

**BORUSAN MANNESMANN BORU
SANAYİ VE TİCARET
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS AS
OF 31 DECEMBER 2011
TOGETHER WITH THE REPORT OF
INDEPENDENT AUDITORS

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 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 consolidated financial statements are free from material misstatement.

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

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



Opinion

In our opinion, 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 at 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

İstanbul, 13 March 2012

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

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

Borusan Mannesmann Boru Sanayi ve Ticaret Anonim Şirketi and its Subsidiaries

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

	Notes	31 December 2011	31 December 2010
Current assets		286,856,461	229,684,800
Cash and cash equivalents	4	20,183,540	10,732,681
Trade receivables	5	97,225,558	82,827,627
-Other trade receivables		93,637,434	71,881,964
-Trade receivables from related parties	26	3,588,124	10,945,663
Inventories	6	133,270,525	107,261,065
Other receivables and assets	7,26	34,548,845	24,515,212
Total current assets		285,228,468	225,336,585
Asset held for sale	23	1,627,993	4,348,215
Total non-current assets		489,538,459	418,883,707
Non-current assets			
Available-for-sale financial assets	10	38,908,714	37,352,607
Property, plant and equipment	8	440,478,155	363,750,051
Intangible assets	9	693,774	807,701
Other receivables and assets	7,26	9,457,816	16,973,348
Total assets		776,394,920	648,568,507

(1)

The accompanying policies and explanatory notes on pages 6 through 54 form an integral part of the consolidated financial statements

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

	Notes	31 December 2011	31 December 2010
Current liabilities		328,045,488	242,839,438
Trade payables		254,225,249	213,644,451
-Other trade payables	11	251,312,309	207,202,098
-Trade payables from related parties	26	2,912,940	6,442,353
Short-term borrowings	12	24,666,905	13,431,789
Obligations under finance leases	12	41,493	117,544
Income tax payable	14	475,072	120,662
Other payables and expense accruals	13,26	48,636,769	15,524,992
Total current liabilities		328,045,488	242,839,438
Liabilities related with asset held for sale	23	-	367,918
Non-current liabilities		100,272,497	88,630,737
Long-term borrowings	12	57,580,909	54,511,671
Obligations under finance leases	12	-	42,680
Provision for employee termination benefits	15	10,880,882	11,725,809
Deferred tax liability	14	31,810,706	22,350,577
Total non-current liabilities		100,272,497	88,630,737
Total liabilities		428,317,985	331,838,093
Equity		348,076,935	316,730,414
Issued share capital	16	68,996,872	68,996,872
Revaluation reserve	8	180,408,817	184,679,005
Investment revaluation reserve	16	19,173,976	19,173,976
Cash flow hedge reserve	7,13	(92,022)	56,084
Legal reserves and retained earnings	17	80,579,747	44,853,415
Currency translation reserves		(1,265,503)	(1,213,861)
Equity attributable to equity holders of the parent		347,801,887	316,545,491
Non-controlling interest		275,048	184,923
Total equity		348,076,935	316,730,414
Total liabilities and equity		776,394,920	648,568,507

(2)

The accompanying policies and explanatory notes on pages 6 through 54 form an integral part of the consolidated financial statements

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

	Notes	1 January- 31 December 2011	1 January- 31 December 2010
Net sales	18	796,814,031	653,923,046
Cost of goods sold and services provided	19	(702,888,632)	(616,074,210)
Gross profit		93,925,399	37,848,836
Selling, general and administrative expenses	20	(46,009,392)	(46,516,373)
Other operating income, net	21	3,290,361	376,111
Operating profit / (Loss)		51,206,368	(8,291,426)
Financial income	22	9,169,500	10,084,789
Financial expense	22	(14,420,801)	(11,516,602)
Profit / (Loss) before tax		45,955,067	(9,723,239)
Taxation on income		(13,920,615)	1,857,283
- Current (statutory)	14	(4,418,673)	(158,517)
- Deferred	14	(9,501,942)	2,015,800
Profit / (Loss) for the year from continuing operations		32,034,452	(7,865,956)
Profit / (Loss) for the year from discontinued operations	23	(540,272)	(1,102,833)
Profit / (Loss) for the year		31,494,180	(8,968,789)
Other comprehensive income / (expense):			
Cash flow hedging reserve		(148,106)	41,467
Change in currency translation reserve		447	(125,535)
Other comprehensive income (after tax) for the year		(147,659)	(84,068)
Total comprehensive income / (loss) for the year		31,346,521	(9,052,857)
Profit / (loss) for the year			
Equity holders of the parent		31,456,144	(8,954,835)
Non-controlling interests		38,036	(13,954)
Distribution of total comprehensive income / (loss)			
Equity holders of the parent		31,256,396	(9,009,253)
Non-controlling interests		90,125	(43,604)
Weighted average number of shares		28,350,000,000	28,350,000,000
Earnings / (Loss) per share in US dollars		0.0011	(0.0003)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

	Paid-in share capital	Currency translation reserve	Revaluation reserve	Investment revaluation reserve	Cash flow hedge reserve	Legal reserves and retained earnings	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 January 2010	68,996,872	(1,117,976)	202,827,700	19,173,976	14,617	39,866,871	329,762,060	228,527	329,990,587
Transfer of 2010 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	-	-	(13,141,600)	-	-	13,141,600	-	-	-
Disposals from revaluation reserve	-	-	(5,007,095)	-	-	5,007,095	-	-	-
Total comprehensive income / (loss) for the period	-	(95,885)	-	-	41,467	(8,954,835)	(9,009,253)	(43,604)	(9,052,857)
Dividends paid	-	-	-	-	-	(4,207,316)	(4,207,316)	-	(4,207,316)
Balance at 31 December 2010	68,996,872	(1,213,861)	184,679,005	19,173,976	56,084	44,853,415	316,545,491	184,923	316,730,414
Balance at 1 January 2011	68,996,872	(1,213,861)	184,679,005	19,173,976	56,084	44,853,415	316,545,491	184,923	316,730,414
Transfer of 2011 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	-	-	(3,576,772)	-	-	3,576,772	-	-	-
Disposals from revaluation reserve	-	-	(693,416)	-	-	693,416	-	-	-
Total comprehensive income / (loss) for the period	-	(51,642)	-	-	(148,106)	31,456,144	31,256,396	90,125	31,346,521
Dividends paid	-	-	-	-	-	-	-	-	-
Balance at 31 December 2011	68,996,872	(1,265,503)	180,408,817	19,173,976	(92,022)	80,579,747	347,801,887	275,048	348,076,935

(4)
The accompanying policies and explanatory notes on pages 6 through 54 form an integral part of the consolidated financial statements

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

	Notes	1 January- 31 December 2011	1 January- 31 December 2010
Cash flows provided from operating activities:			
Profit / (Loss) before taxation		45,955,067	(9,723,239)
Discontinued operations profit / (loss) before taxation		(540,272)	(1,102,833)
Depreciation and amortization expense	8,9	15,000,706	14,436,890
Interest expense	22	6,951,145	11,516,602
Interest income	22	(4,632,903)	(8,232,459)
Charge for the allowance for doubtful receivables	5	(2,484)	(89,422)
Provision for reserve for employee benefit obligations	15	942,498	2,333,592
Provision for financial assets available for sale	10	545,521	221,180
Gain on sale of property, plant and equipment and intangibles	21	(25,224)	(864,998)
Net change in currency translation reserve		(378,099)	1,490,610
Impairment on property, plant and equipment-asset held for sale	23	-	777,980
Operating profit before working capital changes		63,815,955	10,763,903
Working capital changes			
Trade receivables	5	(13,539,727)	(17,951,066)
Inventories	6	(26,009,460)	6,012,160
Other current assets and liabilities – net	7,13	23,078,144	(16,490,476)
Trade payables	11	40,580,798	41,662,639
Taxes paid	14	(4,064,263)	(53,257)
Employee benefit obligations paid	15	(1,753,433)	(1,443,836)
Net cash provided by discontinued operations	23	2,352,304	1,124,022
Other non-current assets and liabilities – net	7	7,515,532	(9,093,004)
Net cash provided by operating activities		91,975,850	14,531,085
Investing activities:			
Purchase of property, plant and equipment	8,9	(93,022,233)	(27,439,438)
Proceeds from sale of property, plant and equipment and intangibles	8,9	910,951	401,425
Increase in available for sale financial assets	10	(2,101,628)	(20,455)
Interest received	22	4,618,731	3,018,450
Net cash used in discontinued operations	23	-	(343,920)
Net cash used in investing activities		(89,594,179)	(24,383,938)
Financing activities:			
Redemption of borrowings	12	(420,675,081)	(327,199,167)
Proceeds from borrowings	12	434,274,718	353,493,895
Dividends paid	17	-	(4,207,315)
Interest paid		(7,099,251)	(11,475,135)
Net cash used in discontinued operations		568,802	74,254
Net cash used in financing activities		7,069,188	10,686,532
Net increase / (decrease) in cash and cash equivalents	4	9,450,859	833,679
Cash and cash equivalents at the beginning of the year	4	10,732,681	9,899,002
Cash and cash equivalents at the end of the year	4	20,183,540	10,732,681

