BORUSAN MANNESMANN BORU
SANAYİ VE TİCARET
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
TOGETHER WITH INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITOR'S REPORT

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

Introduction

1. We have audited the accompanying consolidated financial statements of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

3. 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 about 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 entity's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. a member of PricewaterhouseCoopers
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Opinion

4. 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 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

5. The consolidated financial statements of the Group for the year ended 31 December 2012 were audited by another firm of auditors whose report, dated 4 March 2013, expressed an unmodified opinion on those statements.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Baki Erdal, SMMM
Partner

Istanbul, 4 March 2014

BORUSAN MANNESMANN BORU SANAYİ VE TİCARET ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

CONTENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2013

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

			Restated (*)
		Audited	**Audited**
ASSETS		**31 December 2013**	**31 December 2012**
Current assets	**Note**	**396,054,047**	**307,294,096**
Cash and cash equivalents	6	72,946,344	50,129,228
Trade receivables	10	58,689,512	104,363,609
- Due from related parties	*37*	6,204,691	*5,944,285*
- Other trade receivables	*10*	52,484,821	*98,419,324*
Other receivables	11	2,158,675	7,037,677
- Other receivables	*11*	2,158,675	*7,037,677*
Derivative financial instruments	12	-	830,410
Inventories	13	183,215,445	134,533,334
Prepaid expenses	14	5,161,688	6,085,255
Current income tax assets	15	669,200	-
Other current assets	26	9,275,190	3,186,590
Total current assets		**332,116,054**	**306,166,103**
Assets held for sale	34	63,937,993	1,127,993
Non-current Assets		**543,216,859**	**509,866,412**
Trade recievables	10	140,561	504,881
- Other trade receivables	10	140,561	504,881
Available-for-sale financial assets	7	38,165,228	38,122,302
Property, plant and equipment	18	500,964,033	455,923,765
Intangible assets	19	1,222,361	944,665
- Other intangible assets	19	1,222,361	944,665
Prepaid expenses	14	2,674,269	14,324,691
Other non-current assets	26	50,407	46,108
TOTAL ASSETS		**939,270,906**	**817,160,508**

(*) Note 2.1.3.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2013

(Amounts expressed in US Dollars unless otherwise stated)

			Restated (*)
		Audited	Audited
LIABILITIES	**Note**	**31 December 2013**	**31 December 2012**
Current liabilities		**353,863,162**	**340,768,918**
Short-term borrowings	8	62,141,736	49,752,066
Short-term portion of long-term borrowings	8	29,434,807	22,974,401
Other financial liabilities	9	198,161	53,503
Trade payables	10	246,953,688	216,885,265
- Due to related parties	37	6,562,969	5,403,670
- Other trade payables	10	240,390,719	211,481,595
Employee benefit obligations	17	2,362,702	4,092,931
Other payables	11	4,471,162	34,009,747
- Due to related parties	37	-	30,020,143
- Other payables	11	4,471,162	3,989,604
Derivative financial instruments	12	510,857	1,348,502
Deferred income	16	574,652	8,320
Current income tax liabilities	35	-	930,869
Other current liabilities	26	7,215,397	10,713,314
		353,863,162	**340,768,918**
Liabilities regarding the assets held for sale	34	-	-
Non-current liabilities		**247,514,852**	**129,180,716**
Long-term borrowings	8	194,377,436	77,863,079
Other financial liabilities	9	210,273	387,456
Trade payables	10	10,220,275	9,883,301
- Other trade payables	10	10,220,275	9,883,301
Provisions for employee benefits	24	9,871,145	13,169,674
Deferred tax liabilities	35	32,835,723	27,877,206
Total liabilities		**601,378,014**	**469,949,634**

EQUITY		**337,892,892**	**347,210,874**
Equity attributable to equity holders of the parent		**337,661,685**	**346,943,874**
Issued share capital	27	68,996,872	68,996,872
Other comprehensive income/expense not to be reclassified to profit or loss		**160,615,114**	**175,420,536**
- Revaluation reserve		161,751,236	176,547,517
- Reserve for actuarial gain/(loss) on employee termination benefits		(1,136,122)	(1,126,981)
Other comprehensive income/expense to be reclassified to profit or loss		**17,556,750**	**16,522,451**
- Currency translation differences		(697,935)	(862,068)
- Investment revaluation reserves		19,173,976	19,173,976
- Cash flow hedge reserve		(919,291)	(1,789,457)
Retained earnings		71,159,233	63,962,573
Net profit for the period		19,333,716	22,041,442
Non-controlling Interest	27	**231,207**	**267,000**
TOTAL LIABILITIES AND EQUITY		**939,270,906**	**817,160,508**

