Borusan Mannesmann Boru Sanayi ve Ticaret Anonim Şirketi and its Subsidiaries

Consolidated Financial Statements
December 31, 2004

Borusan Mannesmann Boru Sanayi ve Ticaret Anonim Şirketi and its Subsidiaries

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
Borusan Mannesmann Boru Sanayi ve Ticaret Anonim Şirketi

1. We have audited the accompanying consolidated balance sheet of Borusan Mannesmann Boru Sanayi ve Ticaret Anonim Şirketi and its subsidiaries (a Turkish corporation - the "Company") as of December 31, 2004 and the related consolidated statements of income, changes in equity and cash flow for the year then ended, all expressed in US dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As explained in Note 1, in November 2004, the Company took over Mannesmann Boru Endüstrisi T.A.Ş., which was under the common control of the same shareholders' with the Company, with all its assets, liabilities, rights and obligations. The accompanying consolidated financial statements represent the consolidated result of operations and financial positions of these two companies as if they were one single entity at January 1, 2004 and 2003.

4. In our opinion, the financial statements referred to in the first paragraph above present fairly, in all material respects, the consolidated financial position of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its subsidiaries as of December 31, 2004 and the results of their operations, and their cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

5. The supplementary information, which contains the non-consolidated balance sheet of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. (Borusan Mannesmann Boru) as of December 31, 2004 and the non-consolidated statement of income for the year then ended, which was presented in US dollars for information purposes, is not a required part of the basic financial statements. These separate IFRS financial statements of Borusan Mannesmann Boru have been subject to the auditing procedures applied in our examination of the basic financial statements.

March 16, 2005
İstanbul, Turkey

CONSOLIDATED BALANCE SHEET
As at December 31, 2004
(Currency – in US Dollars)

ASSETS

	Notes	2004	2003
Current assets			
Cash and cash equivalents	3	**13,814,532**	2,066,479
Trade receivables, net	4, 26	**60,551,287**	58,386,730
Inventories, net	5	**59,282,194**	51,189,455
Other current assets	6	**4,585,696**	5,221,886
Total current assets		**138,233,709**	116,864,550
Non-current assets			
Available for sale financial assets	9	**15,881,454**	15,991,489
Property, plant and equipment, net	7, 22, 26	**130,257,910**	132,416,599
Intangible assets, net	8	**765,513**	811,186
Deferred tax asset	13	**401,159**	30,599
Other non-current assets		**781,197**	832,682
Total non-current assets		**148,087,233**	150,082,555
Total assets		**286,320,942**	266,947,105

LIABILITIES, MINORITY INTEREST AND EQUITY

	Notes	2004	2003
Current liabilities			
Trade payables, net	10, 26	**29,297,236**	19,596,076
Short-term bank borrowings	11	**51,284,800**	50,340,877
Current portion of long-term debt	11	**275,054**	76,476
Due to related parties (other)	26	**4,191,106**	5,386,906
Taxes on income	13	**1,556,006**	591,126
Other current liabilities	12	**10,364,398**	6,604,328
Total current liabilities		**96,968,600**	82,595,789
Non-current liabilities			
Long-term debt	11	**943,700**	1,133,813
Provision for employee termination benefits	14	**6,378,359**	6,198,177
Deferred tax liability	13	**5,565,025**	14,986,057
Total non-current liabilities		**12,887,084**	22,318,047
Total liabilities		**109,855,684**	104,913,836
Minority interest	15	**94,908**	90,790
Shareholders' equity			
Share capital	16	**68,996,872**	68,996,872
Revaluation reserve, net	7	**68,981,054**	72,950,999
Retained earnings	17	**38,392,424**	19,994,608
Total shareholders' equity		**176,370,350**	161,942,479
Total minority interest and shareholders' equity		**176,465,258**	162,033,269
Total liabilities, minority interest and shareholders' equity		**286,320,942**	266,947,105

The accompanying policies and explanatory notes on pages 6 through 34 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2004
(Currency – in US Dollars)

	Note	**2004**	2003
Net sales	18, 26	**370,211,017**	303,942,238
Cost of sales	19, 21, 22, 26	**(305,825,359)**	(262,633,090)
Gross profit		**64,385,658**	41,309,148
Selling, marketing, general and administrative expenses	20, 21, 22, 26	**(25,791,741)**	(23,090,566)
Other operating (expense)/ income	22, 26	**(840,863)**	91,042
Profit from operations		**37,753,054**	18,309,624
Financial expense - net	23, 26	**(3,405,119)**	(2,847,797)
Translation gain	2	**4,849,194**	3,417,008
Profit before taxation on income and minority interest		**39,197,129**	18,878,835
Taxation on income	13		
- Current (Statutory)		**(12,438,911)**	(3,329,750)
- Deferred		**5,082,580**	8,981,849
Net profit before minority interest		**31,840,798**	24,530,934
Minority interest	2,15	**(21,729)**	(18,688)
Net profit		**31,819,069**	24,512,246
Weighted average number (000's) of shares		**28,350,000**	28,350,000
Earnings per share in US dollars		**0.0011**	0.0009

The accompanying policies and explanatory notes on pages 6 through 34 form an integral part of the consolidated financial statements.

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2004
(Currency – in US Dollars)

	Share Capital	Revaluation Reserve	Retained Earnings	Total
Balances at December 31, 2002	68,996,872	76,913,973	744,068	146,654,913
Dividends paid	-	-	(9,224,680)	(9,224,680)
Transfer of depreciation of revaluation reserve and its deferred tax into retained earnings (Note 7)	-	(3,962,974)	3,962,974	-
Net profit for the year	-	-	24,512,246	24,512,246
Balances at December 31, 2003	68,996,872	72,950,999	19,994,608	161,942,479
Dividends paid	-	-	**(15,773,122)**	**(15,773,122)**
Transfer of depreciation of revaluation reserve and its deferred tax into retained earnings (Note 7)	-	**(2,351,869)**	**2,351,869**	-
Change in revaluation reserve, net of deferred tax and minority interest	-	**(1,618,076)**	-	**(1,618,076)**
Net profit for the year	-	-	**31,819,069**	**31,819,069**
Balances at December 31, 2004	**68,996,872**	**68,981,054**	**38,392,424**	**176,370,350**

The accompanying policies and explanatory notes on pages 6 through 34 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW
For the year ended December 31, 2004
(Currency – in US Dollars)