The accompanying policies and explanatory notes on pages 6 through 54 form an integral part of the consolidated financial statements

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(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 - 37
34427 Fındıklı – İstanbul

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

<u>Period</u>	<u>Worker</u>	<u>Official</u>	<u>Manager</u>	<u>Executive</u>	<u>Total</u>
December 31, 2011	1,056	248	33	6	1,343
December 31, 2010	1,122	260	32	7	1,421

Consolidated financial statements covering accounting period of January 1—December 31 2011 are approved with Board of Directors decision dated on March 13, 2012.

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

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

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

<u>Business Segment</u>	<u>Subsidiary</u>	<u>Location</u>	<u>% of Ownership</u>
Holding	Borusan Mannesmann Holding BV	Netherlands	100.0
Steel Pipe	Borusan Mannesmann Vobarno Tubi SPA	Italy	99.0
Engineering Services	Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş.	Gemlik - Turkey	96.9

Consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) were authorized for issue on 13 March 2012 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 engineering services.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Basis of Preparation

The Company and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and tax legislation. Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles in their registered countries.

The Capital Markets Board of Turkey ("CMB") sets out principles and procedures on the preparation, presentation and disclosure of financial statements prepared by companies in accordance with the Communiqué No: XI-29, "Principles of Financial Reporting in Capital Markets" ("the Communiqué"). This Communiqué is effective for the annual periods beginning from 1 January 2008 and supersedes the Communiqué No: XI-25 "The Financial Reporting Standards of the Capital Markets". The Communiqué requires companies to prepare their financial statements in accordance with International Financial Reporting Standards ("IASs/IFRSs") adopted by the European Union. However companies will apply IASs/IFRSs issued by the IASB until the differences of the IAS/IFRS adopted by the European Union from those issued by the International Accounting Standards Board ("IASB") are announced by the Turkish Accounting Standards Board ("TASB"). Therefore, TASB's, Turkish Accounting Standards / Turkish Financial Reporting Standards ("TASs/TFRSs") that are in line with the aforementioned standards will be adopted in reporting.

Until the differences of the IAS/IFRS adopted by the European Union from those issued by the International Accounting Standards Board ("IASB") are announced by the Turkish Accounting Standards Board ("TASB"), financial statements are prepared in accordance with IAS/IFRS based on the CMB Communiqué No: XI-29. The financial statements and explanatory notes are presented using the compulsory standard formats as published by the Communiqué Serial XI, No: 29 declared by the CMB on April 17, 2008 and January 9, 2009.

Financial statements are prepared based on the historical values except the revaluation of lands, buildings, machinery and equipments and marketable securities.

Functional and presentation currency

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 8 and available for sale financial assets as discussed in Note 10) 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.

In accordance with IAS 21 Monetary balance sheet items on the financial statements of the group are converted to US dollar with the foreign exchange rate on the balance sheet date; non-monetary items, income, expenses and cash flows are converted with the foreign exchange rate on the transaction date(historical date) in order to prepare consolidated financial statements and footnotes. Translation gains and losses arising from foreign currency conversions are disclosed under finance expenses on the income statements. Financial assets and liabilities of the subsidiaries operating in foreign countries are converted to U.S dollar using the exchange rate on the balance sheet date while income and expenses are converted to U.S dollar using the average exchange rate. Exchange gains and losses arising from usage of the closing date's and the average exchange rate are disclosed under equity in translation gains and losses.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Basis of Preparation (Continued)

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

New and Revised International Financial Reporting Standards

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

(a) New and Revised IFRSs affecting the presentation and declaration of notes

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the notes to the consolidated financial statements, with a single-line presentation of other comprehensive income in the consolidated statement of changes in equity.

IAS 24 Related Party Disclosures (as revised in 2009)

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are not government-related entities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New and Revised International Financial Reporting Standards (Continued)

(b) New and Revised IFRSs affecting the reported financial performance and / or financial position

Amendments to IFRS 3 Business Combinations

As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').

(c) New and Revised IFRSs applied with no material effect on the consolidated financial statements

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

Amendments to IAS 32 Classification of Rights Issues

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

The application of the amendments has had no effect on the amounts reported in the current and prior years because the Group has not issued instruments of this nature.

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement

IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the Group's consolidated financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.

The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New and Revised International Financial Reporting Standards (Continued)

(c) New and Revised IFRSs applied with no material effect on the consolidated financial statements (Continued)

Improvements to IFRSs issued in 2010

Except for the amendments to IFRS 3 and IAS 1 described earlier in section 2.6.1, and 2.6.1, the application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

(d) New and Revised IFRSs in issue but not yet effective

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

Amendments to IFRS 7	<i>Disclosures – Transfers of Financial Assets</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
Amendments to IAS 1	<i>Presentation of Items of Other Comprehensive Income</i>
Amendments to IAS 12	<i>Deferred Tax – Recovery of Underlying Assets</i>
IAS 19 (as revised in 2011)	<i>Employee Benefits</i>
IAS 27 (as revised in 2011)	<i>Separate Financial Statements</i>
IAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures</i>
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
Amendments to IAS 32	<i>Financial Instruments Presentation – Offsetting of Financial Assets and Financial Liabilities</i>

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

The group management does not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to IFRS 7 require an entity to disclose information about rights of offset and related agreements for financial instruments under an enforceable master netting agreement or similar arrangement. The new disclosures are required for annual or interim periods beginning on or after 1 January 2013.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New and Revised International Financial Reporting Standards (Continued)

(d) New and Revised IFRSs in issue but not yet effective (Continued)

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 was amended to defer the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 to annual periods beginning on or after 1 January 2015. Prior to the amendments, application of IFRS 9 was mandatory for annual periods beginning on or after 1 January 2013. The amendments continue to permit early application. The amendments modify the existing comparative transition disclosures in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 7 Financial Instruments: Disclosures. Instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 depending on the entity's date of adoption and whether the entity chooses to restate prior periods.

The Group management anticipates that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). Key requirements of these five Standards are described below.

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

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2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New and Revised International Financial Reporting Standards (Continued)

(d) New and Revised IFRSs in issue but not yet effective (Continued)

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The group management anticipates that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

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

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

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

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

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2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New and Revised International Financial Reporting Standards (Continued)

(d) New and Revised IFRSs in issue but not yet effective (Continued)

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors anticipate that the application of the amendments to IAS 12 in future accounting periods may result in adjustments to the amounts of deferred tax liabilities recognised in prior years regarding the Group's investment properties of which the carrying amounts are presumed to be recovered through sale. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the Groups' defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

On 19 October 2011 the IASB issued an Interpretation, IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, clarifying the requirements for accounting for stripping costs in the production phase of a surface mine. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted.

The amendments to IAS 32 are intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice. The amendments are effective for annual periods beginning on or after 1 January 2014.

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2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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

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

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

The TL 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/TL Exchange Rates	TL/USD Annual Devaluation Rates
2008	1.5123	29.85
2009	1.5057	0.44
2010	1.5640	2.68
2011	1.8889	0.58

Summary of Significant Accounting Policies

Offsetting

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

Comparative Information and Restatements on Prior Year Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance trends. 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. The Group did not make any reclassifications in prior period financial statements.