(*) Note 2.1.3.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

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

	Note	Audited 1 January - 31 December 2013	Restated(*) Audited 1 January - 31 December 2012
Revenue	28	629,935,184	795,751,861
Cost of sales (-)	28	(563,302,469)	(718,102,213)
Gross profit		**66,632,715**	**77,649,648**
General administrative expenses (-)	29	(37,375,629)	(35,737,503)
Marketing expenses (-)	29	(12,022,025)	(13,191,019)
Other operating income	31	6,724,865	9,707,598
Other operating expenses (-)	31	(3,397,212)	(1,041,447)
Operating profit		**20,562,714**	**37,387,277**
Income from investing activities	32	22,536,822	2,997,221
Operating profit before financial income and expense		**43,099,536**	**40,384,498**
Financial income	33	835,469	3,196,403
Financial expense (-)	33	(17,528,914)	(15,515,745)
Profit before tax from continued operations		**26,406,091**	**28,065,156**
Tax expense from continued operations		**(7,110,086)**	**(5,539,204)**
- Current tax expense	35	-	(9,173,088)
- Deferred tax (expense)/ income	35	(7,110,086)	3,633,884
Profit for the year from continuing operations		**19,296,005**	**22,525,952**
Loss from discontinued operations		-	(500,000)
Profit for the year		**19,296,005**	**22,025,952**
Attributable to:		**19,296,005**	**22,025,952**
- Non-controlling interest	27	(37,711)	(15,490)
- Equity holders of the parent		19,333,716	22,041,442
Earnings per share			
Earnings per share	36	0.0001	0.0001

(*) Note 2.1.3.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

(Amounts expressed in US Dollars unless otherwise stated)

	Note	Audited 1 January - 31 December 2013	Restated(*) Audited 1 January - 31 December 2012
Profit for the period		**19,296,005**	**22,025,952**
Other comprehensive income			
Items not to be reclassified to profit or loss		**(8,286,961)**	**(1,126,981)**
Fixed assets revaluation funds decreases		(8,277,820)	-
Remeasurement of employee benefit obligations		(9,141)	(1,126,981)
Items to be reclassified to profit or loss		**1,036,215**	**(1,211,522)**
Cash flow hedging reserve		870,166	(1,697,435)
Currency translation differences		166,049	485,913
Other comprehensive loss		**(7,250,746)**	**(2,338,503)**
Total comprehensive (loss)/ income		**12,045,259**	**19,687,449**
Attributable to:			
- Non-controlling interest	27	(35,794)	(8,048)
- Equity holders of the parent		12,081,053	19,695,497

(*) Note 2.1.3.

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

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

		Other comprehensive income/expense not to be reclassified to profit or loss		Other comprehensive income/expense to be reclassified to profit or loss						
	Issued share capital	Revaluation reserve	Remeasurement of employee benefit obligations	Currency translation reserve	Investment revaluation reserve	Cash flow hedge reserve	Legal reserves and retained earnings	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 January 2012	**68.996.872**	**180.408.817**	**-**	**(1.265.503)**	**19.173.976**	**(92.022)**	**80.579.745**	**347.801.885**	**275.049**	**348.076.934**
Transfer of 2012 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	-	(1.602.924)		-	-	-	1.602.924	-	-	-
Disposals from revaluation reserve	-	(2.258.376)		-	-	-	2.258.376	-	-	-
Total comprehensive income / (loss) for the period	-	-	(1.126.981)	403.436	-	(1.697.435)	22.116.478	19.695.498	(8.048)	19.687.450
Dividends paid	-	-		-	-	-	(20.553.510)	(20.553.510)	-	(20.553.510)
Balance at 31 December 2012	**68.996.872**	**176.547.517**	**(1.126.981)**	**(862.067)**	**19.173.976**	**(1.789.457)**	**86.004.013**	**346.943.873**	**267.001**	**347.210.874**
Balance at 1 January 2013	**68.996.872**	**176.547.517**	**(1.126.981)**	**(862.067)**	**19.173.976**	**(1.789.457)**	**86.004.013**	**346.943.873**	**267.001**	**347.210.874**
		-								
Transfer of 2013 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	-	(4.040.106)		-	-	-	4.040.106	-	-	-
Disposals from revaluation reserve	-	(2.478.355)		-	-	-		(2.478.355)	-	(2.478.355)
Current year revaluation adjustments (net off deferred tax)	-	-		-	-	-	-	-	-	-
Total comprehensive income / (loss) for the period	-	(8.277.820)	(9.141)	164.132	-	870.166	19.333.716	12.081.053	(35.794)	12.045.259
Dividends paid	-	-		-	-	-	(18.884.886)	(18.884.886)	-	(18.884.886)
Balance at 31 December 2013	**68.996.872**	**161.751.236**	**(1.136.122)**	**(697.935)**	**19.173.976**	**(919.291)**	**90.492.949**	**337.661.685**	**231.207**	**337.892.892**

