.520	44.799.496
Borusan Lojistik	2.712.975	570.469
Borçelik	232.435	-
Other	307.373	177.499
	17.513.303	**45.547.464**
Dividend income		
Borçelik	7.721.377	7.075.068
Other	5.727	4.638
	7.727.104	**7.079.706**

Payments to key management

	1 January- 31 December 2018	1 January- 31 December 2017
Salaries and short-term benefits provided to top management	2.842.159	2.322.393
Salaries and short-term benefits provided to board of directors	433.301	416.001
	3.275.460	**2.738.394**

The top management consist of the members of the Board of Directors and member of the Executive Board of the company.

38. FINANCIAL RISK MANAGEMENT

(a) Capital risk management

Group aims to maximize the profitability through the optimization of the debt and equity balance, while maintaining the continuity of its business operations.

The capital structure of the Group consists of debt which includes the borrowings disclosed in Note 8 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 27.

The Management of the Group analyzes the cost of capital and the risks associated with each class of capital and aims to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

(b) Financial risk management objectives

The Group's finance department is responsible for maintaining a systematical access to international and local markets as well as monitoring and managing the Group's risk exposure using the in-house reports which analyze the level and extent of risks. Such risks consist of market risk, credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using derivative financial instruments such as foreign currency forwards during the period. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

b.1) Credit risk

	Receivables					
	Trade receivables		Other receivables			
31 December 2018	Related parties	Other	Related parties	Other	Bank accounts	Other
Maximum credit risk exposed as of balance sheet date	3.376.324	220.343.763	-	4.170.647	148.017.992	-
- the part under guarantee with collaterals, etc.	-	22.847.368	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	3.376.324	212.715.199	-	4.170.647	148.017.992	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as part due or impaired	-	7.628.564	-	-	-	-
- the part under guarantee with collaterals, etc.	-	3.583.339	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	-	-	-	-	-
- Past due (gross carrying amount)	72.298	2.816.608	-	-	-	-
- Impairment (-)	(72.298)	(2.816.608)	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-

1) In determining the amounts; securities received and the factors that may have an influence on the credit risk are not taken into consideration.
2) Guarantees contain mortgages, letters of guarantee and direct debiting system limits.

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

b.1) Credit risk (Continued)

	Receivables					
	Trade receivables		Other receivables			
31 December 2017	**Related parties**	**Other**	**Related parties**	**Other**	**Bank accounts**	**Other**
Maximum credit risk exposed as of balance sheet date	12.772.726	84.399.604	-	2.605.889	136.924.880	-
- the part under guarantee with collaterals, etc.	-	28.519.166	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	12.772.726	75.226.051	-	2.605.889	136.924.880	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as part due or impaired	-	9.173.553	-	-	-	-
- the part under guarantee with collaterals, etc.	-	1.681.921	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	-	-	-	-	-
- Past due (gross carrying amount)	75.537	3.682.905	-	-	-	-
- Impairment (-)	(75.537)	(3.682.905)	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-

1) In determining the amounts; securities received and the factors that may have an influence on the credit risk are not taken into consideration.
2) Guarantees contain mortgages, letters of guarantee and direct debiting system limits.

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

b.1) Credit risk (Continued)

Disclosures regarding the quality of financial assets

The Group's credit risk primarily arises from its trade receivables. Such credit risk is managed by limiting the risk by the amount of the collaterals received. In managing credit risk, the Group uses four types of instruments which are Direct Debit System, letters of guarantee, mortgages and credit insurance. The Group monitors the customers' credit limits on a consistent basis and creditworthiness of the customers are systematically assessed based on the financial position, past experience and other factors.

Trade receivables are reviewed depending on the Group policies and procedures and they are carried at net amounts in the balance sheet subsequent to any provision for doubtful receivables.

In accordance to the internal evaluation;	**31 December 2018**	**31 December 2017**
Group 1	126.879.289	891.051
Group 2	81.583.670	77.934.173
Group 3	7.628.564	9.173.553
Total trade receivables	**216.091.523**	**87.998.777**

Group 1: Customers which have been performing trade activities with the Group no longer than 6 months

Group 2: Customers which have been performing trade activities with the Group over 6 months, without any collection problems during the entire process

Group 3: Customers which have been performing trade activities with the Group over 6 months, with several collection problems

There is no trade receivables restructured, or that may be overdue in the case of being not restructured (31 December 2017: None).