Changes in Accounting Policies

Material changes in accounting policies are applied retrospectively and prior period financial statements are reorganized. There have not been any material change in accounting policies of the Group in current period. The change mentioned above did not have a profit/loss effect on the financial statements as of December 31st, 2011.

Changes in Accounting Estimations and Misstatements

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of balance sheet date. Actual results may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. There have not been any material changes of the Group in the current period.

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. 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.

Marketable securities held as part of resale agreement commitments are not presented in the balance sheet as the Group does not have any control on such assets. Payments under such agreements are accounted for under cash and cash equivalents in the balance sheet. The difference between purchase and resale prices is accounted for as interest income for the duration of the reverse purchase agreements.

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 TL denominated trade receivables is 15% (2010 - 15%) and for USD and EUR denominated trade receivables Libor/Euribor rate is used (2010: Libor/Euribor). The average collection period of trade receivables is 70 days (2010 - 75 days).

Related Parties

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

Inventories

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

Property, Plant and Equipment and Depreciation

Property, plant and equipment are initially recorded at cost. The Group's land, buildings, machinery and equipment are stated at revalued amounts less accumulated depreciation and any impairment in value. The revaluations were made in July 1999, in December 2004 and in December 2009 by independent valuation companies. 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 16). All other tangible assets are stated at historical cost less accumulated depreciation and any accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. On disposal of revalued assets, amounts in revaluation reserves relating to that asset are transferred to retained earnings. Further, the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is realized from the revaluation surplus to retained earnings on an annual basis as the asset is used by the Group.

The 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 and, for qualifying assets, borrowing costs are capitalized in accordance with the Group's accounting policy. 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.

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2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

Intangible Assets

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

Impairment of Assets

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

Finance Leases

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

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

Trade Payables

Trade payables which generally have an average repayment period of 10 days (2010: 10 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 TL denominated trade payables is 15% (2010: 15%) and interest rates used for USD and EURO denominated trade payables are Libor/Euribor (2010: 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 1.31-10.51% (2010: 360 days and the average interest rates applied are in the interval of 1.46-3.39%).

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2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

Provisions, Contingent Assets and Liabilities

i) Provisions

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

ii) Contingent Assets and Liabilities

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

Income taxes

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date.

Deferred tax

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

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

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2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

Income taxes (Continued)

Deferred tax (Continued)

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.

Employee Benefits / Employee Termination Benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per IAS 19 "Employee Benefits". The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation. Provision for employee termination benefit is made for the present value of the defined benefit obligation calculated. All actuarial gains and losses are recognized in the income statement.

Revenue Recognition

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

Sale of goods:

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

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

Dividend and interest revenue:

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Dividend revenue from investments is recognized when the shareholders' rights to receive payment have been established.

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2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, one that takes a substantial period of time to get ready for use or sale, are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. Investment revenues arising from the temporary utilization of the unused portion of facility loans are netted off from the costs eligible for capitalization.

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

Financial Instruments

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

Financial assets

Financial assets' fair values affiliate its carrying amounts. Those assets are involved in financial tables with their cost values, cash and cash equivalents' amounts contain interest accruals and other short term financial assets arising from financial assets. Due to their being short-dated, it is a common view that financial assets' fair values are close to their carrying amounts. The carrying amount that remains after receivables rediscunts and provisions for doubtful receivables are extracted, are close to financial assets' fair values.

A financial asset is any asset that is:

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

Fixed-term marketable securities that are intended to be held until maturity ; fixed or variable payment scheduled, fixed term financial assets are called as investment held to maturity except the receivables of the Group.

Financial assets or liabilities held for sale are acquired for the profit arising from the short term variance on price or the instruments' profit margin.

If a financial asset is involved in a portfolio that is constituted with the aim of short term profit-generating, independently of for what purpose it is obtained, this financial asset is classified as a financial asset which is held for buying and selling purpose. As long as derivatives of financial assets and liabilities are not held for cash flow hedges, they are classified as financial assets or financial liabilities, held for buying and selling purposes.

Financial assets available for sale are those other than (a) loans and receivables originating from businesses, (b) financial assets held until maturity, (c) financial assets held for sale.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

Financial Instruments (Continued)

A financial asset or liability is first valued over its fair value which consists of the costs and transaction expenses. Following the initial record, financial assets, including financial derivatives, are evaluated over the fair value without deducting costs to sell. Except these, financial assets that suit into following categories are booked over their costs computed by effective interest rate method

- Loans and receivables of the Group that are not held for sale,
- Investments held until maturity
- Financial assets that are without a market, market price and unavailable for a fair value assessment.

Following methods and assumption are used for the fair value estimation of the financial instruments that are whenever its available.

Effective interest method

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

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

Financial Liabilities

Financial assets' fair values affiliate its carrying amounts. Due to trade liabilities and other financial liabilities being short-dated, it is a common view that financial assets' fair values are close to their carrying amounts. Bank loans are stated with discounted cost and transaction costs are added to loans' first-time booked amounts. Since interest rates' of loans are updated regarding fluctuant market conditions, it is a common view that loans' fair values' represent their carrying amounts. It is foreseen that the remaining amount of trade liabilities after rediscounts are extracted is close to their fair values.

Contractual Financial liabilities :

Contractual financial liabilities are liabilities that provide cash or other financial assets to other companies, or exchanging financial instruments with other companies in a way that results against the Entity's position.

Following the first-time booking, all financial liabilities, except for liabilities held for buying and selling purposes, are booked by computed cost acquired from effective interest method.

An equity instrument represents all contracts which involve the remaining utility after company's all financial sources are extracted.

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2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to changes in interest rates. The Group enters into a variety of derivative contracts (especially exchange rate forward contracts) to manage its exposure to interest rate and foreign exchange rate risk such as interest rate swaps. The inactive portion of the changes in the fair value of the derivative financial instruments in equity, defined as the protection of future cash flows and financial risks are directly recorded on the income statement.

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. 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.

Recognition and Derecognition of Financial Instruments

The Group recognizes financial assets and liabilities only if the Group is a party of the agreement related to the financial instrument. The Group derecognizes an asset or a portion of an asset if and only if the Group loses its control of the rights associated with the agreement related to the assets. The Group derecognizes a liability if and only if when the obligation under the liability determined by the agreement is discharged, cancelled or expires.

Earnings per share

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income by the weighted average number of shares in existence during the year concerned.

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.

Events after balance sheet date

An explanation for any event between the balance sheet date and the publication date of the balance sheet, which has positive or negative effects on the Group (should any evidence come about events that were prior to the balance sheet date or should new events come about) will be explained in the relevant note.

The Group restates its consolidated financial statements if such subsequent events arise.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

Statements of cash flows

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

Cash flows from operating activities show that cash flows provided from Group's operations.

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

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

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

Capital and dividends

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

Discontinued operations

A component of the Group that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations; is a part of single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The Group must evaluate its discontinued operations with the lower of carrying value and fair value less costs to sell.

Significant Accounting Judgments and Estimates

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

- Doubtful receivables

The Group makes provision for doubtful receivables that are overdue and possible to create collection problem in future by considering the financial position of these customers, prior experience, other factors and by analyzing these customers' credit quality.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant Accounting Judgments and Estimates (Continued)

- Deferred taxes

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realised. The main factors taken into consideration include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realise the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilise some portion of these deferred tax assets, therefore some portion of or all of the deferred tax assets are not recognised. The Group has not recognized deferred tax assets in certain entities because it is not probable that sufficient taxable profit will be available to recognise deferred tax assets in those entities. If market conditions improve and future results of operations exceed the Group's current expectations, the existing unrecognised deferred tax assets may be recognised, resulting in future tax benefits.

- Useful lives of property, plant and equipment

Tangible and intangible assets are amortized over the useful lives determined by the Group management.

- Employee termination benefits

The Group made actuarial calculation to calculate the amount of liability in accordance with IAS 19. The Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. The assumptions made by the Group management have been explained in Note 24.