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

CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2013

(Amounts expressed in US Dollars unless otherwise stated)

	Notes	1 January - 31 December 2013	1 January - 31 December 2012
Cash flows from operating activities:			
Profit before taxation		26,406,091	28,065,156
Depreciation and amortization expenses	18-19	18,545,389	18,107,055
Interest expense	33	17,528,914	15,515,745
Interest income	33	(835,469)	(3,196,403)
Charge for allowance for doubtful receivables	10	-	251,159
Provision for employee termination benefits	24	2,081,006	2,544,299
Provision for financial assets available for sale	7	-	335,564
Gain on sale of property, plant and equipment and intangibles	32	(19,224,472)	(138,988)
Net change in currency translation reserve		(2,617,153)	(2,185,299)
Dividend income	32	(3,312,350)	(2,858,233)
Operating profit before working capital changes		**38,571,956**	**56,440,055**
Working capital changes:			
Trade receivables	10	46,038,417	(11,420,859)
Inventories	13	(48,682,111)	(1,262,809)
Other current assets and liabilities - net	26	(25,565,461)	18,258,934
Trade payables	10	30,405,397	(27,456,681)
Taxes paid	35	(1,600,069)	(8,481,459)
Employee benefit obligations paid	24	(3,708,211)	(1,419,072)
Other non-current assets and liabilities - net	26	-	(5,160,737)
Net cash provided by /(used in) operating activities		**35,459,918**	**19,497,372**
Cash flows from investing activities:			
Purchase of property, plant and equipment	18-19	(152,308,990)	(28,507,669)
Proceeds from sale of property, plant and equipment and intangibles		35,765,787	1,232,879
Net change in available for sale financial assets	7	(42,926)	450,848
Interest received	33	835,469	3,529,152
Dividend received	32	3,312,350	2,858,233
Net cash used in investing activities		**(112,438,310)**	**(20,436,557)**
Cash flows from financing activities:			
Redemption of borrowings		(1,545,923,245)	(1,173,600,944)
Proceeds from borrowings		1,681,487,035	1,237,706,904
Dividends paid		(18,884,888)	(20,553,510)
Interest paid		(16,883,394)	(12,667,577)
Net cash provided by financing activities		**99,795,508**	**30,884,873**
Net increase/(decrease) in cash and cash equivalents		**22,817,116**	29,945,688
Cash and cash equivalents at the beginning of the year		**50,129,228**	20,183,540
Cash and cash equivalents at the end of the period		**72,946,344**	**50,129,228**

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

(Amounts expressed in US Dollars unless otherwise stated)

1. CORPORATE INFORMATION

General

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. (Borusan Mannesmann Boru) ("the Company") is a joint stock company incorporated in Turkey. The Company's shares are 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 avarege number of the personnel in the reported period in terms of category is as follows :

Period	Worker	Official	Manager	Executive	Total
December 31, 2013	921	246	33	6	1,206
December 31, 2012	1,127	249	35	6	1,417

Consolidated financial statements covering accounting period of 1 January – 31 December 2013 are approved with Board of Directors' decision dated on March 4, 2014. General assembly has the authority to amend the financial statements.