	2004	2003
Cash flows provided from operating activities:		
Profit before taxation on income and minority interest	**39,197,129**	18,878,835
Adjustments to reconcile profit before taxation on income and minority interest to net cash used in operating activities:		
Depreciation and amortization	**6,457,851**	11,524,367
Interest expense	**5,582,576**	4,579,240
Interest income	**(2,177,457)**	(1,731,443)
Provision for employee termination benefits	**2,475,151**	2,738,630
Gain on sale of property, plant and equipment	**(386,375)**	(37,935)
Operating profit before working capital changes	**51,148,875**	35,951,694
Taxes paid	**(11,478,748)**	(5,171,034)
Trade receivables	**(2,164,557)**	(16,440,007)
Inventories	**(8,092,739)**	(20,152,442)
Other current assets and liabilities, net	**4,396,260**	(5,334,561)
Trade payables	**9,701,160**	3,085,268
Other non-current assets	**51,485**	8,057
Employee termination benefits paid	**(2,294,969)**	(561,013)
Net cash provided by / (used in) operating activities	41,266,767	(8,614,038)
Investing activities		
Purchase of property, plant equipment and intangible assets	**(11,348,271)**	(7,212,991)
Proceeds from sale of property, plant and equipment	**1,141,175**	95,807
Net change in available for sale financial assets	**110,035**	(429,278)
Interest received	**2,177,458**	1,731,443
Net cash used in investing activities	(7,919,603)	(5,815,019)
Financing activities		
Payments of borrowings	**(49,828,705)**	(45,756,100)
Proceeds from borrowings	**49,386,100**	72,419,436
Interest paid	**(5,383,384)**	(4,063,170)
Dividends paid	**(15,773,122)**	(9,224,680)
Net cash provided by/ (used in) financing activities	(21,599,111)	13,375,486
Net increase / (decrease) in cash and cash equivalents	**11,748,053**	(1,053,571)
Cash and cash equivalents at the beginning of the year	**2,066,479**	3,120,050
Cash and cash equivalents at the end of the year	13,814,532	2,066,479

The accompanying policies and explanatory notes on pages 6 through 34 form an integral part of the consolidated financial statements.

1. GENERAL

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. (Borusan Mannesmann Boru) and its Subsidiaries (hereafter referred to as "the Company") is a joint stock company, which is involved in the manufacturing and sale of longitudinally and spirally welded steel and plastic pipes. The Company is specialised in the production of steel pipes. The Company's shares have been traded in Istanbul 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: 103
Fındıklı - İstanbul

In the extraordinary General Assembly meeting of Borusan Birleşik Boru Fabrikaları A.Ş. (Borusan Boru) held on November 25, 2004, the merger with Mannesmann Boru Endüstrisi T.A.Ş. (Mannesmann Boru) is approved. The merger of these entities under common control is effected legally through dissolution without liquidation and take over 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 as December 13, 2004.

The consolidated financial statements have been prepared as if Borusan Boru and Mannesmann Boru were one single entity at January 1, 2004 and 2003.

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

Borusan Mannesmann Boru has the following subsidiaries. Business segments and the location of these subsidiaries are as follows:

Business Segment	Subsidiary	Location
Steel Pipe Trade	Kartal Boru Sanayi ve Ticaret A.Ş.	Istanbul - Turkey
Engineering Services	Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş.	Gemlik - Turkey

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

Borusan Mannesmann Boru and its subsidiaries maintain their books of account and prepare their statutory financial statements in New Turkish Lira (YTL) in accordance with regulations on accounting and reporting framework and accounting standards promulgated by the Turkish Capital Market Board (CMB), Turkish Commercial Code tax legislation and starting from January 1, 1994, the Uniform Chart of Accounts issued by Ministry of Finance.

The consolidated US dollar (USD) financial statements are based on the statutory records which are maintained under the historical cost convention (except for the revaluation of property plant and equipment as discussed in Note 7) with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain effect.

The Company adapted all standards, which were mandatory as of December 31, 2004. No standards are adopted before their effective date.

(Currency – in US Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The IFRS consolidated financial statements were authorized for issue on March 16, 2005 by the management of the Company on behalf of the Board of Directors of the Company. The General Assembly and certain regulatory bodies have the power to amend statutory financial statements after issue.

Measurement and presentation currency

The USD is used to a significant extent in, or has a significant impact on, the operations of the Company and reflects the economic substance of the underlying events and circumstances relevant to the Company. Therefore, the Company uses the USD in measuring the items in its financial statements and as its measurement currency. All currencies other than the currency selected for measuring items in the consolidated financial statements are treated as foreign currencies.

The underlying events and circumstances relevant to the Company for determination of the measurement currency as USD is the purchases and sales prices of the Company and the main services are quoted in USD.

In context of IAS 21 ('The Effects of Changes in Foreign Exchange Rates'), the reporting currency of an enterprise indicates both the measurement and the presentation currency, which is USD for the Company. In accordance with IAS 21 monetary balance sheet items are measured into USD at the rate prevailing at balance sheet date and non-monetary balance sheet items as well as revenues, expenses and cash flows are remeasured at the rates in effect on the date of transactions (historical rates). Exchange gains or losses arising on settlement and from translation of foreign currency items have been included in translation gain/loss account in the consolidated statement of income.

The Turkish countrywide wholesale price index (WPI) published by State Institute of Statistics and YTL exchange rates for the purchases of USD announced by the Central Bank of the Republic of Turkey for the last three years were as follows:

Year	Year End USD/YTL Exchange Rates	Inflation Rates (WPI)	YTL/USD Devaluation Rates
2002	1.634501	30.80	13.54
2003	1.395835	13.94	(14.60)
2004	1.342100	13.84	(3.85)

As a result of a long period of high inflation, the Turkish Lira (TL) has ended up in a large denominations, creating difficulty in expressing and recording transactions. A new law enacted in January 31, 2004 to introduce Yeni Türk Lirası (New Turkish Lira, YTL), the new currency unit for the Republic of Turkey. Convertion rate for TL against YTL is fixed at YTL 1 to TL 1,000,000 through cost the period until complete phase-cost of TL.

Principles of Consolidation

The consolidated financial statements include the financial statements of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its subsidiaries on the basis set out below:

(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 shareholders' equity accounts. Intercompany transactions and balances between Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its subsidiaries, and unrealized gains and losses on transactions between the Companies are eliminated.

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

(iii) Minority shareholders' share in the net assets of the consolidated subsidiaries is separately classified in the consolidated balance sheets and statements of income as minority interest (see also Note 15).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following is the list of operating subsidiaries at December 31, 2004 and Borusan Mannesmann Boru's ultimate effective shareholding in such subsidiaries' equity at those dates:

Business Segment	Subsidiary	Effective Shareholding (%)
Steel Pipe Trade	Kartal Boru Sanayi ve Ticaret A.Ş.	96.3
Engineering Services	Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş.	96.9

Available-for-sale Financial Assets

All investments are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Gain or losses on available-for-sale investments are recognized in the income statement.

For investments where there is no quoted market price and where reasonable estimate of the fair value could not be determined since other methods are inappropriate and impractical, they are stated at cost.

Foreign Currency Transactions

Each entity translates its foreign currency transactions into its measurement currency by applying to the foreign currency amount the exchange rate between the measurement currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or reported in previous financial statements are recognized in the income statement in the period in which they arise.

Use of Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect 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. Actual consolidated results could differ from those estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and marketable securities having maturities of less than 3 months. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the consolidated balance sheet, as the Company does not obtain control over the assets. Amounts paid under these agreements are included in cash and cash equivalents. The difference between purchase and resale price is treated as interest income and accrued over the life of reverse repurchase agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade Receivables

Trade receivables are recognized at original invoice amount and carried at amortized cost less an allowance for any uncollectible amounts. Interest rates used for amortized cost computation is 36% for YTL denominated trade receivables and 3.1% for USD and EUR denominated trade receivables. Collection period of trade receivables is average 60 days.