- Revaluation of property, plant and equipment

Land, buildings, machinery and equipment are stated at revalued amounts in accordance with IAS 16 revaluation method. The revaluations were made in 1999, 2004 and 2009 by independent valuation companies. The revalued amounts on the financial statements as at 31 December 2011 are based on the reports prepared by the independent valuation company. Lands, buildings, machinery and equipment of the Group have been revaluated by an independent valuation firm (Standart Gayrimenkul Değerleme Uygulamaları A.Ş) on January 2010 effective from December 31st, 2009. Mentioned fixed assets have been evaluated by their market value. First the book values of the related fixed assets are adjusted to revaluated amounts, then the additional value have been booked to revaluation funds under equity capital with the deferred affected offset.

- Fair value of financial assets

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

- Estimated impairment of investment in associates

The statements in IAS 39 are used to assess whether an impairment of investment associates is needed or not. If there is a sign of the need for impairment; the higher of the recoverable amount (the higher of the value in use and fair value less costs to sell) and the carrying value is tested as a single asset in accordance with IAS 36. If the recoverable amount of an investment in associates increases, related impairment loss is reversed in accordance with IAS 36.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Amounts expressed in US Dollars unless otherwise stated)

3. SEGMENT REPORTING

Group's activities separated into two main industrial segments:

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

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

Basic assets of the segments are tangible assets, intangible assets, inventories, receivables and make up operational cash which deferred tax asset was excluded. Segments' liabilities consist of operational liabilities, which deferred tax liabilities and tax provision were excluded. Investment expenditures consist of the tangible and intangible asset purchases.

31 December 2011	Steel	Engineering	Total
Total segment revenue	792,273,467	4,540,564	796,814,031
Gross profit	91,154,289	2,771,111	93,925,400
Depreciation and amortization	14,508,847	491,859	15,000,706
Investment expenditures	92,639,431	752,833	93,392,264

	Steel	Engineering	Total
Total assets*	768,419,724	7,975,195	776,394,919
Total liabilities*	394,815,848	1,216,359	396,032,207

31 December 2010	Steel	Engineering	Total
Total segment revenue	649,716,669	4,206,377	653,923,046
Gross profit	36,108,490	1,740,346	37,848,836
Depreciation and amortization	14,156,410	280,480	14,436,890
Investment expenditures	27,627,079	156,280	27,783,359

	Steel	Engineering	Total
Total assets*	639,989,530	8,578,977	648,568,507
Total liabilities*	304,804,241	4,562,612	309,366,853

*Excluding deferred tax liability and income tax payable.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Amounts expressed in US Dollars unless otherwise stated)

4. CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010
Cash on hand	11,507	13,563
Banks		
-time deposits	11,899,547	7,282,492
-demand deposits	8,272,486	3,436,626
	20,183,540	10,732,681

The detail of time deposits as of 31 December 2011 and 2010 is as follows:

31 December 2011				
Currency	Effective interest rate	Maturity (days)	Original Amount	Amount in USD
TL	8.0 - 11.5 %	2	220,000	116,469
USD	2.25- 4.90 %	2	10,325,000	10,325,000
EUR	4.6 %	2	1,127,000	1,458,078
				11,899,547

31 December 2010				
Currency	Effective interest rate	Maturity (days)	Original Amount	Amount in USD
TL	3.0 - 6.0 %	3	390,000	252,263
USD	0.25 - 3.0 %	3	7,030,229	7,030,229
				7,282,492

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

5. TRADE RECEIVABLES

	31 December 2011	31 December 2010
Trade receivables	98,463,479	71,795,951
Trade receivables from related parties (Note 26)	3,669,759	11,029,294
Cheques and notes receivable	2,292,601	8,071,324
Less: Provision for doubtful receivables (*)	(7,200,281)	(8,068,942)
	<u>97,225,558</u>	<u>82,827,627</u>

(*) Among the provision for doubtful receivables USD 81,635 is from related parties (2010: USD 83,631).

As of 31 December 2011, trade receivables of USD 84,424,220 (2010: USD 76,357,281) were neither past due nor impaired. As of 31 December 2011, trade receivables of USD 12,801,338 (2010: USD 5,917,349) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	31 December 2011	31 December 2010
Up to 30 days	7,019,409	1,492,344
30 to 90 days	1,781,326	3,711,242
90 to 360 days	4,000,603	713,763
	<u>12,801,338</u>	<u>5,917,349</u>

There is no carrying amount of trade receivables that would otherwise be past due or impaired whose term have been negotiated (2010: USD 552,997).

The provision for trade receivables is provided based on estimated irrecoverable amounts from the sales of goods and services provided, determined by reference to past default experience. As of 31 December 2011, USD 7,200,281 (2010: USD 8,068,942) were impaired and provided for. The aging of these receivables is over one year.

The movement of the provision for doubtful receivables during the year 2011 and 2010 is as follows:

	1 January - 31 December 2011	1 January - 31 December 2010
1 January	8,068,942	8,164,656
Allowance provided during the year	125,260	220,230
Amounts recovered during the year	(127,744)	(261,942)
Currency translation reserve	(866,177)	(6,292)
Provisions released	-	(47,710)
31 December	<u>7,200,281</u>	<u>8,068,942</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

6. INVENTORIES

	31 December 2011	31 December 2010
Raw materials	55,220,979	45,968,953
Work-in-process	7,159,520	5,995,120
Finished goods	51,324,609	41,301,291
Merchandise stocks	147,512	397,016
Goods-in-transit	19,417,905	13,598,685
	133,270,525	107,261,065

7. OTHER RECEIVABLES AND ASSETS

Details of other receivables and assets as of 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
Current assets		
VAT receivable	10,163,047	1,501,878
Receivable from related parties (Note 26)	8,400,000	17,300,000
Receivable from tax authority	5,059,477	827,809
Advances given with respect to inventory purchases	4,381,440	1,554,533
Prepaid expenses	1,962,050	919,154
Other job advances	1,684,177	1,498,866
Forward foreign exchange contract income accrual	1,517,409	56,084
Income accruals	1,225,500	526,569
Due from personnel	28,031	61,602
Advances given to personnel	17,227	25,715
Prepaid income taxes	-	95,975
Other	110,487	147,027
	34,548,845	24,515,212

	31 December 2011	31 December 2010
Non-current assets		
Advances given with respect to property, plant and equipment	7,494,654	13,717,565
Advances given	1,359,692	1,359,692
Prepaid expenses	541,493	93,701
Deposits and guarantees given	61,977	114,710
Receivable from related parties (Note 26)	-	1,687,680
	9,457,816	16,973,348

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2011

(Amounts expressed in US Dollars unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2011 is as follows:

	31 December 2010	Additions	Disposals	Transfers	Currency translation reserve	31 December 2011
Cost						
Land	159,359,860	-	(313,210)	20,252	-	159,066,902
Land improvements	2,149,230	1,127	-	159,616	-	2,309,973
Building	87,220,965	359,608	(411,109)	14,596,220	(421,414)	101,344,270
Machinery and equipment	98,299,429	1,380,058	(6,700,321)	23,676,751	(220,668)	116,435,249
Motor vehicles	2,842,741	-	(119,244)	79,342	(3,321)	2,799,518
Furniture and fixtures	14,680,252	17,408	(95,456)	467,945	(4,720)	15,065,429
Construction in progress	24,901,359	91,218,418	-	(39,000,126)	(11,194)	77,108,457
	389,453,836	92,976,619	(7,639,340)	-	(661,317)	474,129,798
Less : Accumulated Depreciation						
Land improvement and leasehold items	(287,689)	(138,757)	-	-	-	(426,446)
Buildings	(4,280,744)	(2,744,870)	16,214	-	41,461	(6,967,939)
Machinery and equipment	(8,679,382)	(9,983,288)	6,537,574	-	89,863	(12,035,233)
Motor vehicles	(2,454,049)	(134,421)	119,244	-	4,913	(2,464,313)
Furniture and fixtures	(10,001,921)	(1,839,857)	80,581	-	3,485	(11,757,712)
	(25,703,785)	(14,841,193)	6,753,613	-	139,722	(33,651,643)
Net book value	363,750,051					440,478,155

The Group's production plant in Vobarno is mortgaged at an amount 20,000,000 EUR as a guarantee for the long-term loan obtained by BM Vobarno Tubi SPA (2010: 20,000,000 EUR).

