BORUSAN MANNESMANN BORU
SANAYİ VE TİCARET
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2007
TOGETHER WITH REPORT OF
INDEPENDENT AUDITORS

Borusan Mannesmann Boru Sanayi ve Ticaret Anonim Şirketi and its Subsidiaries

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. (the "Company") and its Subsidiaries (together the "Group") which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and explanatory notes, all expressed in US Dollars.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries as of 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following fact:

As it is explained in Note-24, The Company has acquired 100 % of Borusan Mannesmann Holding BV shares which owns 99 % of Borusan Mannesmann Vobarno Tubi SPA shares. This transaction under common control was accounted for by using the “pooling of interest” method. Consequently, the financial statements of Borusan Mannesmann Holding BV and Borusan Mannesmann Vobarno Tubi SPA were recognized in the accompanying consolidated financial statements including the prior periods as if it was acquired in the earliest period presented (the beginning of 2006). As a result, the consolidated financial statements as of and for the year ended 31 December 2006 as reflected in the accompanying financial statements are different than the ones previously reported.

13 March 2008

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU**

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

CONSOLIDATED BALANCE SHEET
As at 31 December 2007
(Amounts expressed in US Dollars unless otherwise stated**)**

	Notes	**2007**	Restated 2006
ASSETS			
Current assets			
Cash and cash equivalents	3	**38,379,692**	6,417,219
Trade receivables, net	4, 26	**104,064,835**	87,749,054
Inventories, net	5	**141,306,769**	102,734,713
Other current assets	6	**10,082,560**	14,411,211
Total current assets		**293,833,856**	211,312,197
Non-current assets			
Available for sale financial assets	9	**16,070,997**	15,799,867
Property, plant and equipment, net	7, 21	**192,438,124**	168,042,644
Intangible assets, net	8	**766,014**	981,853
Deferred tax asset	13	**754,864**	836,480
Other non-current assets	6	**3,072,893**	251,863
Total non-current assets		**213,102,892**	185,912,707
Total assets		**506,936,748**	397,224,904
LIABILITIES, MINORITY INTEREST AND EQUITY			
Current liabilities			
Trade payables, net	10, 26	**209,857,934**	119,588,811
Short-term bank borrowings	11	**24,124,127**	40,486,886
Obligations under finance leases	11	**1,090,622**	285,010
Taxes on income	13	**1,946,274**	1,086,109
Other current liabilities	12	**10,457,702**	9,490,785
Total current liabilities		**247,476,659**	170,937,601
Non-current liabilities			
Long-term bank borrowings	11	**41,210,212**	19,607,470
Obligations under finance leases	11	**456,013**	510,507
Provision for employee termination benefits	14	**14,912,952**	12,067,772
Deferred tax liability	13	**4,764,551**	8,543,661
Total non-current liabilities		**61,343,728**	40,729,410
Equity			
Issued share capital	15	**68,996,872**	75,354,032
Revaluation reserve, net	7	**60,401,835**	63,765,797
Hedging reserve	12	**(368,502)**	(22,054)
Legal reserves and retained earnings	16	**70,087,730**	46,001,317
Translation reserves		**(1,162,270)**	366,427
Equity attributable to equity holders of the parent		**197,955,665**	185,465,519
Minority interest		**160,696**	92,374
Total equity		**198,116,361**	185,557,893
Total liabilities and equity		**506,936,748**	397,224,904

The accompanying policies and explanatory notes on pages 7 through 45 form an integral part of the consolidated financial statements.

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

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2007

(Amounts expressed in US Dollars unless otherwise stated)

	Note	**2007**	Restated 2006
Net sales	17	**671,117,778**	544,321,134
Cost of sales	18, 20 ,21	**(582,958,349)**	(461,230,288)
Gross profit		**88,159,429**	83,090,846
Selling, marketing, general and administrative expenses	19, 20, 21	**(48,757,234)**	(44,220,642)
Other operating income (net)	22	**622,269**	2,350,681
Financial income	23	**17,115,549**	6,756,643
Financial expense	23	**(14,029,269)**	(10,513,502)
Profit before tax		**43,110,744**	37,464,026
Taxation on income	13		
- Current (Statutory)		**(9,845,647)**	(9,111,229)
- Deferred		**4,107,703**	(4,933,455)
Total taxation on income		**(5,737,944)**	(14,044,684)
Profit for the year		**37,372,800**	23,419,342
Attributable to:			
Equity holders of the parent		**37,319,823**	23,417,569
Minority interests	2	**52,977**	1,773
		37,372,800	23,419,342
Weighted average number of shares		2,835,000,000	2,835,000,000
Earnings per share in US Dollars		0.013	0.008

The accompanying policies and explanatory notes on pages 7 through 45 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 31 December 2007
(Amounts expressed in US Dollars unless otherwise stated)

	Attributable to equity holders of the parent							Minority Interest	Total Equity
	Share Capital	Revaluation Reserve	Legal Reserve	Hedging Reserve	Translation Reserve	Retained Earnings	Total		
Balance at January 1, 2006 as previously reported	68,996,872	65,138,665	9,983,100	-	-	25,191,006	169,309,643	82,792	169,392,435
Effect of business combination under common control (Note 24)	6,357,160	-	-	-	20,715	(5,954,049)	423,826	4,281	428,107
Balance at January 1, 2006 as restated	75,354,032	65,138,665	9,983,100	-	20,715	19,236,957	169,733,469	87,073	169,820,542
Transfers to legal reserves from prior year profit	-	-	1,730,076	-	-	(1,730,076)	-	-	
Dividends paid	-	-	-	-	-	(10,093,355)	(10,093,355)	-	(10,093,355)
Transfer of depreciation of revaluation reserve and its deferred tax into retained earnings (Note 7)	-	(3,379,019)	-	-	-	3,379,019	-	-	-
Disposal from revaluation fund	-	(78,027)	-	-	-	78,027	-	-	-
Deferred tax effect of land	-	(2,091,687)	-	-	-	-	(2,091,687)	-	(2,091,687)
Effect of tax rate change on revaluation reserve	-	4,175,865	-	-	-	-	4,175,865	-	4,175,865
Hedging reserve	-	-	-	(22,054)	-	-	(22,054)	-	(22,054)
Exchange differences on translation reserves	-	-	-	-	345,712	-	345,712	3,528	349,240
Net profit for the year	-	-	-	-	-	23,417,569	23,417,569	1,773	23,419,342
At 31 December 2006	75,354,032	63,765,797	11,713,176	(22,054)	366,427	34,288,141	185,465,519	92,374	185,557,893
Transfers to legal reserves from prior year profit	-	-	2,299,516	-	-	(2,299,516)	-	-	
Dividends paid	-	-	-	-	-	(21,132,608)	(21,132,608)	-	(21,132,608)
Transfer of depreciation of revaluation reserve and its deferred tax into retained earnings (Note 7)	-	(2,420,882)	-	-	-	2,420,882	-	-	
Disposal from revaluation fund	-	(943,080)	-	-	-	943,080	-	-	
Hedging reserve	-	-	-	(346,448)	-	-	(346,448)	-	(346,448)
Exchange differences on translation reserves	-	-	-	-	149,379	-	149,379	15,345	164,724
Purchase of shares of entities under common control	(6,357,160)	-	-	-	(1,678,076)	4,535,236	(3,500,000)	-	(3,500,000)
Net profit for the year	-	-	-	-	-	37,319,823	37,319,823	52,977	37,372,800
At 31 December 2007	**68,996,872**	**60,401,835**	**14,012,692**	**(368,502)**	**(1,162,270)**	**56,075,038**	**197,955,665**	**160,696**	**198,116,361**

The accompanying policies and explanatory notes on pages 7 through 45 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2007
(Amounts expressed in US Dollars unless otherwise stated)