Related Parties

Parties are considered related with one party either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party. Related parties also include individuals that are principal owners, management and members of the Company's Board of Directors and member of their families. Related party transactions are transfers of resources or obligations between related parties, regardless of whether a price is charged.

Inventories

Inventories are valued at the lower of cost and net realizable value after provision for dimunition in value. Cost is determined by using the monthly weighted average cost. Cost of work in progress and finished goods inventories include material, direct labor and an appropriate portion variable and fixed overhead expenditure, the latter being allocated on the basis of nominal operating capacity. Net realizable value is the selling price in the ordinary course of business less the costs of completion, marketing and distribution. Provision for diminution in value is recognized in cost of sales at the time it is occurred. Obsolete inventories are written off.

Property, Plant and Equipment and Depreciation

All property, plant and equipment are initially recorded at cost. Land, buildings and machinery and equipment the of Company and its subsidiaries were first revalued in July 1999 and later in December 2004 by an independent professional valuer, are subsequently shown at their fair value. Increase or decrease in the carrying amount arising on revaluation of these assets net off deferred income taxes were credited to revaluation reserve in shareholders' equity. (Note 7). Depreciation based on the fair value of such property, plant and equipment are charged to the statement of income. All other tangible assets are stated at historical cost less accumulated depreciation and 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 statement of income. 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 Company.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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	Straight-line
Buildings	25	Straight-line
Machinery and equipment	12 - 20	Straight-line
Furniture and fixtures	5	Straight-line
Motor vehicles	5	Straight-line

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. In this context, Borusan Mannesmann Boru has reviewed useful lives of machinery and equipment and useful life estimate for machinery and equipment has been revised as 20 years effective from 2004 (Note 7).

Impairment of Assets

Property, plant and equipment are reviewed for impairment whenever 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 or treated as a revaluation decrease for property, plant and equipment that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset. The recoverable amount is the higher of an asset's 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.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in income or as a revaluation increase. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for that asset in prior years.

Intangible Assets

Intangible assets comprise project development costs and software licences are measured initially at cost. Intangible assets are recognized, if it is probable that future economic benefits that are attributable to asset will flow to the enterprise; and the cost of the asset can be measured reliably. After the initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on straight-line basis over the estimated useful lives of the related assets (5 years). Current year amortization charge of the related assets is reflected in selling marketing and general and administrative expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for Leases as Lessee

The Company recognizes finance leases as assets and liabilities in the consolidated balance sheets at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Company has an option to buy the leased assets from the nominal values for each leasing agreement.

Income Taxes

The income tax charge is based on taxable profit for the year in accordance with the fiscal legislation and also considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are classified as non current assets / (liabilities) in the balance sheet.

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

Deferred tax asset and liabilities are reflected over the inflation adjusted tax base according to the change in Law No. 5024, Procedural Tax Code, Income Tax Law and Corporation Tax Law, published on December 31, 2003.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales, which exclude Value Added Taxes (VAT) and discounts, are recognized when delivery of goods or rendering of the service has taken place and transfer of risks and rewards has been completed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits

(a) Defined Benefit Plan :

In accordance with existing social legislation in Turkey, the Company and its subsidiaries is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed one year of service with the Company and its subsidiaries companies.

Provision is made for the present value of the defined benefit obligation calculated using the Projected Unit Credit Method and based upon estimated factors derived using the Company's experience of personnel terminating their service and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bond. All actuarial gains and losses are recognized in the income statement.

(b) Defined Contribution Plan :

The Company and its subsidiaries pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Company and its subsidiaries has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Minority Interests

Minority interests include their proportion of the fair values of identifiable assets and liabilities recognized upon acquisition of a subsidiary.

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

Borrowing Costs

Borrowing costs are expensed as incurred.

Contingencies

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting

Financial assets and liabilities are offset and the net amount 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 liability simultaneously.

Subsequent Events

Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in notes when material.

Recognition and Derecognition of Financial Instruments

The Company recognizes a financial asset or liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial asset or a part of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or portion of financial asset. The Company derecognizes a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged cancelled and expired.

Reporting of Cash Flows

Cash and cash equivalents presented in the statement of cash flows consist of cash on hand and deposits with banks, reverse repurchase agreements with banks and other liquid assets with maturities less than three months.

Forward Foreign Exchange Contracts

Derivative financial instruments (forward contracts) that are not designated as hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in net profit or loss.

Fair Value of Financial Instruments

Investments are classified into the following categories: held for trading, available-for-sale and held for trading.

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is:

- cash,
- a contractual right to receive cash or another financial asset from another enterprise,
- a contractual right to exchange financial instruments from another enterprise under conditions that are potentially favorable, or,
- an equity instrument of another enterprise.

A financial liability that is a contractual obligation:

- to deliver cash or another financial asset to another enterprise, or
- to exchange financial instruments with another enterprise under conditions that are potentially unfavorable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An equity instrument is any contract that evidences a residual interest in the assets of an enterprise after deducting all of its liabilities.

Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to held to maturity other than loans and receivables originated by the Company, if any, are classified as held-to-maturity investments.

A financial asset or liability held for trading is one that was acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. A financial asset is classified as held for trading if, regardless of why it was acquired, it is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking. Derivative financial assets and derivative financial liabilities are always deemed held for trading unless they are designated as to effective hedging instruments.

Available for sale financial assets are those financial assets that are not (a) loans and receivables originated by the enterprise, (b) held to maturity investments, or (c) financial assets held for trading.

When a financial asset or financial liability is recognized initially, it is measured at its cost, which is the fair value of the consideration given (in the case of an asset) or received (in case of a liability) for it. Transaction costs are included in the initial measurement of all financial assets and liabilities.

After initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that it may incur on sale or other disposal, except for the following categories of financial assets, which are measured at cost using the effective interest rate method (those that have fixed maturity are measured at amortized cost):

- Loans and receivables originated by the enterprise and not held for trading,
- held to maturity investments, and
- any financial assets that do not have a quoted market price in an active market and whose fair value cannot be readily measured.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate a fair value:

Financial Assets

For monetary assets, the fair value approximates carrying value. The fair values of certain financial assets carried at cost, including cash and cash equivalents plus the respective accrued interest and other financial assets are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses. The carrying value of trade receivables along with the related allowance for unearned income and uncollectibility are estimated to be their fair values.

Financial Liabilities

Monetary liabilities for which fair value approximates carrying value; trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature. The bank borrowings are stated at their amortized cost and transaction costs are included in the initial measurement of loans and bank borrowings. The fair value of loans and bank borrowings are considered to state their respective carrying values since the interest rate applied to bank loans and borrowings are updated periodically by the lender to reflect active market price quotations. The carrying value of trade payables along with the related allowance for unrealized cost is estimated to be their fair values.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings Per Share

Earnings per share disclosed in the statement of income are determined by dividing net profit by the weighted average number of shares in existence during the period concerned. The weighted average number of shares outstanding during the year has been adjusted in respect of free shares issued without corresponding increase in resources. However for statutory purposes, the earnings per share calculation is subject to the requirements of local legislations and laws.

3. CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	**325**	1,173
Banks		
-demand deposits	**5,004,547**	315,587
-time deposits	**7,699,087**	1,141,027
-repurchase agreements with banks	**289,844**	184,119
Other	**820,729**	424,573
	13,814,532	2,066,479

Time deposits are denominated in YTL, USD and EUR at December 31, 2004. Effective interest rates of USD and EUR denominated time deposits are 2.06% and 2.19% per annum respectively and they mature in one day (2003- nil). For YTL denominated time deposits, effective interest rate is 18.49% (2003-36.5%) per annum. Maturities of such deposits are one day (2003- two days).

Funds lent to banks under repurchase agreements as of December 31, 2004 and 2003, consist of Turkish government bonds and treasury bills held for resale to banks under reverse repurchase agreements. These are all maturing at three days (2003 - two days) and having net interest rate of 11% (2003 - 37%) per annum. The market values of such securities approximate carrying values, including accrued income at the respective year-end.

Others consist of the post dated checks as of December 31, 2004 and 2003.

Currency breakdown of cash and cash equivalents is as follows:

	Original Currency		USD Equivalents	
	2004	2003	**2004**	2003
USD	**8,008,196**	190,445	**8,008,196**	190,445
EUR	**1,865,615**	1,454	**2,539,382**	1,979

Remaining USD 3,266,954 (2003-USD 1,874,055) of cash and cash equivalents is denominated in YTL.

4. TRADE RECEIVABLES, net

	2004	2003
Trade receivables (Note 26)	**38,099,716**	46,947,464
Cheques and notes receivable (Note 26)	**22,823,186**	11,569,442
Less: Provision for doubtful receivables	**(371,615)**	(130,176)
	60,551,287	58,386,730

Average maturity of notes receivables is 30 days. As of December 31, 2004 letter of guarantees and collaterals received from customers amount to USD 1,233,217 and USD 3,964,138 respectively.

Currency breakdown of trade receivables is as follows:

	Original Currency		USD Equivalents	
	2004	2003	**2004**	2003
USD	**20,500,896**	24,159,736	**20,500,896**	24,159,736
EUR	**8,046,394**	10,328,900	**10,952,353**	14,059,187
GBP	**320,705**	239,417	**615,675**	459,621

Remaining USD28,482,363 (2003-USD19,708,186) of trade receivables is denominated in YTL.

5. INVENTORIES, net

	2004	2003
Raw materials	**20,959,581**	26,299,516
Work-in-process	**4,897,815**	2,438,067
Finished goods	**21,317,021**	15,452,349
Merchandise stocks	**1,006,377**	855,349
Goods-in-transit and advances given with respect to inventory purchases	**11,259,390**	6,544,174
Less: Allowance for net realizable value	**(157,990)**	(400,000)
	59,282,194	51,189,455

6. OTHER CURRENT ASSETS

	2004	2003
VAT receivables	**1,589,585**	2,957,579
Prepaid expenses	**1,603,735**	1,527,515
Advances given	**1,141,099**	158,342
Prepaid taxes	**54,084**	328,777
Other	**197,193**	249,673
Total	**4,585,696**	5,221,886

(Currency – in US Dollars unless otherwise indicated)

7. PROPERTY, PLANT AND EQUIPMENT, net

The movement of property, plant and equipment and related accumulated depreciation for the year ended December 31, 2004 is as follows:

	January 1, 2004	Additions	Disposals	Transfers	Change in revaluation	Netting of accumulated depreciation	December 31, 2004
Cost							
Land	38,579,485	-	(95,645)	1,111,970	10,135,090	-	49,730,900
Land improvement and leasehold items	1,646,503	1,750	(31,476)	419,389	-	-	2,036,166
Building	55,921,289	128,859	(371,120)	665,403	(7,370,671)	(20,832,219)	28,141,541
Machinery and equipment	211,805,980	59,472	(7,352,394)	5,893,664	(9,104,401)	(153,717,175)	47,585,146
Motor vehicles	5,279,751	16,915	(2,333,085)	776,280	-	-	3,739,861
Furniture and fixtures	9,107,873	17,842	(2,450,550)	412,240	-	-	7,087,405
Construction in progress	760,943	10,940,029	-	(9,278,946)	-	-	2,422,026
	323,101,824	**11,164,867**	**(12,634,270)**	-	**(6,339,982)**	**(174,549,394)**	**140,743,045**
Less: Accumulated depreciation							
Land improvement and leasehold items	1,404,047	84,369	(31,472)	-	-	-	1,456,944
Buildings	19,143,729	1,968,871	(280,381)	-	-	(20,832,219)	-
Machinery and equipment	157,320,856	3,685,021	(7,288,702)	-	-	(153,717,175)	-
Motor vehicles	4,706,558	130,049	(1,838,392)	-	-	-	2,998,215
Furniture and fixtures	8,110,035	360,472	(2,440,531)	-	-	-	6,029,976
	190,685,225	**6,228,782**	**(11,879,478)**	-	-	**(174,549,394)**	**10,485,135**
Net book value	**132,416,599**						**130,257,910**

Borusan Mannesmann Boru has reviewed machinery and equipment in 2004 and useful estimate of 12 years has been changed to 20 years. The effect of this change recognized in the current year income statement is USD 3,850,189.

Market valuations (fair value estimation)

Land, buildings, machinery, equipment and installations were revalued by an independent appraisal firm (P&D Gayrimenkul Danışmanları in association with Healey Baker) in December 2004 following to the first valuation in July 1999. Valuations for those assets were made on the basis of the market value for existing use. The book values of such assets were adjusted to the revalued amounts and the resultant surplus net of deferred income taxes was credited to revaluation reserves in shareholders' equity. The carrying amount does not differ materially, from which would be determined using fair value at the balance sheet date.

When assets are sold or otherwise disposed of, the costs and the related accumulated depreciation are removed from the accounts and resulting gain or loss is reflected in the net income. Upon the disposal of the revalued asset, the relevant portion of the revaluation surplus realized in respect of previous valuation is released from the revaluation surplus directly 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 annual basis as the asset is used by the Company.

(Currency – in US Dollars unless otherwise indicated)

7. PROPERTY, PLANT AND EQUIPMENT, net (continued)

Movements of the revaluation reserve of land, buildings, machinery, equipment and installations were as follows:

January 1, 2004	72,950,999
2004 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	(2,351,869)
Change in revaluation	(6,339,982)
Deferred tax charge on revaluation reserve	4,709,012
Revaluation reserve included in minority interest	12,894
At December 31, 2004	**68,981,054**

Revaluation of land, building and machinery and equipment is based on the historical cost as of December 31, 2004 for which details are as follows :

	Land	Building	Machinery and Equipment
Cost	7,304,036	20,742,351	110,440,675
Accumulated depreciation	-	(12,684,826)	(82,962,360)
Net book value	**7,304,036**	**8,057,525**	**27,478,315**

Finance leases

The Company recognized capital leases as assets and liabilities in the balance sheets at equal amount the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Included in machinery and equipment, USD 1,312,435 (2003 – USD 1,372,843) (net book value) relates to the tube finishing line and furnace leased by the Company.