The amount of borrowing costs capitalized during the year is USD 1,714,889 (2010: 426,309 USD)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8. PROPERTY, PLANT AND EQUIPMENT (Continued)

The movement of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2010 is as follows:

	31 December 2009	Additions	Disposals	Transfers	Currency translation reserve	Asset held for sale	31 December 2010
Cost							
Land	175,775,109	-	(16,641,058)	225,809	-	-	159,359,860
Land improvements	2,868,668	-	(143,303)	72,178	-	(648,313)	2,149,230
Building	88,367,804	420,351	(200,128)	68,823	(1,435,885)	-	87,220,965
Machinery and equipment	93,064,898	759,681	(321,605)	6,173,055	(650,299)	(726,301)	98,299,429
Motor vehicles	3,109,550	13,880	(335,932)	151,240	(95,997)	-	2,842,741
Furniture and fixtures	14,292,813	20,665	(3,325)	551,562	(16,211)	(165,252)	14,680,252
Construction in progress	6,580,192	26,489,584	-	(7,208,435)	(9,654)	(950,328)	24,901,359
	384,059,034	27,704,161	(17,645,351)	34,232	(2,208,046)	(2,490,194)	389,453,836
Less : Accumulated Depreciation							
Land improvement and leasehold items	(462,364)	(254,726)	4,513	-	-	424,888	(287,689)
Buildings	(1,955,527)	(2,651,422)	177,617	-	148,588	-	(4,280,744)
Machinery and equipment	(22,541)	(9,362,436)	314,785	-	276,255	114,555	(8,679,382)
Motor vehicles	(2,628,455)	(139,779)	309,769	(17,966)	22,382	-	(2,454,049)
Furniture and fixtures	(8,261,214)	(1,829,735)	2,240	-	9,151	77,637	(10,001,921)
	(13,330,101)	(14,238,098)	808,924	(17,966)	456,376	617,080	(25,703,785)
Net book value	370,728,933						363,750,051

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8. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	1 January - 31 December 2011	1 January - 31 December 2010
1 January	184,679,005	202,827,700
Depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	(3,576,772)	(13,141,600)
Disposals from revaluation reserve	(693,416)	(5,007,095)
31 December	180,408,817	184,679,005

The historical cost of land, buildings and machinery and equipment as of 31 December 2011 and 2010 are as follows:

	31 December 2011		31 December 2010	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and Building	43,698,662	(5,774,886)	43,876,624	(4,982,658)
Machinery and equipment	86,835,819	(25,911,251)	86,660,044	(19,128,263)
	130,534,481	(31,686,137)	130,536,668	(24,110,921)

As of 31 December 2011 and 2010, the gross carrying amount of property and equipment and intangibles, which are fully depreciated, but still in use, is as follows:

	31 December 2011	31 December 2010
Land improvements	736,794	736,794
Building	2,465,924	2,465,924
Machinery and equipment	5,332,556	4,364,398
Vehicles	768,679	735,008
Furniture and fixtures	5,667,700	5,235,613
Other tangible assets	151,814	147,593
Intangibles	1,279,450	1,063,687
	16,402,917	14,749,017

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 628,000 (2010: USD 1,120,899) (net book value) relates to the tube finishing line and furnace leased by the Group.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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9. INTANGIBLE ASSETS

The movement of intangible assets during the years ending 31 December 2011 and 2010 is as follows:

	31 December 2011	31 December 2010
Cost at 1 January	3,426,926	3,597,733
Additions	415,645	79,198
Transfers/Disposals	(604,671)	(34,232)
Currency translation reserve	(14,857)	(215,773)
Cost at 31 December	3,223,043	3,426,926
Accumulated amortization at 1 January	(2,619,225)	(2,651,825)
Charge for the year	(159,513)	(198,792)
Transfers/Disposals	234,640	17,966
Currency translation reserve	14,829	213,426
Accumulated amortization at 31 December	(2,529,269)	(2,619,225)
Net book value at 31 December	693,774	807,701

Current period amount of depreciation and amortization recorded to cost of goods sold and services provided is USD 11,137,504 and to selling, general and administrative expenses is USD 3,743,380 and discontinued operations is USD 119,822 (2010: USD 10,451,635, USD 3,746,236 and USD 239,019 respectively).

10. AVAILABLE FOR SALE FINANCIAL ASSETS

	31 December 2011		31 December 2010	
		(%)		(%)
Borçelik Çelik Sanayii Ticaret A.Ş. (Borçelik)	35,845,000	10.68	35,845,000	10.68
Borusan Kültür ve Sanat Hizmetleri Yayıncılık A.Ş.	395,065	18.86	395,065	18.86
Borusan Mannesmann Cooperatie U.A. (BM Cooperatie) (*)	4,646,542	99.00	2,615,107	99.00
Other (**)	131,667	(**)	61,474	(**)
Impairment on available for sale financial assets	(2,109,560)		(1,564,039)	
	38,908,714		37,352,607	

(*) As at 31 December 2011, BM Cooperatie participated 100% to Borusan Mannesmann Espana S.A. which was established in Spain and has no operations. The financial statements of Borusan Mannesmann Espana S.A. were not consolidated due to their immateriality compared to the consolidated financial statements.

(**) Company's shareholding is insignificant.

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2011**

(Amounts expressed in US Dollars unless otherwise stated)

11. TRADE PAYABLES

	31 December 2011	31 December 2010
Trade payables	251,312,309	207,202,098
Due to related parties (Note 26)	2,912,940	6,442,353
	254,225,249	213,644,451

USD 65,255,474 and EUR nil of trade payables are interest bearing. The average interest rate applied to these trade payables is 3.56% for USD and the average maturity of the payables is 120 days (2010: USD 25,787,714 and EUR 685,518 interest rate applied is respectively 2.15% and 2.96% and the average maturity is 120 days). On the other hand, the average maturity of the trade payables by the amount USD 152,116,413 is between 180-360 days and average 2.23 % interest rate is applied to them (2010: USD 155,889,569, interest rate applied is 2.33%, maturity 180-360 days).

12. BANK BORROWINGS

As of 31 December 2011 and 2010, short-term borrowings consist of the following:

	31 December 2011	31 December 2010
Short term borrowings	15,353,557	3,700,344
Current portion of long term borrowings	9,369,359	9,787,471
Capitalized loan expense	(56,011)	(56,026)
	24,666,905	13,431,789

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

	Weighted Average Effective Interest Rate (%)	31 December 2011	Weighted Average Effective Interest Rate (%)	31 December 2010
USD denominated borrowings	0.88-3.66 %	10,754,539	-	-
EUR denominated borrowings	2.90-3.25 %	3,513,962	1.37-1.85 %	2,816,373
TL denominated borrowings	-	1,085,056	-	883,971
		15,353,557		3,700,344

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

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12. BANK BORROWINGS (Continued)

As of 31 December 2011 and 2010 long-term borrowings consist of the following:

	31 December 2011	31 December 2011
Long term borrowings	66,950,268	64,299,142
Less : Current portion of long-term borrowings	(9,369,359)	(9,787,471)
	57,580,909	54,511,671

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

	Interest Rate (%)	31 December 2011	Interest Rate (%)	31 December 2010
EUR denominated borrowings	2.62 %	5,787,307	2.59 %	7,917,023
USD denominated borrowings	% 3.76 - 5.76	52,000,000	1.86 - 3.76 %	46,857,144
Capitalized loan expense		(206,398)		(262,496)
		57,580,909		54,511,671

As of 31 December 2011 and 2010, the detail of secured and unsecured long term borrowings of the Group's is as follows:

	31 December 2011	31 December 2010
Secured borrowings	3,105,045	4,718,497
Unsecured borrowings	54,682,262	50,055,670
Total	57,787,307	54,774,167

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

	31 December 2011	31 December 2010
2012	-	8,809,774
2013	15,857,141	7,988,131
2014	8,763,143	7,988,131
2015	16,797,795	15,988,131
2016	16,369,228	14,000,000
Total	57,787,307	54,774,167

Obligations under finance leases

As of 31 December 2011, The Group has USD 41,493 short term liabilities related to financial leasing agreements (2010: USD 117,544). As of 31 December 2011, The Group has no long term liabilities related to financial leasing agreements (2010: USD 42,680).