	Notes	2007	Restated 2006
Cash flows provided from operating activities:			
Profit before taxation on income		**43,110,744**	37,464,026
Adjustments to reconcile profit before taxation on income to net cash provided by operating activities:			
Depreciation and amortization	7,8,21	**8,725,947**	8,392,065
Interest expense	23	**14,029,269**	10,513,502
Interest income	23	**(4,544,890)**	(3,654,557)
Charge for the allowance for doubtful receivables	4	**391,220**	3,951,634
Provision for employee termination benefits	14	**4,163,806**	2,936,392
Gain on sale of property, plant and equipment and intangible assets	7,8	**(886,377)**	(61,248)
Foreign currency translation reserve		**(1,000,516)**	(1,724,740)
Operating profit before working capital changes		**63,989,203**	57,817,074
Taxes paid	13	**(8,985,482)**	(9,236,938)
Movements in working capital			
Trade receivables	4,26	**(16,707,001)**	(23,524,680)
Inventories	5	**(38,572,056)**	(40,313,829)
Other current assets and liabilities, net	6,12	**5,295,568**	(7,100,964)
Trade payables	10,26	**90,269,123**	32,657,575
Other non-current assets	6	**(3,167,478)**	73,693
Employee termination benefits paid	14	**(1,318,626)**	(2,222,789)
Net cash provided by operating activities		**90,803,251**	8,149,142
Investing activities			
Purchase of property, plant equipment and intangible assets	7,8	**(33,893,197)**	(28,989,297)
Proceeds from sale of property, plant and equipment	7,8	**4,210,861**	586,166
Net change in available for sale financial assets	9	**(271,130)**	31,205
Purchase of subsidiaries	24	**(3,500,000)**	-
Interest received	23	**4,544,890**	3,654,557
Net cash used in investing activities		**(28,908,576)**	(24,717,369)
Financing activities			
Payments of borrowings	11	**(171,857,465)**	(70,030,729)
Proceeds from borrowings	11	**177,087,140**	87,080,343
Interest paid		**(14,029,269)**	(2,287,669)
Dividends paid	16	**(21,132,608)**	(10,093,355)
Net cash (used in) / provided by financing activities		**(29,932,202)**	4,668,590
Net increase in cash and cash equivalents	3	**31,962,473**	(11,899,637)
Cash and cash equivalents at the beginning of the year	3	**6,417,219**	18,316,856
Cash and cash equivalents at the end of the year	3	**38,379,692**	6,417,219

The accompanying policies and explanatory notes on pages 7 through 45 form an integral part of the consolidated financial statements.

(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 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: 35
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 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.

Borusan Mannesmann Boru has the following subsidiaries. Business segments, the location and the Company's ultimate effective shareholding in such subsidiaries' equity are as follows:

Business Segment	Subsidiary	% of ownership	Location
Holding	Borusan Mannesmann Holding BV	100.0	The Netherlands
Steel Pipe	Borusan Mannesmann Vobarno Tubi SPA	99.0	Italia
Steel Pipe Trade	Kartal Boru Sanayi ve Ticaret A.Ş. (*)	96.3	Istanbul - Turkey
Engineering Services	Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş.	96.9	Gemlik - Turkey

(*) As stated in detail in Note 27, the liquidation process of Kartal Boru Sanayi ve Ticaret A.Ş. is completed as of March 23, 2007. There is no any operation of Kartal Boru Sanayi ve Ticaret A.Ş within the year 2007.

Consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) were authorized for issue on March 13, 2008 by the management of the Company on behalf of the Board of Directors of the Company. Although there is no such intention, the General Assembly and certain regulatory bodies have the power to amend statutory financial statements after issue.

Nature of Activities

The Company and its subsidiaries ("the Group") are involved in the manufacturing and sale of longitudinally and spirally welded steel pipes and plastic pipes, and engineering services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Company and its subsidiary based in Turkey maintain their books of account and prepare its 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 foreign subsidiaries Borusan Mannesmann Holding BV and Borusan Mannesmann Vobarno Tubi SPA maintain their books of account in Euro in accordance with the accounting principles and regulations accepted in Netherlands and Italy.

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 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.

Statement of Compliance

The consolidated financial statements of Borusan Mannesmann Boru and its subsidiaries have been prepared in accordance with IFRS.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company 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 the Company and its subsidiaries, and unrealized gains and losses on transactions among them 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 financial statements as minority interest.

Minority Interest

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of Preparation (continued)

Comparative Information and Prior Period Financial Statement Correction:

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes.

2.2 Changes in Accounting Policies

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("the IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas:

- IFRS 7, "Financial instruments: Disclosures"
- IAS 1, "Presentation of financial statements"

IFRS 7, "Financial instruments: Disclosures"
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1, "Presentation of financial statements"
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

<u>Standards, amendments and interpretations effective in 2007 but not relevant</u>

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Company's operations:

IFRS 4, "Insurance contracts",
IFRIC 7, "Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies",
IFRIC 8, "Scope of IFRS 2",
IFRIC 9, "Reassessment of embedded derivatives",
IFRIC 10, "Interim financial reporting and impairment".

(Amounts expressed in US Dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in Accounting Policies (continued)

<u>Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group</u>

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

• IFRIC 11, "IFRS 2 – Group and treasury share transactions"	Effective for annual periods beginning on or after 1 March 2007
• IAS 23, "(Amendment) Borrowing costs"	Effective for annual periods beginning on or after 1 January 2009
• IFRS 8, "Operating segments"	Effective for annual periods beginning on or after 1 January 2009
• IFRIC 12, "Service concession arrangements"	Effective for annual periods beginning on or after 1 January 2008
• IFRIC 13, "Customer loyalty programmes"	Effective for annual periods beginning on or after 1 July 2008
• IFRIC 14, "IAS 19- The limit on a defined benefit asset, minimum funding requirements and their interaction"	Effective for annual periods beginning on or after 1 January 2008
• IFRS 2, "Share-based Payment" Amendment relating to vesting conditions and cancellations	Effective for annual periods beginning on or after 1 January 2009
• IFRS 3, "Business Combinations" • IAS 27, "Consolidated and Separate Financial Statements" • IAS 28, "Investments in Associates" • IAS 31 "Interests in Joint Ventures" Comprehensive revision on applying the acquisition method	Effective for annual periods beginning on or after 1 July 2009
• IAS 1, "Presentation of Financial Statements" • IAS 32, "Financial Instruments: Presentation" Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	Effective for annual periods beginning on or after 1 January 2009
• IAS 1, "Presentation of Financial Statements"	Effective for annual periods beginning on or after 1 January 2009

The Company's management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities within the next financial year. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date that has a significant risk of causing a material adjustment to the carrying amounts of liabilities within the next financial year is discussed below:

Employee termination benefits:

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations are reviewed regularly.

2.4 Functional and Presentation Currency

Foreign Currency Translation

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 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.

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 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 Annual Devaluation Rates %
2005	1.3418	4.54	(0.02)
2006	1.4056	11.58	4.75
2007	1.1647	5.94	(17.14)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise of cash at banks and in hand, short-term deposits, reverse repurchase agreements and other liquid assets. Other liquid assets mainly comprise of checks and notes maturing before balance sheet date. For the purpose of the consolidated statement of cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, with an original maturity of three months or less.

Trade Receivables

Trade receivables are recognized at original invoice amount and are carried at amortized cost (which is determined using the effective interest rate method) less an allowance for any uncollectible amounts. Interest rates used for amortized cost computation for YTL denominated trade receivables is 21% (2006 - 21%) and for USD and EUR denominated trade receivables libor rate is used. The average collection period of trade receivables is 65 days (2006 - 58 days).