Lease obligations at December 31, 2004 and 2003 can be summarized as follows (USD):

Repayable in	Short-Term	Long-Term	Total
2004	76,476	-	76,476
2005-2006	-	175,509	175,509
Balances of December 31, 2003	76,476	175,509	251,985
2005	83,764	-	83,764
2006	-	91,745	91,745
Balances of December 31, 2004	**83,764**	**91,745**	**175,509**

Mortgages

As of December 31, 2004 and 2003, the Company's building is mortgaged to the extent of USD 5,491,394 as guarantee against its liabilities, already presented in the balance sheet, Ereğli Demir Çelik Fabrikaları T.A.Ş. (EDÇ – a major supplier).

The Company's production plant in Gemlik is mortgaged at an amount of 12 million EUR, as a guarantee for the long-term loan obtained by Mannesmann Vobarno Tubi S.p.A.

(Currency – in US Dollars unless otherwise indicated)

8. INTANGIBLE ASSETS, net

The movement of intangible assets during the year ending December 31, 2004 is as follows:

	2004
Cost	
At January 1,	1,125,228
Additions	183,404
Disposals	(3,983)
At December 31,	1,304,649
Less : Accumulated amortization	
At January 1,	314,042
Charge for the year	229,069
Disposals	(3,975)
At December 31,	539,136
Net book value at December 31,	**765,513**

9. AVAILABLE FOR SALE FINANCIAL ASSETS

	2004	(%)	2003	(%)
Borçelik Çelik Sanayi ve Ticaret A.Ş. (Borçelik)	**15,661,868**	**10.2**	15,661,868	10.2
Borusan Lojistik Dağıtım Depolama Taşımacılık ve Ticaret A.Ş. (Borusan Lojistik)	**146,921**	**3.1**	146,921	3.1
Borusan Kültür ve Sanat Hizmetleri Yayıncılık A.Ş. (Kültür)	**68,212**	**16.7**	68,212	16.7
Tüstaş Sanayi Tesisleri A.Ş. (Tüstaş)	-	-	110,035	1.9
Mersin Serbest Bölge A.Ş.	**2,983**	- (*)	2,983	-
Antalya Serbest Bölge A.Ş.	**584**	- (*)	584	-
Other	**886**	- (*)	886	-
	15,881,454		15,991,489	

(*) Company's shareholding is insignificant.

10. TRADE PAYABLES, net

	2004	2003
Notes payable	**12,244,748**	14,531,500
Domestic suppliers (Note 26)	**17,052,488**	5,064,576
Total	**29,297,236**	19,596,076

Average maturity of notes payable given to E.D.Ç. is 91 days and the discount rate used is 42%.

10. TRADE PAYABLES, net (continued)

Currency breakdown of trade payables is as follows:

	Original Currency		USD Equivalent	
	2004	2003	**2004**	2003
USD	**24,183,927**	7,477,601	**24,183,927**	7,477,601
EUR	**13,150**	149,554	**17,899**	203,565
GBP	**-**	4,202	**-**	8,066

Remaining USD 5,095,410 (2003 – USD 11, 906,844) of trade payables is denominated in YTL.

11. BANK BORROWINGS

	2004	2003
Short-term borrowings		
Secured borrowings	**46,128,780**	49,722,845
Unsecured borrowings	**4,338,796**	-
Interest accruals	**817,224**	618,032
Total	**51,284,800**	50,340,877

	2004	2003
Long-term borrowings		
Unsecured borrowings	**1,218,754**	1,210,289
Less : Current portion of long-term debt	**(191,290)**	-
Less : Current portion of leasing liabilities	**(83,764)**	(76,476)
Total	**943,700**	1,133,813

Currency and interest rate breakdown of short-term borrowings are as follows:

	Interest rate per annum (%)	**2004**	Interest rate per annum (%)	2003
Short-term borrowings				
USD denominated borrowings	**3.17-4.32**	**44,100,000**	2.75 - 4.19	41,850,000
EUR denominated borrowings	**3.70-4.30**	**4,203,232**	4.39 - 4.68	4,531,972
YTL denominated borrowings	**17-19**	**1,326,280**	22 - 24	3,145,699
Accrued interest		**817,224**		618,032

Further, USD 838,064 (2003 – USD 195,174) of the remaining bank borrowings is denominated in YTL and obtained for social security payments. They mature within one month after the balance sheet date.

Payment terms of the interest are at the maturities of the borrowings.

(Currency – in US Dollars unless otherwise indicated)

11. BANK BORROWINGS (continued)

Currency and interest rate breakdown of long term debt are as follows:

	Interest rate (%)	2004	Interest rate (%)	2003
Long-term debt				
EUR denominated debt	**4.47%**	**1,043,245**	4.47%	958,304
Leasing liabilities		**175,509**		251,985
Less: Current portion of long-term debt		**(191,290)**		-
Less: Current portion of leasing liabilities		**(83,764)**		(76,476)
Total long-term debt		**943,700**		1,133,813

Payment plan of the long-term debt is as follows:

	2004
2006	281,068
2007	189,323
2008	189,323
2009	189,323
2010	94,663

12. OTHER CURRENT LIABILITIES

	2004	2003
Advances taken	**4,267,816**	2,452,053
Provision for export expenses	**2,850,653**	571,446
Premium payable	**1,479,025**	909,861
Payroll and withholding taxes payable	**1,392,370**	1,099,935
Due to personnel	**144**	576,127
Forward accrual	-	232,837
Other	**374,390**	762,069
	10,364,398	6,604,328

13. TAXES ON INCOME

a) Current Statutory Taxes

The Company is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, the corporation tax rate for the fiscal year ended December 31, 2004 is 33% (2003-30%). Effective from January 1, 2005, the corporate tax rate will be 30%. Corporate tax returns are required to be filed until the fifteenth of the fourth month following the balance sheet date and paid in one installment until the end of the fourth month. The tax legislation provides for a temporary tax of 33% (2003-30%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

(Currency – in US Dollars unless otherwise indicated)

13. TAXES ON INCOME (continued)

In 2003 and prior years, corporation tax was computed on the statutory income tax base without any adjustment for inflation accounting. Starting from January 1, 2004, taxable income is derived from the financial statements which are adjusted for inflation accounting. Accumulated earnings arising from the first application of inflation accounting on December 31, 2003 balance sheet will not be subject to corporation tax, and similarly accumulated deficits arising from such application will not be deductible for tax purposes. Moreover, accumulated tax loss carry-forwards related with 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. (A tax amnesty law, which was enacted in 2003 provided immunity for tax inspection and additional assessments to those taxpayers who utilized the option. According to law, companies, who accepted to use this option, also accepted a 50% reduction from their corporate tax losses incurred in the same year.)