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13. OTHER PAYABLES AND EXPENSE ACCRUALS

	31 December 2011	31 December 2010
Due to related parties (Note 26)	28,986,993	1,561,668
Advances taken	10,890,331	4,699,751
Accruals for export expenses	3,552,469	4,231,490
Due to personnel	2,750,652	824,003
Payroll and withholding taxes payable	2,082,302	2,139,378
Expense accruals	127,164	87,470
Derivative financial instruments expense accruals	92,022	-
Income relating to future months	6,917	1,563,353
Other	147,919	417,879
	48,636,769	15,524,992

14. TAXES ON INCOME

a) Current Statutory Taxes

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

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

The effective tax rate in 2011 is 20% (2010: 20%) for the Group

In Turkey, advance tax returns are filed and accrued on a quarterly basis. Advance corporate income tax rate applied in 2011 is 20%. (2010: 20%).

Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate.

Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

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14. TAXES ON INCOME (Continued)

a) Current Statutory Taxes (Continued)

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

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

As of 31 December 2011 and 2010, the current statutory tax charges for the Group can be analyzed as follows:

	1 January-31 December 2011	1 January-31 December 2010
Statutory combined profit before taxes as per historical statutory financial statements	37,228,494	731,854
Permanent non-tax deductible expenses and other additions	3,207,483	128,044
Permanent non-taxable income and tax loss carried forward utilized during the year	(18,342,613)	(67,311)
Taxable income per Turkish tax legislation	22,093,364	792,587
Corporation tax at 20%	4,418,673	158,517
Italy tax charge	-	-
Provision for current statutory taxes on income	4,418,673	158,517

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, the companies which have incurred losses for the year ended 31 December 2011 have not been included in combined profit before taxes.

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14. TAXES ON INCOME (Continued)

a) Current Statutory Taxes (Continued)

Reconciliation of taxes by applying effective tax rates to profit before tax provision as reflected in the consolidated income statement for the years ended 31 December 2011 and 2010 is as follows:

	1 January-31 December 2011	1 January-31 December 2010
Profit / (loss) for the year before income tax	45,414,795	(10,826,093)
At statutory income tax rate at 20% (2010 – 20%)	9,082,959	(2,165,219)
Effect of:		
Disallowable expenses	857,630	876,303
Tax exempt income	(3,639,876)	(923,037)
Tax assessment incrementation effect	1,657,121	-
Non tax deductible translation (gain)/loss arising from remeasurement	5,962,781	354,670
31 December	13,920,615	(1,857,283)
	31 December 2011	31 December 2010
Provision for current taxes as per statements of income		
- Turkey tax charge	4,418,673	158,517
- Italy tax charge	-	-
Total statutory income tax charge for the year	4,418,673	158,517
Prepaid taxes	(3,943,601)	(37,855)
Income tax payable	475,072	120,662

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14. TAXES ON INCOME (Continued)

a) Current Statutory Taxes (Continued)

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:

	31 December 2011	31 December 2010
Deferred tax assets	-	-
Deferred tax liabilities	(31,810,706)	(22,350,577)
Deferred tax liability, net	(31,810,706)	(22,350,577)

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 2011 and 2010 using the current tax rates are as follows:

	Deferred tax base		Deferred tax asset / (liability)	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Net difference between the tax base and the				
-carrying value of tangible and intangible assets	(265,098,332)	(247,576,816)	(31,431,484)	(27,928,545)
-carrying value of financial assets	(20,183,132)	(20,183,132)	(1,009,157)	(1,009,157)
-carrying value of inventories	(10,232,171)	(3,091,039)	(2,046,434)	(618,208)
Provision for employee benefits obligation	9,351,494	10,302,412	1,870,299	2,060,482
Tax losses carried forward	-	23,784,522	-	4,756,904
Other provisions and accruals	3,394,126	967,718	678,825	193,544
Other temporary differences	636,223	972,010	127,245	194,403
Deferred tax liability, net	(282,131,792)	(234,824,325)	(31,810,706)	(22,350,577)

The expiry dates of the carry forward tax losses are as follows:

	31 December 2011	31 December 2010
Will be expired in 2013	-	16,686,154
Will be expired in 2015	-	7,098,368
	-	23,784,522

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14. TAXES ON INCOME (Continued)

c) Deferred Taxes (Continued)

Movements in deferred taxes are analyzed as follows:

	1 January-31 December 2011	1 January-31 December 2010
1 January	(22,350,577)	(24,523,107)
Tax charge recognized in the statement of income	(9,501,942)	2,015,800
Tax charge recognized in the equity	-	-
Currency translation reserve	41,813	156,730
31 December	(31,810,706)	(22,350,577)

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:

	31 December 2011		31 December 2010	
	Deferred Tax Asset	Deferred Tax Liability	Deferred Tax Asset	Deferred Tax Liability
Borusan Mannesmann Boru San ve Tic A.Ş.	-	29,657,620	-	20,208,682
Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş.	-	359,249	-	261,744
Borusan Mannesmann Vobarno Tubi SPA	-	1,793,837	-	1,880,151
	-	31,810,706	-	22,350,577

15. PROVISION FOR EMPLOYEE TERMINATION BENEFITS

Under the Turkish Labor Law, the Group is required to pay termination benefits to each employee 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), achieves the retirement age (58 for women and 60 for men) if the employee has completed one year of service. The amount payable consists of one month's salary limited to a maximum for each year of service at 31 December 2011 of TL 2,623.23 (USD 1,339.76) (2010: TL 2,517.01, USD 1,628.08).

The maximum payment for retirement payment liability per year of employment is increased to TL 2,805.04 (USD 1,485.01) as of 1 January 2012.

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 2011 and 2010, the following actuarial assumptions were used in the calculation of the liability:

	31 December 2011	31 December 2010
Discount rate	3.79%	4.66%
Turnover rate to estimate the probability of retirement	98%	98%

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15. PROVISION FOR EMPLOYEE TERMINATION BENEFITS (Continued)

Movements of the provision for employee benefits obligation during the years ended 31 December 2011 and 2010 are as follows:

	1 January - 31 December 2011	1 January - 31 December 2010
1 January	11,725,809	10,967,633
Translation gain/loss	(33,992)	(131,580)
Actuarial gain/loss	400,826	764,096
Interest expense	460,256	430,625
Current service cost	81,416	1,138,871
Payments	(1,753,433)	(1,443,836)
31 December	10,880,882	11,725,809

16. SHARE CAPITAL AND INVESTMENT REVALUATION RESERVE

The Company's share capital consists of the 2,835,000,000 number of shares with par value of TL 0.01. The composition of shareholders and their respective shares are as follows:

	2011		2010	
	TL	Share %	TL	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
USD Equilavent	68,996,872		68,996,872	

As of 31 December 2011 Group's share capital consists of A Group (10% of total shares) and B Group (90% of total shares) shares (2010: A Group 10%, B Group 90%). There are 100 units of redeemed shares which does not have any voting rights (2010: 100 unit of redeemed shares).

A Group shareholders' rights are as follows:

- Half of the board of directors and additional one member are selected among the candidates nominated by A Group shareholders.
- Each of A Group shareholders has 5 voting rights at ordinary and extraordinary meetings.