As of 31 December 2018, the part of overdue trade receivables for which no impairment was calculated equals USD7.628.564 (31 December 2017: USD9.173.553). Below is the aging of such trade receivables:

	31 December 2018	**31 December 2017**
Trade receivables		
1-30 days overdue	4.899.141	3.777.850
1-3 months overdue	2.225.876	4.003.942
3- 12 months overdue	503.547	1.391.761
Total overdue receivables	**7.628.564**	**9.173.553**
The part under guarantee with collaterals	**3.583.339**	**1.681.921**

As of 31 December 2018, the Group holds mortgages equal to USD41.781, letters of guarantee equals to USD68.901, and pledges equal to USD3.472.657 (31 December 2017 respectively: USD68.295 of mortgages, USD159.935 of letter of guarantee, and USD1.141.966 of pledges).Overdue and impaired receivables are not secured.

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

b.2) Liquidity risk

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 profile of financial assets and liabilities.

Liquidity risk tables

Conservative liquidity risk management requires maintaining sufficient cash on hand, availability of sufficient loan transactions and fund sources and ability to close market positions.

31 December 2018

	Carrying value	**Total cash outflows in accordance with contracts (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 liabilities						
Borrowings	404.892.825	434.553.747	53.902.588	200.445.484	167.845.572	12.360.103
Trade payables	249.734.371	251.557.807	170.725.598	80.832.209	-	-
Other payables	4.898.713	4.898.713	4.898.713	-	-	-
Derivative financial liabilities	-	-	-	-	-	
Derivative financial instruments	1.225.973	1.225.973	933.453	292.520	-	-
Total liabilities	**660.751.882**	**692.236.240**	**230.460.352**	**281.570.213**	**167.845.572**	**12.360.103**

31 December 2017

	Carrying value	**Total cash outflows in accordance with contracts (I+II+III+IV)**	**Less than 3 months (I)**	**3-12 months (II)**	**1-5 years (III)**	
Non derivative financial liabilities						
Borrowings	375.895.205	401.141.627	28.115.886	200.880.950	172.144.791	-
Trade payables	163.448.613	164.684.685	144.963.747	19.720.938	-	-
Other payables	4.684.169	4.684.171	4.684.171	-	-	-
Derivative financial instruments	35.833	35.833	14.915	20.918	-	-
Total liabilities	**544.063.820**	**570.546.316**	**177.778.719**	**220.622.806**	**172.144.791**	**-**

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

The details of the committed outstanding future contracts as of 31 December 2018 and 31 December 2017 are as below;

	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
USD buy-								
TL sell								
Between 1-6 months	5,9771	-	15.416.314	-	92.145.125	-	(1.236.996)	-
USD buy-								
GBP sell								
Between 1-6 months	1,3105	-	589.725	-	450.000	-	11.023	-
USD buy-								
GBP sell								
Between 1-5 months		1,3503	-	1.235.550	-	915.000	-	(2.244)
USD buy-								
EUR sell								
Between 1-12 months	-	1,1936	-	1.674.564	-	1.403.000	-	(12.672)
USD buy-								
TL sell								
Between 1-6 months	-	4,0392	-	1.402.271	-	5.664.000	-	(20.917)

(c) Market risk

Market risk includes foreign currency risk, interest rate risk and price risk.

The Group is exposed to risks deriving from exchange rates and interest rates. In order to manage these risks, the Group uses derivative financial instruments.

Furthermore, market risk can also be assessed via sensitivity analyses. There are no significant changes in the methods that are being used by the Group in assessing the market risk and other risks.

(d) Foreign currency risk management

Transactions in foreign currencies results in foreign currency risk. Foreign currency risk is managed by using derivative financial instruments such as foreign currency forwards.

Foreign currency sensitivity

The Group is mainly exposed to EUR and TRY foreign currency risk.

The following table details the Group's sensitivity to a 10% change in the EUR and TRY exchange rates. 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 below have been determined based on the exposure to interest rates at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The negative amount indicates the revaluation of EUR and TRY against USD.