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 nominal operating capacity. Net realizable value is the selling price in the ordinary course of business less the estimated costs of completion, marketing and distribution. Provision for slow obsolete items is recognized in cost of sales at the time it is incurred. Obsolete inventories are written off against the provision.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are initially recorded at cost. Land, buildings, machinery and equipment are stated at revalued amounts less accumulated depreciation and any impairment in value. The last revaluations were made in July 1999 and in December 2004 by an independent valuer. Increases or decreases in the carrying amount arising on revaluation of these assets net off the related deferred income taxes are transferred to revaluation reserve in equity (Note 7). 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.

(Amounts expressed in US Dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment and Depreciation (continued)

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 the income statement in the year 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.

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

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, the Group has reviewed useful lives of a certain group of land improvements, buildings and machinery and equipment. For certain group of machinery and equipment which have been fully amortized, but were attributed a value by an independent valuer, an additional 20 years have been assigned, thus revising the total to 40 years. For those that were not fully amortized, the useful lives have been attributed according to the remaining portion of 20 years. With the same principle, useful lives of certain group of land and buildings have been revised from 25 years to 50 years.

Intangible Assets

Intangible assets comprising project development costs and software licenses 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, marketing and general and administrative expenses in the consolidated income statement. Intangible assets excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight line basis over the best estimate of their useful lives. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets (continued)

Intangible asset with indefinite useful lives are not amortized, but are tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. The Group has no intangible assets with indefinite life.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment of Assets

The carrying values of assets with the exception of goodwill and intangible assets with indefinite life which are reviewed from impairment at least annually, 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 for items carried at cost and treated as a revaluation decrease for items carried at revalued amount to the extent that impairment loss does not exceed the amount held in the revaluation surplus. The recoverable amount of property, plant and equipment 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.

Investments and Other Financial Assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Available-for-sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified ‘financial assets at fair value through profit or loss, held to maturity investments or loans and receivables’. After initial recognition, available for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Other Financial Assets (continued)

Available-for-sale financial assets (continued)

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. 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.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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.

Business combinations for entities under common control

In business combination involving entities under common control, assets and liabilities subject to business combination are recognized at their carrying amounts in consolidated financial statements. In addition, statements of income are consolidated from the beginning of financial year in which the business combination takes place. Similarly, comparative consolidated financial statements are restated retrospectively for comparison purposes. As a result of these transactions, no goodwill is recognized. The difference arising in the elimination of the carrying value of the investment held and share capital of the acquired company is directly accounted under "effect of transactions under common control" in shareholders' equity.

Finance Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. 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. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related Parties

Parties are considered related to the Group if;

(a) directly, or indirectly through one or more intermediaries, the party:

- (i) controls, is controlled by, or is under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries);
- (ii) has an interest in the Group that gives it significant influence over the Group; or
- (iii) has joint control over the Group;

(b) the party is an associate of the Group;
(c) the party is a joint venture in which the Group is a venturer;
(d) the party is member of the key management personnel of the Group or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Borrowing Costs

Borrowing costs are expensed as incurred.

Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less any directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in income statement when the liabilities are derecognized as well as through the amortization process.

Trade Payables

Trade payables which generally have an average repayment period of 33 days (2006 – 33 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 YTL denominated trade payables is 21% (2006 - 29%) and interest rates for USD and EURO denominated trade payables are Libor/Euribor.

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 4.30-6.28%.

Notes payables which are also carried at amortized cost have an average maturity of 31-120 days for YTL denominated and 91-121 days for USD denominated notes payables (2006 – 30/180 days).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

Tax expense is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences and carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax assets and unused tax losses can be utilized.

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.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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.

Contingent Assets and Liabilities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term Employee Benefits

(a) Defined Benefit Plans:

In accordance with existing social legislation in Turkey, the Company and its subsidiary in Turkey are required to make lump-sum termination indemnities to each employee who has completed over one year of service with the companies and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In accordance with the new legislation, The Company's subsidiary in Italy carries employee termination indemnity accrued up to 31 December 2006 in its financial statements as the amount accrued up to 31 December 2006 is paid to its employees at the time of leaving.

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 Group'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 Plans:

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

Starting from 1 January 2007, the Italian Government has introduced a new law about the employee termination indemnity and the Company's subsidiary in Italy pays the monthly accrual to the Social Security Institution of Italy or pension funds according to this law.

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.

Earnings Per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares.

In Turkey, companies can raise their share capital by distributing "Bonus Shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

Subsequent Events

Post year-end events that provide additional information about the Group'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.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of Financial Assets and Liabilities (continued)

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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 (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized directly in equity and the ineffective portion is recognized immediately in profit or loss.

The Group's policy with respect to hedging the foreign currency risk of a firm commitment is to designate it as a cash flow hedge. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in profit or loss in the same period in which the hedged item affects profit or loss. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (contined)

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period.

Segment Reporting

Since the Group mainly operates in a single segment, the significant portion of its operations is occurred in Turkey and other operations have no material effect on its sales, no segmental information is provided.

3. CASH AND CASH EQUIVALENTS

	2007	2006
Cash on hand	**4,234**	7,748
Banks		
-demand deposits	**5,827,205**	1,145,753
-time deposits	**32,548,253**	4,450,826
-repurchase agreements with banks	**-**	298,805
Other	**-**	514,087
	38,379,692	6,417,219

Time deposits are denominated in YTL and USD at 31 December 2007. Effective interest rates of USD denominated time deposits are 5.40% - 5.75% (2006: Effective interest rates of USD and EUR denominated time deposits are 3.58%, 3.8 %, 5.4% , 5.7% and 5.75%) per annum respectively, and they mature in three days (2006 – six days). For YTL denominated time deposits, effective interest rate is 18.5% (2006: 17% - 20%) per annum. Maturities of such deposits are three days (2006 - six days).

As of 31 December 2006, amounts are presented under repurchase agreements mature at six days and have a net interest rate of 8.6% per annum. The market values of such securities approximate carrying values, including accrued income at the respective year-end.

Other consists of the post dated cheque in collection with maturity before 31 December 2006.

Currency breakdown of cash and cash equivalents is as follows:

	Original Currency		USD Equivalents	
	2007	2006	**2007**	2006
USD	**29,440,480**	4,352,520	**29,440,480**	4,352,520
EUR	**3,237,056**	233,930	**4,753,166**	308,140

Remaining USD 4,186,046 (2006 - USD 1,756,559) is denominated in YTL.

4. TRADE RECEIVABLES, net

	2007	2006
Trade receivables	**76,883,138**	46,724,047
Trade receivables from related parties (Note 26)	**14,389,152**	14,103,147
Cheques and notes receivable	**17,626,093**	31,364,188
Less: Provision for doubtful receivables	**(4,833,548)**	(4,442,328)
	104,064,835	87,749,054

4. TRADE RECEIVABLES, net (continued)

The movement of the provision for doubtful receivables during the year 2007 and 2006 is as follows:

	2007	2006
At January 1,	**4,442,328**	490,694
Arising during the year	**448,403**	4,127,792
Recoveries	**(57,183)**	(176,158)
December 31,	**4,833,548**	4,442,328

As of 31 December 2007, trade receivables of USD 98,497,643 (2006: USD 87,179,902) were neither past due nor impaired. As of 31 December 2007, trade receivables of USD 4,197,543 (2006 – None) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	31 December 2007	31 December 2006
Up to 6 months	**3,285,490**	-
Over 6 months	**912,053**	-
	4,197,543	-

As of 31 December 2007, the carrying amount of trade receivables that would otherwise be past due or impaired whose terms have been renegotiated is USD 1,369,649 (31 December 2006- USD 569,152).