Effective from April 24, 2003, investment allowances provides a deduction from the corporate tax base of 40% of the purchase price of purchases of the brand-new fixed assets having economic useful life and exceeding YTL6,000 and directly related with the production of goods and services. Investment allowances that arose prior to April 24, 2003 are taxed at 19.8% (withholding tax) unless they are converted to new type at companies' will. All investment allowances can be carried forward indefinitely.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

10% withholding applies to dividends distributed by resident corporations to resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distributions by resident corporations to resident corporations are not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

Capital gains derived from cash sales of participation shares that have been held for at least two years are exempt from corporation tax if the gains are added to share capital. Furthermore, in the event the profit arising from the dividend receipt is not distributed or included in capital, no withholding tax shall be applicable. As a result of above exemption, the Company did not recognize a deferred tax liability on the undistributed profits of subsidiaries and associates and other temporary differences pertaining to other investments in shares issued by Turkish companies.

As of December 31, 2004 and 2003, the current statutory tax charges for the Company can be analyzed as follows:

	2004	2003
Tax charge at the consolidated income statement		
Taxes on income - Current statutory	**12,438,911**	3,329,750
Prepaid taxes	**(10,882,905)**	(2,738,624)
Taxes on income currently payable	**1,556,006**	591,126

(Currency – in US Dollars unless otherwise indicated)

13. TAXES ON INCOME (continued)

	2004	2003
Historical income before taxation as per statutory financial statements	**42,036,887**	22,430,578
Non-deductible expenses	**2,462,361**	3,287,105
Tax exempt income and prior year losses used in current year	**(5,044,190)**	(13,796,277)
Investment incentive allowances	**(1,761,388)**	(932,515)
Taxable income as per Turkish tax legislation	**37,693,670**	10,988,891
Corporation tax at 33% (2003- 30%)	**12,438,911**	3,296,667
Income tax at 19.8% (on investment allowance)	-	33,082
Total taxation on income - current statutory	**12,438,911**	3,329,750

Reconciliation of taxes by applying effective tax rates to profit before tax provision as reflected in the consolidated statement of income for the years ended December 31, 2004 and 2003 is as follows:

	2004	2003
Profit before taxation on income and minority interest	**39,197,129**	18,878,835
At statutory tax rate at %33 (2003 - %30)	**(12,935,053)**	(5,663,651)
Effect of expenditures not allowable for income tax purposes	**170,117**	413,763
Effect of income not subject to tax and prior year losses	**(1,588,151)**	(4,138,883)
Investment incentive allowances	**(581,258)**	(286,305)
Effect of tax rate changes	**(81,374)**	(1,630,254)
Effect of non-tax deductible translation gain/(loss) arising from re-measurement	**7,659,388**	16,957,429
	(7,356,331)	5,652,099

b) Deferred Taxes

The revised IAS 12 "Income Taxes" requires deferred taxation to be provided on the remeasurement at the non-monetary assets. Deferred taxes reflected in the consolidated balance sheets are summarized as follows:

	2004	2003
- Deferred tax asset	**401,159**	30,599
- Deferred tax liability	**(5,565,025)**	(14,986,057)
Deferred tax liability, net	**(5,163,866)**	(14,955,458)

(Currency – in US Dollars unless otherwise indicated)

13. TAXES ON INCOME (continued)

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided at December 31, 2004 and 2003 using the current tax rates are as follows:

	Cumulative Temporary Differences		Deferred Tax Assets / (Liabilities)	
	2004	2003	**2004**	2003
Revaluation on buildings, plant and machinery	**(40,338,079)**	(59,394,600)	**(12,101,424)**	(17,818,380)
Net difference between the tax base and the carrying value of inventories (translation pursuant to IAS 21)	**5,184,059**	1,163,973	**1,555,217**	384,111
Provision for employee benefits obligation	**6,378,359**	6,198,177	**1,903,039**	1,867,460
Obligation under finance leases	**175,509**	251,985	**63,122**	75,596
Other provisions and accruals	**1,811,056**	1,430,374	**543,317**	456,577
Net difference between the tax base and the carrying value of property, plant and equipment mainly arising from remeasurement pursuant to IAS 21	**9,576,212**	296,457	**2,872,863**	79,178
Deferred tax liability, net	**(17,212,884)**	(50,053,634)	**(5,163,866)**	(14,955,458)

Movements in deferred taxes are analyzed as follows:

	2004	2003
Beginning balance	**(14,955,458)**	(23,937,307)
Tax credit recognized in the statement of income	**5,082,580**	8,981,849
Tax credited to equity	**4,709,012**	-
	(5,163,866)	(14,955,458)

The Company recognizes deferred tax assets and liabilities based on temporary differences arising between the financial statements as reported for IFRS purposes and the statutory tax financial statements. Such temporary differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

As each company is a separate legal entity, their respective deferred tax assets and liabilities cannot be offset against each other. The deferred tax asset/(liability) balances of each consolidated entity are analyzed as follows:

	2004		2003	
	Deferred Tax		Deferred Tax	
	Asset	**Liability**	Asset	Liability
Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş.	**359,893**	-	3,979	-
Kartal Boru Sanayi ve Ticaret A.Ş.	**41,266**	-	26,620	-
	401,159	-	30,599	-

(Currency – in US Dollars unless otherwise indicated)

14. PROVISION FOR EMPLOYEE TERMINATION BENEFITS

Under the Turkish Labor Law, the Company and its subsidiaries are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, who is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age. The amount payable consists of one month's salary limited to a maximum of YTL 1,575 (USD 1,174) [(2003- YTL 1,390 (USD 1,036))] for each year of service at December 31, 2004.

Ceiling rate has been increased to YTL 1,649 as of January 1, 2005.

Provision is made for the present value of the defined benefit obligation calculated using the Projected Unit Credit Method and based upon estimated factors derived using the Company's experience of personnel terminating their service and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bond.

As of December 31, 2004 and 2003, the following actuarial assumptions were used in the calculating of the liability :

	2004	2003
Discount rate	**6%**	6%
Turnover rate to estimate the probability of retirement	**98%**	98%

Movements in the liability recognized in the balance sheets are as follows;

	2004	2003
Beginning of the year	**6,198,177**	4,020,560
Charge for the year	**2,475,151**	2,738,630
Payments/disposals	**(2,294,969)**	(561,013)
At the end of the year	**6,378,359**	6,198,177

15. MINORITY INTERESTS

The movement of minority interest during the year ended December 31, 2004 is as follows:

	2004
January 1	90,790
Share of net profit/(loss) of subsidiaries	21,729
Dividends paid	(17,611)
December 31	**94,908**

(Currency – in US Dollars unless otherwise indicated)

16. SHARE CAPITAL

The Company's share capital consists of the 28,350,000,000 number of shares with par value of YTL 0.1. The composition of shareholders' and their respective shares are as follows:

	YTL	Share %
Borusan Mannesmann Boru Yatırım Holding A.Ş.	20,831,453	73.48
Publicly traded	4,555,045	16.07
Lumbro Nominees Jersey Ltd (*)	1,890,000	6.67
Türkiye Selüloz ve Kağıt Fabrikaları A.Ş.	337,554	1.19
Other	735,948	2.59
	28,350,000	**100.00**

(*) former name is Standard bank Nominees Jersey Ltd.