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

(d) Foreign currency risk management (Continued)

	31 December 2018			
	Profit / (loss)		Equity	
	Foreign currency appreciation	Foreign currency depreciaiton	Foreign currency appreciation	Foreign currency depreciaiton
		Change of EUR against USD by 10%		
1 - EUR net assets / liabilities	(1.839.124)	1.839.124	(18.734.243)	18.734.243
2 - EUR hedged from risks (-)	-	-	-	-
3- EUR net effect (1+2)	**(1.839.124)**	**1.839.124**	**(18.734.243)**	**18.734.243**
		Change of TL against USD by 10%		
4- TRY net assets / liabilities	(9.662.773)	9.662.773	-	-
5- TRY hedged from risks (-)	-	-	-	-
6- TRY net effect (4+5)	**(9.662.773)**	**9.662.773**	**-**	**-**
TOTAL (3 + 6)	**(11.501.897)**	**11.501.897**	**(18.734.243)**	**18.734.243**

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

(d) Foreign currency risk management (Continued)

	31 December 2017			
	Profit / (loss)		Equity	
	Foreign currency appreciation	Foreign currency depreciaiton	Foreign currency appreciation	Foreign currency depreciaiton
	Change of EUR against USD by 10%			
1 - EUR net assets / liabilities	(1.610.974)	1.610.974	(1.259.968)	1.259.968
2 - EUR hedged from risks (-)	-	-	-	-
3- EUR net effect (1+2)	**(1.610.974)**	**1.610.974**	**(1.259.968)**	**1.259.968**
	Change of TL against USD by 10%			
4- TRY net assets / liabilities	(4.317.156)	4.317.156	-	-
5- TRY hedged from risks (-)	-	-	-	-
6- TRY net effect (4+5)	**(4.317.156)**	**4.317.156**	**-**	**-**
TOTAL (3 + 6)	**(5.928.130)**	**5.928.130**	**(1.259.968)**	**1.259.968**

The assets and liabilities in foreign curencies that are being held by the Group as of 31 December 2018 are as follows, in the original currencies and amounts, and denominated in their TRY equivalents:

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

The assets and liabilities in foreign curencies that are being held by the Group as of 31 December 2016 are as follows, in the original currencies and amounts, and denominated in their TRY equivalents:

	31 December 2018				**31 December 2017**			
	TRY	**EUR**	**GBP**	**USD equivalents**	**TL**	**EUR**	**GBP**	**USD equivalents**
1 Trade receivables	96.827.764	29.024.768	104.063	51.793.681	92.301.977	30.360.106	269.947	61.179.895
2a Monetary financial assets (Including cash and cash equivalents)	9.051.793	32.451.982	-	38.904.435	5.338.866	9.739.465	-	13.074.954
2b Non-monetary financial assets	-	-	-		-	-	-	
3 Other	-	-	-		-	-	-	
4 Current Assets (1+2+3)	**105.879.557**	**61.476.750**	**104.063**	**90.698.116**	**97.640.843**	**40.099.571**	**269.947**	**74.254.849**
5 Trade receivables	-	-	-	-	-	-	-	-
8 Other assets (5+6+7)	-	-	-	-	-	-	-	-
9 TOTAL ASSETS (4+8)	**105.879.557**	**61.476.750**	**104.063**	**90.698.116**	**97.640.843**	**40.099.571**	**269.947**	**74.254.849**
10 Trade payables	55.848.712	45.333.804	11.953	62.574.921	42.964.560	11.852.561	11.332	25.595.156
11 Financial liabilities	145.146.744	19.173.350	-	49.558.763	68.705.138	16.610.606	-	38.100.249
12a Other monetary liabilities	1.511.831	360.835	-	700.820	4.142.705	354.470	-	1.522.658
12b Other non-monetary liabilities	-	-	-	-	-	-	-	-
13 Short-term liabilities (10+11+12)	**202.507.287**	**64.867.989**	**11.953**	**112.834.505**	**115.812.403**	**28.817.637**	**11.332**	**65.218.063**
14 Trade payables	-	-	-	-	-	-	-	-
15 Financial liabilities	-	15.000.000	-	17.187.173	25.000.000	27.391.669	-	39.419.677
16a Other monetary liabilities	-	-	-	-	-	-	-	-
16b Other non-monetary liabilities	-	-	-	-	-	-	-	-
17 Long-term liabilities (14+15+16)	-	**15.000.000**	-	**17.187.173**	**25.000.000**	**27.391.669**	-	**39.419.677**
18 TOTAL LIABILITIES (13+17)	**202.507.287**	**79.867.989**	**11.953**	**130.021.678**	**140.812.403**	**56.209.306**	**11.332**	**104.637.740**
19Net asset and liability positions of derivatives out of statement of financial situation(19a-19b)	**92.145.125**	-	**450.000**	**18.084.146**	**5.664.000**	**1.403.000**	**915.000**	**4.413.617**
19a Total Hedged Assets	92.145.125	-	450.000	18.084.146	5.664.000	1.403.000	915.000	4.413.617
19bTotal Hedged Liabilities	-	-	-	-	-	-	-	-
20 Net foreign currency Asset/ (Liability) position (9-18+19)	**(4.482.605)**	**(18.391.239)**	**542.110**	**(21.239.415)**	**(37.507.560)**	**(14.706.735)**	**1.173.615**	**(25.969.275)**
21Monetary Items Net Foreign Currency Asset / (Liability)	**(96.627.730)**	**(18.391.239)**	**92.110**	**(39.323.562)**	**(43.171.560)**	**(16.109.735)**	**258.615**	**(30.382.891)**
22 Fair value of the financial instruments used for foreign currency hedging	**(6.449.719)**	-	-	**(1.225.973)**	**(78.898)**	**(10.585)**	**(1.666)**	**(35.833)**
23 Total Hedged Assets in Foreign Currency	**92.145.125**	-	**450.000**	**18.084.146**	**5.664.000**	**1.403.000**	**915.000**	**4.413.617**
24 Total Hedged Liabilities in Foreign Currency	-	-	-	-	-	-	-	-

From 1 January 2018 to 31 December 2018, the Group imported amounting to USD132.184.415, EUR57.445.507 and GBP465.160) and exported amounting to USD627.234.568, EUR124.023.403 and GBP2.766.174 (In the period of 1 January 2017 - 31 December 2017, the Company imported From 1 January 2017 to 31 December 2017, the Group imported amounting to USD71.246.609, EUR19.535.638 and GBP184.227) and exported amounting to EUR123.240.392, GBP3.094.243 and USD376.172.297).

38. FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk

The interest rates on the Group's financial liabilities are detailed in Note 8, Bank Borrowings, Short Term and Long Term.

Interest rate sensivity

The Group's exposure to interest rate risk is related to its financial liabilities. These risk are managed by the Group through the interest rate swap agreements and forward interest rate agreements and by maintaining an appropriate distribution between fixed and variable rated debts. Hedging strategies are evaluated regularly to be compatible with interest rate expectations and defined risk. Thus, the creation of optimal hedging strategy, revision of the balance sheet position both and to be kept under the control of interest expenditure at different interest rates have been intended. The interest rate is fixed for significant portion of the Group's borrowings when the borrowing is obtained. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the income and loss effect of variable rate borrowings in the financial statements would be immaterial.

(f) Price risk

The Group is exposed to price risks arising from the cost of raw material inventories and the steel price changes affecting the sales prices except pipeline projects. Projects has not been affected by change in steel prices due to fixed the raw materials prices at the beginning. There are no global derivative instruments to be utilized against the adverse price change effect on the sales margins. The Group optimizes inventory turnover rates by reviewing the sales-production-purchase balance on a consistent basis considering the steel price trend and reflects the changes on steel prices to the selling prices.