Currency breakdown of trade receivables is as follows:

	Original Currency		USD Equivalents	
	2007	2006	**2007**	2006
USD	**10,719,206**	24,727,081	**10,719,206**	24,727,081
EUR	**25,280,369**	16,035,118	**37,120,707**	21,121,956
GBP	**2,237,280**	2,101,354	**4,519,702**	4,121,530

Remaining USD 51,705,220 (2006 - USD 37,748,487) is denominated in YTL.

5. INVENTORIES, net

	2007	2006
Raw materials	**52,541,161**	37,424,077
Work-in-process	**12,481,984**	8,687,707
Finished goods	**47,279,077**	33,397,194
Merchandise stocks	**1,995,333**	2,385,479
Goods-in-transit and advances given with respect to inventory purchases	**27,009,214**	20,840,256
	141,306,769	102,734,713

(Amounts expressed in US Dollars unless otherwise stated)

6. OTHER CURRENT AND NON CURRENT ASSETS

The detail of other current assets as of 31 December 2007 and 2006 is as follows:

	2007	2006
VAT receivables	**3,120,143**	8,715,723
Prepaid expenses	**2,905,957**	2,344,957
Advances given	**647,319**	991,546
Other	**3,409,141**	2,358,985
	10,082,560	14,411,211

The detail of other non -current assets as of 31 December 2007 and 2006 is as follows:

	2007	2006
Prepaid expenses	**75,938**	31,481
Advances given	**80,887**	28,506
Non current receivables (*)	**2,916,068**	-
Other	**-**	191,876
	3,072,893	251,863

(*) Non current receivables amount contains the receivables from Borusan Mannesmann Espana SA.

(Amounts expressed in US Dollars unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT, net

The movement of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2007 is as follows:

	January 1, 2007	Additions	Disposals	Transfers	Foreign currency translation reserve	December 31, 2007
Cost						
Land	**54,871,719**	**-**	**(2,259,180)**	**-**	**-**	**52,612,539**
Land improvement and leasehold items	**2,492,530**	**582,847**	**-**	**121,808**	**-**	**3,197,185**
Building	**42,095,762**	**539,650**	**(23,991)**	**6,273,888**	**1,168,019**	**50,053,328**
Machinery and equipment	**63,686,308**	**1,735,476**	**(177,311)**	**27,279,347**	**705,606**	**93,229,426**
Motor vehicles	**2,917,721**	**140,266**	**(224,653)**	**308,575**	**20,526**	**3,162,435**
Furniture and fixtures	**8,006,693**	**56,972**	**(4,593)**	**1,320,488**	**19,664**	**9,399,224**
Construction in progress	**16,400,548**	**31,287,081**	**(791,984)**	**(35,034,106)**	**-**	**11,591,539**
	190,471,281	**34,342,292**	**(3,481,712)**	**-**	**1,913,815**	**223,245,676**
Less: Accumulated depreciation						
Land improvement and leasehold items	**1,511,836**	**93,162**	**-**	**-**	**-**	**1,604,998**
Buildings	**3,745,532**	**1,128,455**	**-**	**-**	**134,177**	**5,008,164**
Machinery and equipment	**7,979,025**	**6,241,864**	**(1,596)**	**-**	**192,131**	**14,411,424**
Motor vehicles	**2,436,641**	**235,583**	**(155,402)**	**-**	**13,857**	**2,530,679**
Furniture and fixtures	**6,755,603**	**488,375**	**(230)**	**-**	**8,539**	**7,252,287**
	22,428,637	**8,187,439**	**(157,228)**	**-**	**348,704**	**30,807,552**
Net book value	**168,042,644**					**192,438,124**

	January 1, 2006	Additions	Disposals	Transfers	Foreign currency translation reserve	December 31, 2006
Cost						
Land	49,345,900	-	-	5,525,819	-	54,871,719
Land improvement and leasehold items	2,058,836	-	(12,328)	446,022	-	2,492,530
Building	38,789,642	28,530	-	2,234,486	1,043,104	42,095,762
Machinery and equipment	57,744,364	1,004,513	(681,431)	4,949,318	669,544	63,686,308
Motor vehicles	2,897,971	-	(41,409)	35,437	25,722	2,917,721
Furniture and fixtures	7,358,910	42,167	(16,746)	608,689	13,673	8,006,693
Construction in progress	2,237,336	28,023,086	-	(13,859,874)	-	16,400,548
	160,432,959	29,098,296	(751,914)	(60,103)	1,752,043	190,471,281
Less: Accumulated depreciation						
Land improvement and leasehold items	1,477,643	46,521	(12,328)	-	-	1,511,836
Buildings	2,089,817	1,558,117	-	-	97,598	3,745,532
Machinery and equipment	2,248,074	5,765,469	(158,595)	-	124,077	7,979,025
Motor vehicles	2,222,785	247,147	(40,964)	-	7,673	2,436,641
Furniture and fixtures	6,367,197	397,948	(15,109)	-	5,567	6,755,603
	14,405,516	8,015,202	(226,996)	-	234,915	22,428,637
Net book value	146,027,443					168,042,644

(Amounts expressed in US Dollars unless otherwise stated)

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

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

	2007	2006
January 1	**63,765,797**	65,138,665
Depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	**(2,420,882)**	(3,379,019)
Disposals from revaluation reserve	**(943,080)**	(78,027)
Deferred tax effect of land	**-**	(2,091,687)
Change in revaluation reserve due to the change in the deferred tax rate	**-**	4,175,865
December 31	**60,401,835**	63,765,797

The historical cost of land, buildings and machinery and equipment as of 31 December 2007 and 2006 are as follows:

	2007		2006	
	Cost	**Accumulated Depreciation**	**Cost**	**Accumulated Depreciation**
Land	**10,822,160**	**-**	12,138,267	-
Building	**28,759,557**	**(13,746,317)**	22,509,660	(12,801,299)
Machinery and equipment	**151,487,361**	**(91,894,528)**	124,211,139	(87,898,076)
	191,069,078	**(105,640,845)**	158,859,066	100,699,375

As of 31 December 2007 and 2006, the gross carrying amount of property and equipment and intangibles, which are fully depreciated, but still in use, is as follows:

	2007	2006
Land improvements	**867,790**	116,476
Building	**2,328,316**	2,328,316
Machinery and equipment	**2,313,930**	1,678,612
Vehicles	**392,658**	338,119
Furniture and fixtures	**4,255,851**	4,041,886
Other tangible assets	**333,463**	293,865
Intangibles	**561,804**	377,077
	11,053,812	9,174,351

Finance (Capital) Leases

The Group recognized finance (capital) leases as assets and liabilities in the balance sheets at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Included in machinery and equipment, USD 1,535,072 (2006 – USD 1,456,697) (net book value) relates to the tube finishing line and furnace leased by the Group.

(Amounts expressed in US Dollars unless otherwise stated)

8. INTANGIBLE ASSETS, net

The movement of intangible assets during the years ending 31 December 2007 and 2006 is as follows:

	2007	2006
Cost		
At January 1,	**2,667,718**	2,388,837
Additions	**312,331**	83,094
Transfers from CIP	**-**	141,166
Disposals	**(183,498)**	(1,219)
Foreign currency translation effect	**70,938**	55,840
At December 31,	**2,867,489**	2,667,718
Less : Accumulated amortization		
At January 1,	**1,685,865**	1,260,546
Charge for the year	**538,508**	376,863
Transfers from CIP	**-**	-
Disposals	**(183,498)**	(1,219)
Foreign currency translation effect	**60,600**	49,675
At December 31,	**2,101,475**	1,685,865
Net book value at December 31,	**766,014**	981,853

9. AVAILABLE FOR SALE FINANCIAL ASSETS

	2007	**(%)**	2006	(%)
Borçelik Çelik Sanayii Ticaret A.Ş. (Borçelik)	**15,661,868**	**10.7**	15,661,868	10.2
Borusan Lojistik Dağıtım Depolama Taşımacılık ve Ticaret A.Ş. (Borusan Lojistik)	**2,282**	**3.1**	2,282	3.1
Borusan Kültür ve Sanat Hizmetleri Yayıncılık A.Ş. (Kültür)	**395,065**	**16.7**	131,013	16.7
Other	**11,782**	**(*)**	4,704	(*)
	16,070,997		15,799,867	

(*) Company's shareholding is insignificant.