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16. SHARE CAPITAL AND INVESTMENT REVALUATION RESERVE (Continued)

Movements of investment revaluation reserve are as follows;

	1 January - 31 December 2011	1 January - 31 December 2010
Opening	19,173,976	19,173,976
Current year revaluation of financial investment	-	-
Deferred tax effect of revaluation of financial investment	-	-
	<u>19,173,976</u>	<u>19,173,976</u>

17. 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 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 2011 and 2010, reserves and retained earnings/accumulated deficit (as per the statutory financial statements of the Company) in TL are as follows:

	31 December 2011	31 December 2010
Legal reserves	6,310,143	6,310,143
Special reserves	2,778	2,778
	<u>6,312,921</u>	<u>6,312,921</u>

Dividends

Dividend distributed from the distributable profit during the years 2011 and 2010 are as follows:

	2011	2010
Dividends to common stock holders	-	4,207,315
	<u>-</u>	<u>4,207,315</u>

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18. NET SALES

	1 January-31 December 2011			1 January-31 December 2010		
	Domestic Sales	Export	Total	Domestic Sales	Export	Total
Steel	302,759,183	489,514,284	792,273,467	364,063,918	285,652,751	649,716,669
Engineering Services	4,540,564	-	4,540,564	4,206,377	-	4,206,377
	307,299,747	489,514,284	796,814,031	368,270,295	285,652,751	653,923,046

19. COST OF GOODS SOLD AND SERVICES PROVIDED

	1 January - 31 December 2011	1 January - 31 December 2010
Raw material	600,443,495	521,329,560
Direct labor	32,395,057	37,305,289
Depreciation and amortization	11,137,504	10,451,635
Repair, maintenance and other production expenses	39,534,031	36,960,124
Net change in finished goods	(10,023,318)	(10,985,262)
Net change in work-in-process	(1,164,400)	(1,051,894)
Cost of trade goods sold	19,654,924	14,069,218
Cost of other sales	10,911,339	7,995,540
	702,888,632	616,074,210

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20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	1 January - 31 December 2011	1 January - 31 December 2010
Personnel expenses	17,657,070	17,738,971
Sales and distribution expenses	4,927,157	5,241,507
Consultancy expenses	3,862,353	4,430,760
Depreciation expenses	3,743,380	3,746,236
Utility expenses	2,433,698	1,123,789
Outsourced services	1,649,636	867,976
Donations sponsorship	1,300,323	1,195,323
Tax expenses	1,225,247	1,008,373
Information technology expenses	1,099,991	1,652,535
Transportation and travel expenses	1,043,133	2,449,447
Rent expenses	980,468	1,022,597
Insurance expenses	854,680	609,990
Maintenance expenses	390,483	558,299
Provision for bad debt receivables	125,260	220,231
Other	4,716,513	4,650,339
	<u>46,009,392</u>	<u>46,516,373</u>

21. OTHER OPERATING INCOME, net

	1 January - 31 December 2011	1 January - 31 December 2010
Impairment on financial assets held for sale	(545,521)	(221,180)
Gain on insurance claim	2,339,640	720,688
Gain on sale of scrap	703,856	242,544
Gain on sale of property, plant and equipment	25,224	864,998
Tax penalty	-	(1,336,303)
Other, net	767,162	105,364
	<u>3,290,361</u>	<u>376,111</u>

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22. FINANCIAL INCOME / (EXPENSE)

	1 January - 31 December 2011	1 January - 31 December 2010
Financial income		
Dividend income	4,536,597	1,852,330
Interest income	4,618,731	3,018,450
Hedging income	14,172	227,672
Translation gain	-	4,986,337
Total financial income	9,169,500	10,084,789
Financial expense		
Interest expense	(6,951,145)	(7,782,917)
Translation loss	(3,840,886)	-
Bank expenses	(1,768,107)	(1,561,069)
Factoring expenses	(1,571,578)	(957,858)
Hedging expenses	(216,480)	(1,025,098)
Discount expense	(58,667)	(189,660)
Other financial expenses	(13,938)	-
Total financial expense	(14,420,801)	(11,516,602)

23. DISCONTINUED OPERATIONS

In December 2010, the management of the Group initiated the negotiations to sell plastic operations of Borusan Mannesmann Boru to a third party. As of 31 December 2011 assets classified as held for sale and liabilities associated with assets classified as held for sale is related with plastic operations of Borusan Mannesmann Boru. There is an amount of USD 777,980 impairment on property, plant and equipment as of 31 December 2011 related with asset held for sale.

The details of assets classified as held for sale, liabilities and expenses associated with assets classified as held for sale are as follows:

	31 December 2011	31 December 2010
Trade receivables, net	-	1,231,486
Inventories	-	1,055,658
Property, plant and equipment, net	669,513	1,095,133
Other receivables and assets	958,480	965,938
Asset held for sale	1,627,993	4,348,215
Obligations under finance leases	-	367,918
Liabilities related with asset held for sale	-	367,918

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23. DISCONTINUED OPERATIONS (Continued)

	1 January - 31 December 2011	1 January - 31 December 2010
Net sales	988,328	5,561,817
Cost of goods sold and services provided	(1,465,027)	(5,706,246)
Selling, general and administrative expenses	(63,573)	(180,424)
Other operating income, net	-	(777,980)
Discontinued operations loss for the year	(540,272)	(1,102,833)

Depreciation expense of the asset held for sale amounted to USD 119,822 (2010: USD 239,019) recorded to cost of goods and services provided.

24. BUSINESS COMBINATIONS

None during the current year (2010: None).

25. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Guarantee Letters

As of 31 December 2011, the Group is contingently liable for guarantee letters given to custom authorities amounting to TL 4,646,413 (2010: TL 6,759,477), given to domestic customers amounting to TL 5,065,436 USD 3,902,578 and EUR 2,939,390 (2010: TL 11,011,600, USD 3,828,066 and EUR 1,650,000) and given to foreign customers USD 2,820,435; EUR 12,547,630 (2010: USD 10,779,103 and EUR 11,086,650).

(c) Export Commitments

Export commitments amount to USD 243,026,766 as of 31 December 2011 (31 December 2010: USD 168,399,085)

(d) Letter of credits

As of 31 December 2011, The Group has open letter of credit agreements for the future purchases from suppliers amounting to USD 27,114,821 and EUR 4,128,228 (2010: USD 76,956,507 and EUR 24,543,394).

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26. RELATED PARTY BALANCES AND TRANSACTIONS

31 December 2011

	Receivables			Payables	
	Current	Current	Non Current	Current	Current
	Trade	Non Trade	Non Trade	Trade	Non Trade
Borusan İstikbal Ticaret T.A.Ş. (İstikbal)	3,571,371	-	-	-	28,000,000
Borçelik Çelik Sanayii Ticaret A.Ş. (Borçelik)	-	-	-	354,032	-
Borusan Mannesmann Espana S.A.	-	-	-	-	-
Borusan Lojistik Dağıtım Depolama Taşımacılık ve Ticaret A.Ş. (Lojistik)	-	8,400,000	-	2,262,091	-
Borusan Holding A.Ş.	-	-	-	128,532	-
Borusan Mannesmann Boru Yatırım Holding A.Ş. (BMBYH)	-	-	-	-	954,490
Kerim Çelik	47,141	-	-	-	-
Other	83,844	-	-	177,776	32,503
Less : Allowance for imputed interest	(32,597)	-	-	(9,491)	-
Less : Provision for doubtful receivables	(81,635)	-	-	-	-
	3,588,124	8,400,000	-	2,912,940	28,986,993

31 December 2010

	Receivables			Payables	
	Current	Current	Non Current	Current	Current
	Trade	Non Trade	Non Trade	Trade	Non Trade
Borusan İstikbal Ticaret T.A.Ş. (İstikbal)	10,812,511	-	-	-	-
Borçelik Çelik Sanayii Ticaret A.Ş. (Borçelik)	116,888	-	-	1,275,098	-
Borusan Mannesmann Espana S.A.	-	-	1,687,680	-	-
Borusan Lojistik Dağıtım Depolama Taşımacılık ve Ticaret A.Ş. (Lojistik)	-	17,300,000	-	4,942,306	-
Borusan Holding A.Ş.	-	-	-	57,411	-
Borusan Mannesmann Boru Yatırım Holding A.Ş. (BMBYH)	-	-	-	-	1,521,955
Kerim Çelik	94,153	-	-	-	-
Other	55,949	-	-	179,735	39,713
Less : Allowance for imputed interest	(50,207)	-	-	(12,197)	-
Less : Provision for doubtful receivables	(83,631)	-	-	-	-
	10,945,663	17,300,000	1,687,680	6,442,353	1,561,668

Due from and due to related parties are generally resulted from sales and purchase transactions. Interest is charged on the overdue balance of related party balances. Interest is charged by market interest rates.