17. RETAINED EARNINGS AND LEGAL RESERVES

a) Legal Reserves

Legal reserves consist of first and second legal reserves in accordance with Turkish Commercial Code (TCC). First legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserves reaches 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. Under TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

b) Profit Distributions

Communiqué XI-25 "Communiqué related with Accounting Standards on Capital Market" issued by the Capital Market Board stipulates that beginning from 2003 income, profit distributions will be based on net income reflected in the financial statements prepared in accordance with IFRS.

Public companies in Turkey make profit distributions in accordance with the regulations of Capital Market Board (CMB) of Turkey as described below :

Based on the CMB communiqué XI-25 part fifteen article 399, the amount included in "Prior Year Losses" account resulting from the first application of inflation accounting should be considered as a deduction during the identification of the profit to be distributed based on the inflation adjusted financial statements. Accordingly, the amount followed under "Prior Year Losses" account, may be offset against period income and retained earnings if exists, and the remaining losses against extraordinary reserves, legal reserves and reserves resulted from inflation adjustment of equity accounts, respectively.

Effective from January 1, 2004, in line with communiqué X1-25, based on the profits calculated in accordance with IFRS financial statements, appropriation of 30% of the distributable profit is obligatory (2003 - 20%). Based on the General Assembly's decision, this appropriation may be on cash basis or through the distribution of free shares not less than 30% of the distributable profit, or may be distributed both as cash and free shares.

(Currency – in US Dollars unless otherwise indicated)

17. RETAINED EARNINGS AND LEGAL RESERVES (continued)

c) As of December 31, 2004 inflation adjusted equity accounts as reflected in Borusan Mannesmann Boru's statutory accounts in conformity with the Law No:5024, is summarized as below (Reflected at the YTL in equivalent purchasing power at December 31, 2004).

	2004
Statutory Amounts	
Share capital	28,350,000
Legal reserves	8,476,219
Extraordinary reserves	2,423,630
Special reserves	2,778
Inflation correction to equity accounts	129,723,043
Accumulated loss (except for the current year profit)	(834,250)
Profit for the year	39,617,168
	207,758,588

d) As of December 31, 2004 Borusan Mannesmann Boru's equity accounts prepared in accordance with accounting policies as explained in Note 2, is summarized below.

	2004
USD Amounts	
Share capital	21,123,612
Translation difference to share capital	47,873,260
Legal reserves	12,555,696
Extraordinary reserves	574,175
Special reserves	25,032
Accumulated loss	(5,285,924)
Profit for the year	31,438,144
	108,303,995

18. NET SALES

	2004			2003		
	Domestic Sales	**Export**	**Total**	Domestic Sales	Export	Total
Steel and Plastic Pipe	**259,736,920**	**105,556,607**	**365,293,527**	228,978,552	67,884,868	296,863,420
Engineering Services	**4,917,490**	-	**4,917,490**	7,078,818	-	7,078,818
	264,654,410	**105,556,607**	**370,211,017**	236,057,370	67,884,868	303,942,238

(Currency – in US Dollars unless otherwise indicated)

19. COST OF SALES

	2004	2003
Raw material	**249,427,184**	196,994,092
Direct labor	**23,780,373**	22,466,349
Depreciation and amortization	**4,872,310**	8,535,064
Maintenance expenses	**11,105,788**	14,607,948
Net change in finished goods	**(6,106,682)**	(4,307,232)
Net change in work-in-process	**(2,459,748)**	1,004,816
Cost of trade goods sold	**8,129,752**	15,412,456
Cost of other sales	**17,076,382**	7,919,597
	305,825,359	262,633,090

20. SELLING, MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES

	2004	2003
Personnel expenses	**12,613,149**	10,753,806
Depreciation expenses	**1,146,415**	2,866,290
Consultancy expenses	**2,750,823**	1,716,232
Sales and distribution expenses	**774,464**	924,567
Services charges	**1,075,504**	1,339,678
Provision for bad debt receivables	**318,977**	-
Other	**7,112,409**	5,489,993
	25,791,741	23,090,566

21. PERSONNEL EXPENSES AND NUMBER OF EMPLOYEES

	2004	2003
Wages and salaries	**29,602,697**	23,936,125
Termination benefits-net of reversal	**2,475,151**	2,738,630
Other social benefits	**4,315,674**	6,545,400
	36,393,522	33,220,155
Average number of employees during the year	**1,234**	1,398

22. DEPRECIATION AND AMORTIZATION EXPENSES

	2004	2003
Cost of production	**4,872,310**	8,568,170
Selling, marketing, general and administrative expenses	**1,146,415**	2,866,290
Other	**439,126**	89,907
	6,457,851	11,524,367

(Currency – in US Dollars unless otherwise indicated)

23. FINANCIAL EXPENSE, net

	2004	2003
Financial Income		
Interest income	**24,156**	362,925
Due date income	**1,888,236**	1,101,181
Interest income from marketable securities	**265,065**	267,337
	2,177,457	1,731,443
Financial Expense		
Interest expense	**(3,524,260)**	(2,847,104)
Due date expenses	**(264,588)**	(624,358)
Forward expense	**(218,333)**	(574,278)
Other financial expenses	**(1,575,395)**	(533,500)
	(5,582,576)	(4,579,240)
Financial (expense) – net	**(3,405,119)**	(2,847,797)

24. FINANCIAL INSTRUMENTS

Interest Rate, Funding, Credit and Currency Risk

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. This exposure is managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

The ability to fund the Company's existing and prospective debt requirements is managed by maintaining long-term relationships with lenders, by maintaining the availability of adequate committed funding lines from high quality lenders and by managing US dollars liquidity to match obligations to expected cash flows.

The Company is not exposed to funding risk as no short-term borrowing but equity is used to finance non-current assets.

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by credit ratings and limiting the aggregate risk to any individual counterparty. The Company considers that its maximum exposure is reflected by the amount of trade receivables and other current assets, net of provision for impairment recognized at the balance sheet date plus the amount of guarantees given.

The Company is exposed to the foreign exchange risk through the impact of rate changes at the translation of foreign currency denominated liabilities. These risks are monitored and limited by the analysis of foreign currency position.

(Currency – in US Dollars unless otherwise indicated)

25. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Guarantee Letters

As of December 31, 2004, the Company is contingently liable for guarantee letters given to customs authorities mainly amounting to YTL 2,810,393 (2003 - YTL 6,225,405, USD 39,714).

(b) Guarantee Provided

Borusan Mannesmann Boru has signed the loan agreement as co-obligor for the long-term loan of USD 40 million that is borrowed by Borusan Holding A.Ş from International Finance Corporation (IFC). Within this framework, Borusan Mannesmann Boru will provide guarantees for the long-term loan borrowed by Borusan Holding.