10. TRADE PAYABLES, net

	2007	2006
Notes payable	**33,791,201**	10,980,780
Trade payables	**171,310,010**	106,927,973
Due to related parties (Note 26)	**4,756,723**	1,680,058
	209,857,934	119,588,811

10. TRADE PAYABLES, net (Continued)

Currency breakdown of trade payables is as follows:

	Original Currency		USD Equivalent	
	2007	2006	**2007**	2006
USD	**138,546,439**	87,940,243	**138,546,439**	87,940,243
EUR	**11,366,417**	4,073,410	**17,261,417**	5,365,623

Remaining USD 54,050,078 (2006 - USD 26,282,945) was denominated in YTL.

USD 41,314,524 (USD 33,164,655 and EUR 5,550,317) of the trade payables are interest bearing. The average interest rate applied to these trade payables is 5% for EUR and 6% for USD and the average maturity of the payables is 360 days. (31 December 2006: USD 24,134,088 interest rate applied is 5 %, average maturity is 360 days). On the other hand, the average maturity of the trade payables by the amount USD 101,549,080 is 180-360 days and average 5% interest rate is applied to them (31 December 2006: USD 66,543,059, interest rate applied is 5.9%, maturity 180 days) .

11. BANK BORROWINGS (SHORT TERM AND LONG TERM)

As of 31 December 2007 and 2006, short-term borrowings consist of the following:

	2007	2006
Short term borrowings	**19,334,243**	24,090,238
Current portion of long term borrowings	**4,789,884**	16,396,648
	24,124,127	40,486,886

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

	Weighted Average Effective Interest Rate (%)	**2007**	Weighted Average Effective Interest Rate (%)	2006
USD denominated borrowings	**6.21**	**1,880,844**	6.42	4,000,000
EUR denominated borrowings	**4.70**	**8,526,191**	4.49	10,974,936
YTL denominated borrowings	**15.45**	**8,927,208**	16.00	9,115,302
		19,334,243		24,090,238

Interest of the borrowings is paid semi-annually or annually.

As of 31 December 2007 and 2006 long-term borrowings consist of the following:

	2007	2006
Long term borrowings	**46,000,096**	36,004,118
Less : Current portion of long-term borrowings	**(4,789,884)**	(16,396,648)
	41,210,212	19,607,470

(Amounts expressed in US Dollars unless otherwise stated)

11. BANK BORROWINGS (SHORT TERM AND LONG TERM) (continued)

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

	Weighted Average Effective Interest Rate (%)	**2007**	Weighted Average Effective Interest Rate (%)	2006
EUR denominated debt	**4.63**	**27,074,031**	4.63	25,817,502
USD denominated debt	**6.51**	**18,926,065**	6.77	10,186,616
		46,000,096		36,004,118

As of 31 December 2007 and 2006, the detail of secured and unsecured borrowings of the Group's is as follows;

	2007	2006
Secured borrowings	**7,583,909**	641,247
Unsecured borrowings	**33,356,303**	18,966,223
Total	**41,210,212**	19,607,469

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

		2007	2006
2008		**-**	5,460,780
2009		**10,352,865**	5,246,248
2010		**10,233,425**	5,154,641
2011		**8,956,615**	3,745,801
2012		**5,059,684**	-
2013		**2,202,541**	-
2014		**2,202,541**	-
2015		**2,202,541**	-
	Total	**41,210,212**	19,607,470

Obligations under finance leases

As of 31 December 2007, The Group has USD 1,090,622 short term liabilities related to financial leasing agreements (2006: USD 285,010).

As of 31 December 2007, The Group has USD 456,013 long term liabilities related to financial leasing agreements (2006: USD 510,507).

(Amounts expressed in US Dollars unless otherwise stated)

12. OTHER CURRENT LIABILITIES

	2007	2006
Accruals for export expenses	**3,358,319**	2,255,685
Payroll and withholding taxes payable	**2,796,151**	1,898,755
Personnel premium payable	**1,372,997**	981,787
Due to personnel	**954,380**	603,687
Forward foreign exchange contract accrual	**368,502**	22,054
Expense accruals	**274,884**	177,814
Advances taken	**138,654**	2,661,996
Other	**1,193,815**	889,007
	10,457,702	9,490,785

The Group has receivables of Euro 47,800,000 as of the balance sheet date which related with the foreign sales. The Group has utilized the following currency derivatives (forward foreign exchange contracts) to hedge (EUR/USD) future transactions and cash flows.

As of 31 December 2007, the expense accrual based on the fair value of currency derivatives that are designated and effective as cash flow hedges amounting to USD 368,502 (2006: 22,054 USD) has been deferred in equity in the accompanying financial statements.

At the balance sheet date, the details of outstanding forward foreign exchange contracts to which the Group is committed are as follows:

	Average rate		Purchase		Sales		Market value	
	31.Dec.07	31.Dec.06	**31.Dec.07**	31.Dec.06	**31.Dec.07**	31.Dec.06	**31.Dec.07**	31.Dec.06
USD purchase- Euro sales between 3-6 months	**1.4610**	-	**69,835,105**	-	**47,800,000**	-	**(368,502)**	-
JPY purchase- Euro sales between 3-6 months	-	1.4944	-	68,000,000	-	455,022	-	(22,054)

(Amounts expressed in US Dollars unless otherwise stated)

13. TAXES ON INCOME

a) Current Statutory Taxes

The Company and the subsidiaries which are incorporated in Turkey are 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 31 December 2007 is 20% (2006 – 20%). 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 20% (2006 - 20%) 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.

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.

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 April 24, 2003. This rate was changed to 15% commencing from July 23, 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes. Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to April 24, 2003. Subsequent to this date, companies can deduct 40% of the investments within the scope of the investment incentive certificate and that are directly related to production facilities of the Group. The investments without investment incentive certificates do not qualify for tax allowance.

Investment incentive certificates are revoked commencing from January 1, 2006. If companies cannot use investment incentive due to inadequate profit, such outstanding investment incentive can be carried forward to following years so as to be deducted from taxable income of subsequent profitable years. However the companies can deduct the carried forward outstanding allowance from 2006, 2007 and 2008 taxable income. The investment incentive amount that cannot be deducted from 2008 taxable income will not be carried forward to following years.

The tax rate that the companies can use in the case of deducting the tax investment incentive amount in 2006, 2007 and 2008 is 30%. If the Group cannot use the investment incentive carried forward, the effective tax rate will be 20% and the unused investment incentive will be cancelled.

On January 1, 2005, Ministry of Finance ceased the inflation accounting application in the statutory books of accounts, based on the decline in the inflation rate.