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

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

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

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

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis of Preparation

2.1.1. Accounting policies

The consolidated financial statements of the Group at 31 December 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

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

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

2.1.2. Preparation of Financial Statements in Hyperinflationary Periods

Prior to 1 January 2006, the adjustments and reclassifications made to the statutory records for the purpose of fair presentation in accordance with IFRS included the restatement of balances and transactions for the changes in the general purchasing power of TL in accordance with International Accounting Standards ("IAS") 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of Turkey indicate that hyperinflation has ceased, effective from 1 January 2006, the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2005 are treated as the basis for the carrying amounts in these financial statements.

2.1.3. Comparatives and restatement of prior periods' financial statements

The consolidated financial statements of the Group include comparative financial information to enable the determination of the financial position and performance. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current period consolidated financial statements.

In accordance with the decision taken in the CMB meeting numbered 20/670 held on 7 June 2013, and in compliant with the announcement related to the format of financial statements and its accompanying notes, comparative figures have been reclassified to conform to the changes in presentation in the current period.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1. Basis of presentation (continued)

2.1.1. Accounting policies (continued)

Reclassifications to 31 December 2012 Balance Sheet

- Advances given, rent, insurance and other short-term prepaid expenses recorded in other current assets are reclassified to “Prepaid expenses” which was opened as a new financial line item under the current assets. Total value of the items reclassified is 6,085,255 USD.
- Derivatives recorded in other current assets were reclassified in a new financial line item, “Derivatives”. Total value of these items is 830,911 USD.
- Advances given, rent, insurance and other short-term prepaid expenses recorded in other non-current assets are reclassified to “Prepaid expenses” which was opened as a new financial line item under the non-current assets. Total value of the items reclassified is 14,324,691 USD.
- “Short-term portion of long-term borrowings” was opened as a new financial line item; and the related part of borrowings, which equal 22,974,401 USD was reclassified in this line item.
- Derivatives recorded in other financial liabilities, which equal 1,348,502 USD, were reclassified in “Derivatives” new financial line item opened under the Short-term Liabilities.
- Accrued salaries of employees were reclassifed from other short-term liabilities to “Provisions for employee benefits” which line is opened under short-term liabilities. The total amount reclassified is 4,092,930 USD.
- Deferred income of the Group was reclassified from other short-term liabilities to “Deferred Income” line opened under short-term liabilities. Total amount reclassified is 8,320 USD.
- Other taxes and social security premiums payable items were reclassified from other short-term liabilities, to “Other Payables” line. Total amount reclassified is 2,426,589 USD.
- Other long-term financial liabilities were reclassified from other short-term liabilities to “Other Financial Liabilities” line. Total amount reclassified is 387,456 USD.

Restatements in the Income Statement for the Period Ended 31 December 2012.

- Discounting income recorded in financial income and currency translation gain were reclassified to “Other Income and Expense”. Amounts reclassified are 4,218,707 USD and 3,525,986 USD, respectively.
- Dividend income from subsidiaries were reclassified to “Income From Investing Activities”. Total amount reclassified is 2,855,206USD.

No changes to the profit for the period ended 31 December 2012 occurred as a consequence of the reclassifications.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Year	Year end USD /TRY exchange rates	Average USD /TRY exchange rates
2009	1.5057	1.5474
2010	1.5640	1.5001
2011	1.8889	1.6697
2012	1.7826	1.7922
2013	2.1343	1.9021

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3. 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 when control is transferred to the Company.

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

2.4 Amendments in International Financial Reporting Standards ("IFRS")

a. Standards, amendments and IFRICs applicable to 31 December 2013

- IAS 1 (amendment), "Presentation of financial statements", regarding other comprehensive income is effective for annual periods beginning on or after 1 July 2012. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group applied the amendment with changes in formats of CMB's reporting requirements.

- Amendment to IAS 19, 'Employee benefits'; is effective for annual periods beginning on or after 1 January 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The Group early adopted the revised version of IAS 19 in 2012.

- Amendment to IFRS 1, 'First time adoption', on government loans; ; is effective for annual periods beginning on or after 1 January 2013. This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.

- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting¸; is effective for annual periods beginning on or after 1 January 2013. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

- Amendment to IFRSs 10, 11 and 12 on transition guidance¸; is effective for annual periods beginning on or after 1 January 2013. These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.4 Amendments in International Financial Reporting Standards ("IFRS") (continued)

- Annual improvements 2011; is effective for annual periods beginning on or after 1 January 2013.These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to:

  - IFRS 1, 'First time adoption'
  - IAS 1, 'Financial statement presentation'
  - IAS 16, 'Property plant and equipment'
  - IAS 32, 'Financial instruments; Presentation'
  - IAS 34, 'Interim financial reporting'

- IFRS 10, 'Consolidated financial statements' ; is effective for annual periods beginning on or after 1 January 2013. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

- IFRS 11, 'Joint arrangements'; ; is effective for annual periods beginning on or after 1 January 2013. IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IFRS 12, 'Disclosures of interests in other entities'; is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- IFRS 13, 'Fair value measurement' ; is effective for annual periods beginning on or after 1 January 2013. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

- IAS 27 (revised 2011), 'Separate financial statements'; is effective for annual periods beginning on or after 1 January 2013. IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- IAS 28 (revised 2011), 'Associates and joint ventures'; is effective for annual periods beginning on or after 1 January 2013. IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

- IFRIC 20, 'Stripping costs in the production phase of a surface mine' is effective for annual periods beginning on or after 1 January 2013. This interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.4 Amendments in International Financial Reporting Standards ("IFRS") (continued)

b. New IFRS standards, amendments and IFRICs effective after 31 December 2013:

- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting is effective for annual periods beginning on or after 1 January 2014.These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities is effective for annual periods beginning on or after 1 January 2014. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.

- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures is effective for annual periods beginning on or after 1 January 2014. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' - 'Novation of derivatives is effective for annual periods beginning on or after 1 January 2014. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria

- IFRIC 21, 'Levies' is effective for annual periods beginning on or after 1 January 2014. This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

- IFRS 9 'Financial instruments' – classification and measurement; is effective for annual periods beginning on or after 1 January 2015. This standard on classification and measurement of financial assets and financial liabilities will replace IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions.

- Amendments to IFRS 9,'Financial instruments', regarding general hedge. These amendments to IFRS 9, 'Financial instruments', bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements.

- Amendment to IAS 19 regarding defined benefit plans; ; is effective for annual periods beginning on or after 1 July 2014. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.4 Amendments in International Financial Reporting Standards ("IFRS") (continued)

- Annual improvements 2012; is effective for annual periods beginning on or after 1 July 2014. These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards:

• IFRS 2, 'Share-based payment'
• IFRS 3, 'Business Combinations'
• IFRS 8, 'Operating segments'
• IFRS 13, 'Fair value measurement'
• IAS 16, 'Property, plant and equipment' and IAS 38,'Intangible assets'
• Consequential amendments to IFRS 9, 'Financial instruments', IAS 37, 'Provisions, contingent liabilities and contingent assets', and
• IAS 39, Financial instruments – Recognition and measurement'.

- Annual improvements 2013; is effective for annual periods beginning on or after 1 July 2014. The amendments include changes from the 2011-1-13 cycle of the annual improvements project that affect 4 standards:

• IFRS 1, 'First time adoption'
• IFRS 3, 'Business combinations'
• IFRS 13, 'Fair value measurement' and
• IAS 40, 'Investment property'.

2.5. Summary of Significant Accounting Policies

Offsetting

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

Comparative Information and Restatements on Prior Year 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. Details on restatement to comperative information is provided in Note 2.1.3.

Changes in Accounting Policies

Material changes in accounting policies are applied retrospectively and prior period financial statements are restated. There have not been any material changes in accounting policies of the Group in current period.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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 TRY denominated trade receivables is 12% (2012 - 12%) and for USD and EUR denominated trade receivables Libor rate is used (2012: Libor). The average collection period of trade receivables is 56 days (2012 - 45 days). Trade receivables for which risks and rewards are transferred to third parties as part of factoring transaction are derecognized.

Related Parties

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

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are initially recorded at cost. 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 27). All other tangible assets are stated at historical cost less accumulated depreciation and any accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. On disposal of revalued assets, amounts in revaluation reserves relating to that asset are transferred to retained earnings. Further, the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is realized from the revaluation surplus to retained earnings on an annual basis as the asset is used by the Group.