(c) Export Commitments

The Company has export incentive certificates, which entitle the Company to a 100% exemption from customs duties on certain materials to be imported. The outstanding amount of the export commitments in connection with such exemptions as of December 31, 2004 was FOB USD 53,195,504 (2003- USD 2,866,560)

(d) Anti-damping investigations

On July 1, 2004 an anti-dumping duty administrative review commenced in the United States covering imports of certain carbon steel welded pipe and tube entering the United States during the period of May 1, 2003-April 30, 2004. In relation with this review, the Company has provided responses to questionnaires issued by the United States Department of Commerce (USDC), but no decision has been issued yet by USDC.

26. RELATED PARTY BALANCES AND TRANSACTIONS

	2004	2003
Due from related parties (trade receivables)		
Borusan İstikbal Ticaret T.A.Ş. (İstikbal)	**14,026,304**	21,678,093
İmpa Bursa İnşaat Malzemeleri Pazarlama A.Ş. (İmpa)	**5,853,574**	2,095,602
Kerim Boru Ticaret ve Pazarlama A.Ş. (Kerim Boru)	**2,778,193**	2,195,190
Bozoklar İnşaat Malzemeleri Pazarlama ve Ticaret A.Ş.	**2,772,097**	1,634,883
Borusan Akdeniz İnşaat Malzemeleri Pazarlama A.Ş. (Borusan Akdeniz)	**2,059,526**	860,244
Borusan Ankara İnşaat Malzemeleri Pazarlama A.Ş. (Borusan Ankara)	**1,634,085**	939,055
Samsun Çelik Ticaret A.Ş. (Samsun Çelik)	**495,509**	177,656
Gaziantep Boru ve Profil Ticaret A.Ş. (Gaziantep)	**464,885**	342,809
Borusan Mannesmann Boru Yatırım Holding A.Ş.	**269,250**	932,132
Borçelik	**29,805**	377,312
Other	**109,558**	120,528
	30,492,786	31,353,504

(Currency – in US Dollars unless otherwise indicated)

26. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

	2004	2003
Due to related parties (trade payable)		
Borusan Lojistik	**1,074,873**	329,480
Borçelik	**196,812**	80,075
Borusan Holding	**97,923**	104,953
Borusan Birlik Danışmanlık	**12,394**	11,605
Other	**5,985**	47,464
	1,387,987	573,577
Other		
İstikbal	**4,191,106**	5,386,906
	5,579,093	5,960,483

Transactions with related parties

The most significant of these transactions are as follows:

	2004	2003
a) Product purchases		
Borçelik	**1,209,653**	1,149,292
Kerim Çelik	**89,791**	195,658
Birlik Galvaniz	-	17,385
	1,299,444	1,362,335
b) Service purchases		
Borusan Lojistik	**17,843,300**	15,467,582
Borusan Holding	**1,534,007**	1,017,023
İstikbal	**858,249**	99,735
Borusan Birlik Danışmanlık	**488,079**	324,358
Borusan Otomotiv İthalat ve Dağıtım A.Ş. (Borusan Otomotiv)	**245,743**	33,332
Borusan Telekom ve İleşim Hizmetleri A.Ş.	**123,507**	189,553
Borusan Oto Servis ve Ticaret A.Ş. (Borusan Oto)	**37,645**	72,708
Pargem	**29,130**	-
Borusan Makina	**23,790**	-
Borusan Güç	**10,868**	57,252
	21,194,318	17,261,543

(Currency – in US Dollars unless otherwise indicated)

26. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

	2004	2003
c) Financial income from related parties		
Borusan Mannesmann Boru Yatırım Holding A.Ş.	**32,931**	17,249
Borusan Teknolojik Yatırımlar Holding A.Ş.	**23,594**	74
Other	**32**	1,458
	56,557	18,781
d) Financial expense charged by related parties		
Borusan Holding	**694,543**	583,501
Borçelik	**12,489**	-
Borusan Yatırım ve Pazarlama A.Ş.	**5,398**	419
Borusan Makina	**4,221**	11,913
İstikbal	**-**	105,006
Other	**980**	2,783
	717,631	703,622
e) Product sales		
İstikbal	**100,779,296**	85,616,029
İmpa	**21,812,655**	8,924,024
Kerim Boru	**18,045,345**	13,599,543
Bozoklar	**13,638,730**	9,405,073
Borusan Ankara	**8,766,112**	5,151,464
Borusan Akdeniz	**7,327,736**	5,078,227
Borçelik	**4,179,321**	6,540,012
Samsun Çelik	**4,087,473**	2,355,734
Gaziantep	**3,593,917**	2,720,149
Other	**1,219,695**	481,978
	183,450,280	139,872,233

f) Guarantees provided

As of December 31, 2004 letter of guarantees provided to related parties amounts to USD 28,265 (2003 - USD 5,620,088)

SUPPLEMENTARY INFORMATION SEPARATE FINANCIAL STATEMENTS OF BORUSAN MANNESMANN BORU SANAYİ VE TİCARET A.Ş
As at and for the year then ended December 31, 2004
(Currency – in US Dollars)

The separate balance sheet as of December 31, 2004 and the separate related statement of income for the year then ended, prepared in accordance with IFRS (except for IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" are presented below for information purpose only, and therefore they do not include the disclosures required by IFRS.

a) **Balance sheet as of December 31, 2004 :**

ASSETS

Current assets	
Cash and cash equivalents	13,319,273
Trade receivables, net	61,748,035
Inventories, net	57,915,830
Other current assets	4,506,274
Total current assets	**137,489,412**
Non-current assets	
Property, plant and equipment, net	127,954,770
Intangible assets, net	663,279
Available for sale financial assets	18,983,763
Other non-current assets	770,005
Total non-current assets	**148,378,817**
Total assets	**285,868,229**

LIABILITIES AND EQUITY

Current liabilities	
Trade payables, net	29,348,763
Bank borrowings	51,367,832
Current portion of long-term debt	191,290
Due to related parties (other)	4,191,106
Taxes on income	1,556,007
Other current liabilities	10,084,084
Total current liabilities	**96,739,082**
Non-current liabilities	
Long-term debt	943,700
Provision for employee termination benefits	5,927,883
Deferred tax liability, net	5,565,025
Total non-current liabilities	**12,436,608**
Equity	
Share capital	68,996,872
Revaluation reserve, net	68,388,544
Retained earnings	7,868,979
Net profit for the year	31,438,144
Total equity	**176,692,539**
Total liabilities and shareholders' equity	**285,868,229**

SUPPLEMENTARY INFORMATION SEPARATE FINANCIAL STATEMENTS OF BORUSAN MANNESMANN BORU SANAYİ VE TİCARET A.Ş. (Continued)
As at and for the year then ended December 31, 2004
(Currency – in US Dollars)

b) Statement of Income for the year then ended December 31, 2004 :

Net sales	363,461,710
Cost of sales	(302,223,028)
Gross profit	**61,238,682**
Selling, marketing, general and administrative expenses	(24,413,126)
Other operating expense-net	(912,585)
Profit from operations	**35,912,971**
Financial expense - net	(3,310,273)
Translation gain	6,522,182
Profit before tax	**39,124,880**
Taxes on income	
- Current (Statutory)	(12,398,756)
- Deferred	4,712,020
Net profit for the year	**31,438,144**