As of 31 December 2007 and 2006, the current statutory tax charges for the Group can be analyzed as follows:

	2007	2006
Tax charge at the consolidated income statement		
Taxes on income - Current statutory	**9,845,647**	9,111,229
Prepaid taxes	**(7,899,373)**	(8,025,120)
Taxes on income currently payable	**1,946,274**	1,086,109

(Amounts expressed in US Dollars unless otherwise stated)

13. TAXES ON INCOME (continued)

a) Current Statutory Taxes (continued)

A reconciliation of statutory tax expense for the years ended 31 December 2007 and 2006 is as follows:

	2007	2006
Historical income before taxation as per statutory financial statements	**46,681,035**	39,010,171
Non-deductible expenses	**7,423,071**	10,571,659
Tax exempt income and prior year losses used in current year	**(4,875,873)**	(4,025,683)
Taxable income as per Turkish Tax Legislation	**49,228,233**	45,556,147
Corporation tax at 20%	**9,845,647**	9,111,229
Total taxation on income - current statutory	**9,845,647**	9,111,229

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 2007 and 2006 is as follows:

	2007	2006
Profit before taxation on income	**43,110,744**	37,464,026
At statutory tax rate at 20%	**8,622,149**	7,492,805
Effect of expenditures not allowable for income tax purposes	**848,823**	1,531,358
Effect of income not subject to tax	**(614,565)**	(683,432)
Effect of tax rate changes	**-**	2,061,449
Effect of non-tax deductible translation gain/(loss) arising from re-measurement	**(3,118,463)**	3,642,504
	5,737,944	14,044,684

(Amounts expressed in US Dollars unless otherwise stated)

13. TAXES ON INCOME (continued)

b) Deferred Taxes

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

	2007	2006
- Deferred tax asset	**754,864**	836,480
- Deferred tax liability	**(4,764,551)**	(8,543,661)
Deferred tax liability, net	**(4,009,687)**	(7,707,181)

Deferred tax assets and liabilities are 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 income and expenses in different reporting periods for IFRS and tax purposes.

Deferred tax assets are recognized for the carry forward of unused tax losses and unused tax credits to the extent that is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

The breakdown of deferred tax assets/(liabilities) provided at 31 December 2007 and 2006 using the current tax rates are as follows:

	Deferred tax base		Deferred tax asset / (liability)	
	2007	2006	**2007**	2006
Net difference between the tax base and the carrying value of				
- property, plant and equipment and intangible assets	**(38,045,062)**	(47,472,591)	**(9,518,080)**	(11,586,206)
- inventories	**10,835,541**	2,478,596	**2,167,108**	495,719
Provision for employee termination benefits	**12,911,959**	10,033,240	**2,582,392**	2,006,648
Effect of amortized cost method on receivables and payables	**688,221**	1,178,416	**137,644**	235,683
Other provisions and accruals	**1,667,784**	3,791,500	**621,249**	1,140,975
Deferred tax liability, net	**(11,941,557)**	(29,990,839)	**(4,009,687)**	(7,707,181)

Movements in deferred taxes are analyzed as follows:

	2007	2006
Beginning balance	**(7,707,181)**	(5,329,459)
Tax credit recognized in the statement of income	**4,107,703**	(4,933,455)
Tax credited to equity (Note 7)	**-**	2,084,177
Foreign currency translation reserve	**(410,209)**	471,556
	(4,009,687)	(7,707,181)

(Amounts expressed in US Dollars unless otherwise stated)

13. TAXES ON INCOME (continued)

c) Deferred Taxes (continued)

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:

	2007		2006	
	Deferred Tax		Deferred Tax	
	Asset	**Liability**	Asset	Liability
Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş.	**133,615**	**-**	10,126	-
Borusan Mannesmann Vobarno Tubi SPA	**621,249**	**-**	826,354	-
	754,864	**-**	836,480	-

14. PROVISION FOR EMPLOYEE TERMINATION BENEFITS

Under the Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) or achieves the retirement age (58 for women and 60 for men). The amount payable consists of one month's salary limited to a maximum for each year of service at 31 December 2007 of YTL 2,030.19 (USD 1,743.10) (31 December 2006 - YTL 1,857.44 (USD 1,321.26)).

The maximum payment for retirement payment liability per year of employment is increased to YTL 2,087.92 (USD 1,792.67) as of January 1, 2008.

IFRS requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. Accordingly, as at 31 December 2007 and 2006, the following actuarial assumptions were used in the calculation of the liability:

	2007	2006
Discount rate	**5.71%**	5.71%
Turnover rate to estimate the probability of retirement	**98%**	98%

Movements of the provision for employee benefits obligation during the years ended 31 December 2007 and 2006 are as follows:

	2007	2006
Provision at 1 January	**12,067,772**	11,354,169
Charge for the period	**4,163,806**	2,936,392
Termination benefits paid	**(1,318,626)**	(2,222,789)
Provision at 31 December	**14,912,952**	12,067,772

(Amounts expressed in US Dollars unless otherwise stated)

15. SHARE CAPITAL

The Company's share capital consists of the 2.835.000.000 number of shares with par value of YTL 0.01.The composition of shareholders and their respective shares are as follows:

	2007		2006	
	YTL	**Share %**	YTL	Share %
Borusan Mannesmann Boru Yatırım Holding A.Ş.	20,831,453	73.48	20,831,453	73.48
Publicly traded	4,555,045	16.07	4,555,045	16.07
Lumbro Nominees Jersey Ltd	1,890,000	6.67	1,890,000	6.67
Other	1,073,502	3.78	1,073,502	3.78
	28,350,000	100.00	28,350,000	100.00

16. RETAINED EARNINGS AND LEGAL RESERVES

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 reach a maximum of 20% at the Company's restated 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. Companies whose shares are quoted on the Istanbul Stock Exchange Market perform their dividend appropriation in accordance with Turkish Capital Market Board regulations.

As of 31 December 2007 and 2006, reserves and retained earnings/accumulated deficit (as per the statutory financial statements of the Company) in YTL are as follows:

	2007	2006
Legal reserve	**18,292,754**	15,365,623
Extraordinary reserves	**14,000,938**	5,759,932
Special reserves	**2,778**	2,778

Dividends

Dividend distributed from the distributable profit of 2006 and 2005 during the years 2007 and 2006 is as follows:

	2007	2006
Dividends to common stock holders	**19,319,711**	9,392,142
Dividend per share	**0.006**	0.004
Dividends to usufructuary	**1,812,897**	701,213

(Amounts expressed in US Dollars unless otherwise stated)

17. NET SALES

	2007			2006		
	Domestic Sales	**Export**	**Total**	Domestic Sales	Export	Total
Steel and Plastic Pipe	**387,895,365**	**273,426,431**	**661,321,796**	327,869,375	212,054,495	539,923,870
Engineering Services	**9,106,885**	**689,097**	**9,795,982**	4,397,264	-	4,397,264
	397,002,250	**274,115,528**	**671,117,778**	332,266,639	212,054,495	544,321,134

18. COST OF SALES

	2007	2006
Raw material	**517,586,165**	409,959,414
Direct labor	**46,459,887**	34,414,176
Depreciation and amortization	**6,595,154**	5,242,906
Repair, maintenance and other production expenses	**21,214,807**	17,881,661
Net change in finished goods	**(13,881,883)**	(9,730,371)
Net change in work-in-process	**(3,794,276)**	(3,369,738)
Cost of trade goods sold	**7,854,638**	5,531,880
Cost of other sales	**923,857**	1,300,360
	582,958,349	461,230,288

19. SELLING, MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES

	2007	2006
Personnel expenses	**21,275,529**	18,062,012
Service charges	**5,436,686**	1,336,518
Consultancy expenses	**4,660,529**	2,819,195
Outsourced services	**2,869,254**	1,757,152
Depreciation expenses	**2,130,793**	3,149,159
Sales and distribution expenses	**1,195,205**	1,659,584
Rent expenses	**418,832**	730,685
Insurance expenses	**352,562**	608,733
Utility expenses	**316,276**	662,833
Provision for bad debt receivables	**-**	3,800,140
Other	**10,101,568**	9,634,631
	48,757,234	44,220,642

20. PERSONNEL EXPENSES AND NUMBER OF EMPLOYEES

	2007	2006
Wages and salaries	**56,868,032**	45,000,923
Termination benefits	**4,318,008**	2,548,024
Other social benefits	**6,549,376**	4,927,241
	67,735,416	52,476,188