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26. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

1 January - 31 December 2011	Services obtained	Sales	Product purchases	Finance expense	Dividend income
Borçelik	-	3,272,248	12,613,518	-	4,527,219
Lojistik	55,837,957	-	-	-	-
Borusan Holding	2,300,549	-	-	-	-
İstikbal	727,203	126,878,796	-	-	-
Borusan Birlik	877,464	-	-	-	-
BMBYH	-	-	-	130,594	-
Other	20,064	37,466	-	-	9,378
	59,763,237	130,188,510	12,613,518	130,594	4,536,597

1 January - 31 December 2010	Services obtained	Sales	Product purchases	Finance expense	Dividend income
Borçelik	-	4,201,848	8,007,046	-	1,845,414
Lojistik	56,804,105	-	-	-	-
Borusan Holding	2,224,562	-	-	-	-
İstikbal	1,061,758	201,335,113	-	-	-
Borusan Birlik	-	-	-	-	-
Danışmanlık	810,661	-	-	-	-
BMBYH	-	-	-	183,563	-
Other	315,288	123,279	-	-	6,915
	61,216,374	205,660,240	8,007,046	183,563	1,852,329

Compensation of key management personnel:

	1 January - 31 December 2011	1 January - 31 December 2010
Salaries and other short term benefits	1,880,074	3,083,119
	1,880,074	3,083,119

27. SUBSEQUENT EVENTS

None.

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28. FOREIGN CURRENCY POSITION

As at 31 December 2011 and 2010, the detail of foreign currency position of the Group is as follows:

	EUR (USD Equivalent)	GBP (USD Equivalent)	TL (USD Equivalent)	Total USD
<u>31 December 2011</u>				
Cash and cash equivalents	4,438,733	-	491,782	4,930,515
Trade receivables, net	30,132,377	2,235,865	22,594,272	54,962,514
Trade payables, net	(19,567,062)	-	(26,713,066)	(46,280,128)
Advances received	(6,707,551)	-	(3,708,316)	(10,415,867)
Borrowings	(11,269,859)	-	(1,085,056)	(12,354,915)
	<u>(2,973,362)</u>	<u>2,235,865</u>	<u>(8,420,384)</u>	<u>(9,157,881)</u>

	EUR (USD Equivalent)	GBP (USD Equivalent)	TL (USD Equivalent)	Total USD
<u>31 December 2010</u>				
Cash and cash equivalents	2,629,573	-	1,072,879	3,702,452
Trade receivables, net	32,328,500	2,934,944	41,956,349	77,219,793
Trade payables, net	(9,356,469)	(2,664)	(18,204,999)	(27,564,132)
Advances received	(1,796,899)	-	(1,843,210)	(3,640,109)
Borrowings	(14,116,925)	-	(883,970)	(15,000,895)
	<u>9,687,780</u>	<u>2,932,280</u>	<u>22,097,049</u>	<u>34,717,109</u>

29. 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 12 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 16 and 17.

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 2010.

Significant accounting policies

The Group's accounting policies about financial instruments are disclosed in Note 2.

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29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Categories of financial instruments and fair values :

<u>31 December 2011</u>	Loans and receivables (including cash and cash equivalents)	Available for sale investments	Financial liabilities at amortized cost	Fair value through profit and loss (FVTPL)	Total	Note
Balance Sheet						
Financial Assets						
Cash and cash equivalents	20,183,540	-	-	-	20,183,540	4
Trade receivables	97,225,558	-	-	-	97,225,558	5
Other assets	13,597,995	-	-	-	13,597,995	7
Available for sale investments	-	38,908,714	-	-	38,908,714	10
Forward foreign exchange contract income accrual	-	-	-	1,517,409	1,517,409	7
	131,007,093	38,908,714	-	1,517,409	171,433,216	
Financial Liabilities						
Borrowings	-	-	82,247,814	-	82,247,814	12
Finance lease obligations	-	-	41,493	-	41,493	12
Trade payables	-	-	254,225,249	-	254,225,249	11
Other payables	-	-	10,890,331	-	10,890,331	13
	-	-	347,404,887	-	347,404,887	
31 December 2010						
Balance Sheet						
Financial Assets						
Cash and cash equivalents	10,732,681	-	-	-	10,732,681	4
Trade receivables	82,827,627	-	-	-	82,827,627	5
Other assets	18,336,438	-	-	-	23,625,801	7
Available for sale investments	-	37,352,607	-	-	37,352,607	10
Forward foreign exchange contract income accrual	-	-	-	56,084	56,084	7
	117,186,109	37,352,607	-	56,084	154,594,800	
Financial Liabilities						
Borrowings	-	-	67,943,460	-	67,943,460	12
Finance lease obligations	-	-	160,224	-	160,224	12
Trade payables	-	-	213,644,451	-	213,644,451	11
Other payables	-	-	4,699,751	-	4,699,751	13
	-	-	286,447,886	-	286,447,886	

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29. 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 TL foreign currency risk.

The following table details the Group's sensitivity to a 10% change in the EUR and TL 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 TL against USD.

	EUR impact		TL impact	
	1 January- 31 December 2011	1 January- 31 December 2010	1 January- 31 December 2011	1 January- 31 December 2010
Profit and loss	281,453	(968,764)	842,038	(2,209,705)

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

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29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management

The interest rates on the Group's bank borrowings are detailed in Note 12, Bank Borrowings, Short Term and Long Term.

Interest rate sensitivity

The sensitivity analysis above 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 interest rate is fixed for significant portion of the Group's borrowings when the borrowing is obtained. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the income and loss effect of variable rate borrowings in the financial statements would be immaterial.

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 5).

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.

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29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value of financial instruments

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

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data.

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

Financial assets	31 December 2011			Total
	Level 1	Level 2	Level 3	
Fair value through profit or loss	-	(92,022)	-	(92,022)
Fair value through comprehensive income	-	-	35,845,000	35,845,000

Financial assets	31 December 2010			Total
	Level 1	Level 2	Level 3	
Fair value through profit or loss	-	56,084	-	56,084
Fair value through comprehensive income	-	-	35,845,000	35,845,000

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29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value of financial instruments (Continued)

	<u>Financial assets at FVTPL</u>	<u>Available-for-sale financial assets</u>	
	<u>Trading derivatives</u>	<u>Equity investments</u>	<u>Total</u>
Opening balance, 1 January 2011	56,084	35,845,000	35,901,084
Total gains or losses			
-recognized in statement of income / (loss)	(56,084)	-	(56,084)
-recognized in other comprehensive income	(92,022)	-	(92,022)
Ending balance, 31 December 2011	<u>(92,022)</u>	<u>35,845,000</u>	<u>35,752,978</u>

	<u>Financial assets at FVTPL</u>	<u>Available-for-sale financial assets</u>	
	<u>Trading derivatives</u>	<u>Equity investments</u>	<u>Total</u>
Opening balance, 1 January 2010	14,617	35,845,000	35,859,617
Total gains or losses			
-recognized in statement of income / (loss)	(14,617)	-	(14,617)
-recognized in other comprehensive income	56,084	-	56,084
Ending balance, 31 December 2010	<u>56,084</u>	<u>35,845,000</u>	<u>35,901,084</u>

(*) As at 31 December 2008, Group's available for sale financial assets were carried at cost. Since the available for sale financial assets are carried at fair value in 2009, the carrying value as at 31 December 2008 has been accepted as the opening value in the movement table of the year 2009.

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29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

2011	Less than	1-3 months	3 months to 1 year	1 - 5 years	5+ years	Total
	1 month					
Borrowings	4,232,262	11,318,451	9,375,298	62,912,260	-	87,838,271
Trade payables (including related parties)	53,612,220	25,504,314	179,078,615	-	-	258,195,149
Obligations under finance leases	-	42,019	-	-	-	42,019
Other payables	8,023,181	31,971,044	-	-	-	39,994,225
	<u>65,867,663</u>	<u>68,835,828</u>	<u>188,453,913</u>	<u>62,912,260</u>	<u>-</u>	<u>386,069,664</u>
2010						
Borrowings	3,740,649	971,286	8,874,870	45,567,446	14,000,000	73,154,251
Trade payables (including related parties)	53,612,220	60,260,819	103,629,356	-	-	217,502,395
Obligations under finance leases	-	121,273	-	43,008	-	164,281
Other payables	-	6,261,419	-	-	-	6,261,419
	<u>57,352,869</u>	<u>67,614,797</u>	<u>112,504,226</u>	<u>45,610,454</u>	<u>14,000,000</u>	<u>297,082,346</u>