(Amounts expressed in US Dollars unless otherwise stated)

39. FINANCIAL INSTRUMENTS

31 December 2018 Balance Sheet	Loans and receivables	Available for sale investments	Derivatives	Other financial liabilities at amortised cost	Carrying amount
Financial assets					
Cash and cash equivalents	148.021.249	-	-	-	148.021.249
Trade receivables	220.343.763	-	-	-	220.343.763
Due from related parties	3.376.324	-	-	-	3.376.324
Financial investments	-	48.707.194	-	-	48.707.194
Other receivables	4.170.647	-	-	-	4.170.647
Financial liabilities					
Borrowings	-	-	-	404.892.825	404.892.825
Trade payables	-	-	-	244.025.582	244.025.582
Due to related parties	-	-	-	5.708.789	5.708.789
Other payables	-	-	-	4.898.713	4.898.713
Derivative instruments	-	-	1.225.973	-	1.225.973
31 December 2017 Balance Sheet	**Loans and receivables**	**Available for sale investments**	**Derivatives**	**Other financial liabilities at amortised cost**	**Carrying amount**
Financial assets					
Cash and cash equivalents	136.938.565	-	-	-	136.938.565
Trade receivables	84.399.604	-	-	-	84.399.604
Due from related parties	12.772.726	-	-	-	12.772.726
Financial investments	-	38.056.325	-	-	38.056.325
Other receivables	2.605.889	-	-	-	2.605.889
Derivative instruments	-	-	-	-	-
Financial liabilities					
Borrowings	-	-	-	375.895.205	375.895.205
Trade payables	-	-	-	160.550.068	160.550.068
Due to related parties	-	-	-	2.898.545	2.898.545
Other payables	-	-	-	4.684.169	4.684.169
Derivative instruments	-	-	35.834		35.834

(Amounts expressed in US Dollars unless otherwise stated)

39. FINANCIAL INSTRUMENTS (Continued)

Below table is the reconciliation of fair values of financial assets and liabilities;

	Finacial assets at fair value through profit or loss		Available-for-sale financial asset	
31 December 2018	**Trading purpose**	**Derivative financial instruments**	**Stocks**	**Total**
Openning balance, 1 January 2018	-	-	35.845.000	35.845.000
Total gain or losses				
- Recognized in profit and loss	-	-	-	-
- Recognized in other comprehensive income	-	-	10.593.000	10.593.000
- Currency translation difference	-	-	-	-
Closing balance 31 December 2018	**-**	**-**	**46.438.000**	**46.438.000**

	Finacial assets at fair value through profit or loss		Available-for-sale financial asset	
31 December 2017	**Trading purpose**	**Derivative financial instruments**	**Stocks**	**Total**
Openning balance, 1 January 2017	-	-	35.845.000	35.845.000
Total gain or losses				
- Recognized in profit and loss	-	-	-	-
- Recognized in other comprehensive income	-	-	-	-
- Currency translation difference	-	-	-	-
Closing balance 31 December 2017	**-**	**-**	**35.845.000**	**35.845.000**

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data.

Based on the fair value hierarchy, the Group’s financial assets and liabilities are categorized as follows:

(Amounts expressed in US Dollars unless otherwise stated)

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follows:

31 December 2018	**Level 1**	**Level 2**	**Level 3**
	USD	**USD**	**USD**
Permanent fair value measurements:			
Derivative financial instruments at fair value through comprehensive income statement	-	(1.225.973)	-
Available for sale financial assets	-	-	48.707.194
Property,plant and equipment	-	592.516.766	-
Non-permanent fair value measurements:			
Non-current assets held for sale	-	463.734	-

31 December 2017	**Level 1**	**Level 2**	**Level 3**
	USD	**USD**	**USD**
Permanent fair value measurements:			
Derivative financial instruments at fair value through comprehensive income statement	-	(35.834)	-
Available for sale financial assets	-	-	38.056.325
Property,plant and equipment	-	598.581.379	-
Non-permanent fair value measurements:			
Non-current assets held for sale	-	463.734	-

The fair values of the property, plant and equipment of the Company, as explained in Note 2.5, have been determined by an independent valuation firm as at 31 December 2014.

41. SUBSEQUENT EVENTS

None (31 December 2017: None).

42. OTHER ISSUES THAT SIGNIFICANTLY AFFECT THE FINANCIAL STATEMENTS OR OTHER ISSUES REQUIRED FOR THE CLEAR UNDERSTANDING OF THE FINANCIAL STATEMENTS

None (31 December 2017: None).

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