Average number of employees	1,505	1,433

(Amounts expressed in US Dollars unless otherwise stated)

21. DEPRECIATION AND AMORTIZATION EXPENSES

	2007	2006
Cost of production	**6,595,154**	5,242,906
Selling, marketing, general and administrative expenses	**2,130,793**	3,149,159
	8,725,947	8,392,065

22. OTHER OPERATING INCOME, net

	2007	2006
Dividend income	**3,734**	1,331,824
Insurance claim recoveries	**84,292**	166,774
Gain on sale of scrap	**593,195**	423,463
Claim expenses	**(704,935)**	(776,684)
Gain on sale of property, plant and equipment	**886,377**	61,248
Commission income	**-**	570,083
Other, net	**(240,394)**	573,973
	622,269	2,350,681

23. FINANCIAL EXPENSE, net

	2007	2006
Financial Income		
Interest income	**374.566**	136.238
Discount income	**4,170,324**	3,518,319
Translation gain	**12,570,659**	3,102,086
	17,115,549	6,756,643
Financial Expense		
Interest expense	**(11,013,547)**	(8,033,748)
Discount expense	**(1,483,714)**	(356,143)
Factoring expenses	**(1,407,745)**	(791,482)
Other financial expenses	**(124,263)**	(1,332,129)
	(14,029,269)	(10,513,502)
Financial income / (expense) – net	**3,086,280**	(3,756,859)

(Amounts expressed in US Dollars unless otherwise stated)

24. BUSINESS COMBINATIONS

As of 5 December 2007, The Company acquired all of the shares of BM Holding BV from Borusan Mannesmann Yatırım Holding for a consideration of USD 3,500,000. Borusan Mannesmann Holding BV holds 99% of shares of Borusan Mannesmann Vobarno Tubi SPA.

This acquisition is defined as business combination involving entities under common control, since the Company, BM Holding BV and Borusan Mannesmann Vobarno Tubi SPA are ultimately controlled by the same party or parties before and after the aforementioned business combination. The Group has decided to apply an accounting policy in line with the "pooling of interest" method in accounting the transaction under common control considering that it would reflect the economic substance of related transaction reliably and fairly after considering generally accepted accounting principles around the world, since there is no guidance concerning the standards under the IFRS framework. Assets and liabilities subject to business combination are accounted for with the carrying amounts in the consolidated financial statements. In addition, statements of income are consolidated from the beginning of the financial year in which the business combination takes place. Similarly, comparative consolidated financial statements are restated retrospectively for comparison purposes. As a result of adopting such an accounting policy, no goodwill is recognized. The difference arising in the elimination of the carrying value of the investment held and share capital acquired is directly accounted for in shareholders' equity as "effect of transactions under common control".

Consequently, the financial statements of Borusan Mannesmann Holding BV and Borusan Mannesmann Vobarno Tubi SPA were recognized in the accompanying consolidated financial statements including the prior periods as if it was acquired in the earliest period presented (the beginning of 2006). As a result, the consolidated financial statements as of and for the year ended 31 December 2006 as reflected in the accompanying financial statements are different than the ones previously reported.

Consolidated Balance sheet at 31 December 2006	As previously reported	As restated
Current assets	195,666,203	211,312,197
Non-current assets	170,913,337	185,912,707
Current liabilities	145,003,491	170,937,601
Non-current liabilities	36,755,554	40,729,410
Minority interest	84,964	92,374
Share capital	184,735,531	185,465,519
Profit for the year ended as of 31 December 2006	23,459,289	23,419,342

25. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Guarantee Letters

As of 31 December 2007 letter of guarantees and collaterals received from customers amount to USD 2,004,808 (2006 – USD 2,141,861) and USD 8,820,812 (2006 – USD 6,205,375) respectively.

As of 31 December 2007, the Group is contingently liable for guarantee letters given to custom authorities amounting to YTL 5,388,008 (2006 - YTL 1,476,864), given to domestic customers amounting to YTL 1,030,788 and USD 7,913,580 (2006: YTL 351,706 and, USD 16,329,719) and given to foreign customers USD 47,075,755; EUR 2,434,473 and 28,386,601 Algerian Dinar (2006 - USD 15,026,126; EUR 2,328,169 and 38,256,631 Algerian Dinar).

(b) Mortgages and Pledges on Assets

The Group's production plant in Vobarno is mortgaged at an amount of 4,544,821 EUR, as a guarantee for the long-term loan obtained by BM Vobarno Tubi SPA.

(c) Export Commitments

There is an amount of USD 1,100,530 export commitments as of 31 December 2007 (31 December 2006: no export commitments).

(d) Letter of credits

As of 31 December 2007, The Group has open letter of credit agreements for the future purchases from suppliers amounting to 43,292,815 USD, 1,009,601 Euro and 12,750,000 JPY (2006 : 7,785,555 USD, 3,027,262 and 68,000,000 JPY).

(e) Anti-dumping 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 to April 30, 2004. In relation with this review, the Company has provided responses to questionnaires issued by the United States Department of Commerce (USDC). On 5 December 2005 USDC announced the anti dumping rate that would be applied to the Company as 0.86%. As the Company further appealed to USDC, the rate has been decreased to 0.74% and it has become effective from January 24, 2006.

(f) Other commitments

The Company signed a protocol with Kocaeli Municipality on 21 November 2007 under the scope of "Urban Transformation Project" undertaken by Kocaeli Municipality. In accordance with this protocol, the Company shall transfer 23,000 m^2 of its total land of 91,000 m^2, where the Company's İzmit factory is located, to Kocaeli Municipality free of charge until 31 December 2010 Studies on the relocation project which will ensure no loss in production are in progress and there is no Board of Directors' resolution on the final action plan as of the date of the report.

(Amounts expressed in US Dollars unless otherwise stated)

26. RELATED PARTY BALANCES AND TRANSACTIONS

	2007	2006
Due from related parties (trade receivables)		
Borusan İstikbal Ticaret T.A.Ş. (İstikbal)	**13,832,559**	13,537,653
Borçelik	**523,326**	128,691
Other	**328,111**	586,905
Less: Allowance for imputed interest	**(294,844)**	(150,102)
	14,389,152	14,103,147
Less: Provision for doubtful receivables	**(639,561)**	(703,432)
Other receivables (non-trade receivables)		
Borusan Mannesmann Espana SA (Note-6)	**2,916,068**	-
	16,665,659	13,399,715
Due to related parties (trade payables)		
Borusan Lojistik	**1,694,039**	1,074,854
Borusan Holding	**121,131**	32,467
İstikbal	**2,832,670**	-
Other	**231,782**	620,685
Less: Allowance for imputed interest	**(122,899)**	(47,948)
	4,756,723	1,680,058
Due to shareholders		
Publicly traded	**13,971**	8,325
	13,971	8,325
Other Payables (non-trade payables)		
Borusan Mannesmann Boru Yatırım Holding A.Ş. (BMBYH)	**912,825**	-
İstikbal (*)	**5,355,623**	4,481,360
	6,268,448	4,481,360

(*) As of 31 December 2007, the amount of USD 5,355,623 due to Borusan Istikbal represents non-trade payables bearing interest at 15-16%.

(Amounts expressed in US Dollars unless otherwise stated)

26. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Transactions with related parties

	2007	2006
a) Product purchases		
Borçelik	**4,775,071**	2,109,824
Kerim Çelik	**-**	813,741
	4,775,071	2,923,565
b) Service purchases		
Borusan Lojistik	**30,409,260**	37,094,689
Borusan Holding	**1,800,000**	1,604,090
İstikbal	**647,947**	831,244
Borusan Birlik Danışmanlık	**624,929**	483,257
Borusan Güç Sistemleri	**77,180**	136,310
Other	**756,756**	290,316
	34,316,072	40,439,906
c) Financial income from related parties		
Borusan Mannesmann Boru Yatırım Holding A.Ş. (BMBYH)	**20,655**	7,214
	20,655	7,214
d) Financial expense charged by related parties		
Borusan Holding	**-**	369,674
Other	**-**	13,439
	-	383,113
e) Product sales		
İstikbal	**111,841,409**	116,629,345
Borçelik	**6,694,025**	2,787,114
İmpa	**-**	4,324,516
Borusan Akdeniz	**-**	1,493,850
Borusan Ankara	**-**	1,189,347
Kerim Boru	**-**	745,848
Samsun Çelik	**-**	328,709
Other	**446,190**	1,726,321
	118,981,624	129,225,050

Compensation of key management personnel:

The remuneration of directors and other members of key management during 2007 is amounting to USD 2,164,512 (2005 –USD 1,516,869).

(Amounts expressed in US Dollars unless otherwise stated)

27. DISCONTINUED OPERATIONS

The Group has decided to establish regional branch offices to increase the effectiveness of the domestic distribution channel. As a part of this new formation, by the ordinary general shareholder's meeting on 21 February 2006, the Group has decided to cease the operations of Kartal Boru Sanayi ve Ticaret A.Ş. which is one of the subsidiary and at the same time sales entity of the Group. The liquidation process of Kartal Boru Sanayi ve Ticaret A.Ş. is completed as of March 23, 2007. The result of operations and the balance sheet amounts of Kartal Boru Sanayi ve Ticaret A.Ş. that were consolidated in the accompanying financial statements are as follows:

	1 January-31 December 2007	1 January-31 December 2006
Net Sales (*)	-	612,544
Gross Operating Income	-	8,619
Loss before tax	-	(105,118)
Net Loss	-	(105,118)

	31 December 2007	31 December 2006
Total Assets	-	51,776
Total Shareholders' Equity	-	51,776

Due to the minor effect of the balances in the consolidated financial statements, the balances are not presented in accordance with IFRS 5 (Discontinued Operations and Intangible Assets ready for sale) .

28. SUBSEQUENT EVENTS

The retirement pay ceiling has been raised to 2,030.92 TRY effective from 1 January 2008.

(Amounts expressed in US Dollars unless otherwise stated)

29. FOREIGN CURRENY POSITION

As at 31 December 2007 and 2006, the detail of foreign currency position of the Group is as follows;

	EUR (in USD)	GBP (in USD)	YTL (in USD)	Total USD
31 December 2007				
Cash and cash equivalents	**4,753,166**	**-**	**4,186,045**	**8,939,211**
Trade receivables, net	**37,120,707**	**4,519,702**	**51,705,221**	**93,345,630**
Trade payables, net	**(17,261,417)**	**-**	**(52,517,398)**	**(69,778,815)**
Advances received	**-**	**-**	**(138,655)**	**(138,655)**
Borrowings	**(35,600,222)**	**-**	**(8,927,207)**	**(44,527,429)**
	(10,987,766)	**4,519,702**	**(5,691,994)**	**(12,160,058)**
31 December 2006				
Cash and cash equivalents	308,140	-	1,756,559	2,064,699
Trade receivables, net	21,121,956	4,121,530	37,778,487	63,021,973
Trade payables, net	(15,186,899)	-	(16,218,628)	(31,405,527)
Advances received	-	-	(2,661,996)	(2,661,996)
Borrowings	(36,792,439)	-	(9,115,302)	(45,907,741)
	(30,549,242)	4,121,530	11,539,120	(14,888,592)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital risk management

Capital risk management of the 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 11 cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 15 and 16.

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

The Group's overall strategy remains unchanged from 2006.

Significant accounting policies

The Group's accounting policies about financial instruments are disclosed in Note 2 "Financial Assets" to the financial statements.

(Amounts expressed in US Dollars unless otherwise stated)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Categories of financial instruments and fair values

31 December 2007	Financial assets at amortized cost	Loans and receivables	Available for sale	Financial liabilities at amortized cost	Carrying value	Fair value	Note
Financial assets							
Cash and cash equivalents	38,379,692	-	-	-	38,379,692	38,379,692	3
Trade receivables (including related parties)	-	104,064,835	-	-	104,064,835	104,064,835	4
Other financial assets	-	-	16,070,997	-	16,070,997	16,070,997	9
Financial liabilities							
Borrowings	-	-	-	65,334,339	65,334,339	65,334,339	11
Lease obligations	-	-	-	1,546,635	1,546,635	1,546,635	11
Trade payables (including related parties)	-	-	-	209,857,934	209,857,934	209,857,934	10

31 December 2006	Financial assets at amortized cost	Loans and receivables	Available for sale	Financial liabilities at amortized cost	Carrying value	Fair value	Note
Financial assets							
Cash and cash equivalents	6,417,219	-	-	-	6,417,219	6,417,219	3
Trade receivables (including related parties)	-	87,749,054	-	-	87,749,054	87,749,054	4
Other financial assets	-	-	15,799,867	-	15,799,867	15,799,867	9
Financial liabilities							
Borrowings	-	-	-	60,094,356	60,094,356	60,094,356	11
Lease obligations	-	-	-	795,517	795,517	795,517	11
Trade payables (including related parties)	-	-	-	119,588,811	119,588,811	119,588,811	10

(Amounts expressed in US Dollars unless otherwise stated)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

Market risk

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

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 EURO 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.

	EUR impact		TRY impact	
	1 January-31 December 2007	1 January-31 December 2006	**1 January-31 December 2007**	1 January-31 December 2006
Profit and loss	**(879,021)**	(2,443,939) (i)	**(455,359)**	923,130 (ii)

(i) This is mainly attributable to the exposure outstanding on EUR receivables and payables at year end in the Group.
(ii) This is mainly attributable to the exposure to outstanding YTL receivables and payables at the year end.

If USD revaluates 10% against EURO and TRY, the nominal amounts would remain same; however the effect on income statement would be in the opposite direction.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk factors (cont'd)

Interest rate risk management

The interest rates on the Group's bank borrowings are detailed in Note 11, Bank Borrowings, Short Term and Long Term.

Interest rate sensitivity

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 Libor rate is fixed for the 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.

Price risk management

The Group is exposed to price risks arising from the cost of raw material inventories and the steel price changes affecting the sales prices. 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.

Credit risk management

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 three types of instruments which are Direct Debit System, letters of guarantee and mortgages. 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 (Note 4).

Liquidity risk management

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

Funding risk on current and future potential loan requirements is managed by maintaining the availability of sufficient number of creditors with high quality

(Amounts expressed in US Dollars unless otherwise stated)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (cont'd)

The below table shows the maturity analysis of the Group's non-derivative financial liabilities;

31 December 2007	**Less than 6 months**	**6 months to 1 year**	**1 + years**	**Adjustment**	**Total**
Borrowings	**19,799,068**	**5,215,492**	**55,767,781**	**(15,448,002)**	**65,334,339**
Obligations under finance leases	**1,159,863**	**-**	**456,013**	**(69,241)**	**1,546,635**
Trade payables (including related parties)	**152,821,912**	**58,678,694**	**-**	**(1,642,672)**	**209,857,934**
Total liabilities	**173,780,843**	**63,894,186**	**56,223,794**	**(17,159,915)**	**276,738,908**

31 December 2006	Less than 6 months	6 months to 1 year	1 + years	Adjustment	Total
Borrowings	23,764,717	8,653,454	32,655,387	(4,979,202)	60.094,356
Obligations under finance leases	795,517	-	-	-	795,517
Trade payables (including related parties)	70,149,549	50,724,116	-	(1,284,854)	119,588,811
Total liabilities	94,709,783	59,377,570	32,655,387	(6,264,056)	180,478,684