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

All tangible fixed assets are initially recorded over its cost value. Group's land, building, machinery and equipment were subjected to an expertise review by an independent professional valuation company firstly on July 1999 and on December 2004 and December 2009, and the fair value of the assets in question are reflected in the financial statements. The fair values in question are determined by discounted cash flow and refurbishment cost methods. The value increases and decreases are reflected in the "revaluation fund" account in the equity account (Note 27). Depreciation for these assets is allocated over their fair values and the related depreciation expenses are reflected in the income statement. All other tangible fixed assets are reflected by deducting the accumulated depreciation and impairment provision from the historical cost. When a tangible fixed asset is sold, costs and accumulated depreciations for this asset are deducted from related accounts and the resulting income or expense is reflected in the income statement. When the revalued assets are removed from the assets, the revaluated amount of these assets is transferred to accumulated profits. Also, the difference between the re-calculated value of the tangible fixed asset and the depreciation calculated over the original value is transferred from the revaluation fund to the accumulated profits, from each year that the tangible fixed asset is used.

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

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

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

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

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

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

Intangible Assets

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

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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

Trade Payables

Trade payables which generally have an average repayment period of 32 days (2012: 30 days) are carried at amortized cost which is the fair value of consideration to be paid in the future for goods and services received, whether or not billed to the Group. Interest rate used for TRY denominated trade payables is 12% (2012: 12%) and interest rates used for USD and EURO denominated trade payables are Libor (2012: Libor rate).

The major part of the trade payables result from the purchase of raw materials and indirect materials. The trade payables resulting from the purchase of raw materials and indirect materials are interest bearing and the average maturities are 180-360 days and the average interest rates applied are in the interval of 1.50% - 3.27% (2012: 180-360 days and the average interest rates applied are in the interval of 1.76% - 5.62%).

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (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 period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date.

Deferred tax

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

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

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

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

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Employment Termination Benefits

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

Revenue

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.

Steel pipe sales:

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

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

Engineering sales:

Engineering revenue is recognized proportionally to the level of completion.

Interest and dividend income:

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

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. The Group's qualifiying assets are mainly comprises from the investments in BM Pipe, Gemlik and Halkalı factories.

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

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 rediscounts 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 trading 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. A financial asset or liability is initially measured of 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.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financial Instruments (continued)

Available-for-sale financial assets, which are not traded in the organised markets and whose fair values can not be reliably determined, are reflected in the consolidated financial tables after deducting the provision for the impairment from the cost values. The Group evaluates whether there is an objective evidence about the impairment of financial assets on the day of the balance sheet. The significant and long term decrease of the available-for-sale shares below its fair value cost is evaluated as an indicator of impairment. If there are objective evidences about the impairment of available-for-sale financial assets, the remaining loss amount after the deduction of impairment amount reflected in the income statement before the total loss, from the difference between the acquisition cost of the relevant financial asset and its fair value, is deducted from the equities and recognised in the income statement.

The following methods and assumptions are used for the estimation of fair values of the financial instruements whose fair values are predictable;

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.

Except for financial assets designated as fair value through profit or loss and financial assets avaliable-for-sale, financial instruments are measured using effective interest method.

Financial Liabilities

Financial assets' fair values affiliate its carrying amounts. Due to trade liabilities and other financal 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 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 liabilites that provide cash or other financial assets to other companies,
- 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 liabilies held for buying and selling purposes, are booked by computed cost acquired from effective interest method.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (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.

Foreign Currency Transactions

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

In preparing the financial statements of the Company and its subsidiaries, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The foreign currency income or expenses incurred from the translation of foreign currency denominated transaction or restatement of monetary items is reflected within the statement of income in the related period.

Exchange differences are recognized in profit and loss, unless they relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings, they arise from derivative transactions where hedge accountings is applied.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Foreign Currency Transactions (Continued)

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

Earnings Per Share

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

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

Statements of Cash Flows

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

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

Discountinued Operations

A component of the Group that either has been disposed of or is classified as held for sale and represents a seperate 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 measures assets related to its discountinued operations with the lower of carrying value and fair value less costs to sell.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Significant Accounting Judgements and Estimations

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

<u>Significant accounting judgements that the Group makes in the application of accounting principles</u>

- 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.

- Employee termination benefits

The Group made actuarial calculation to calculate the amount of liability in accordance with IAS 19. The Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. The assumptions made by the Group management have been explained in Note 24.
For the 01 January-31 December 2013 period, if the discount rate used in the calculation was higher/lower by 1%, the comprehensive income of the period would have been TRY1,560,396 lower/higher. For the same period, if the retirement probability rate used in the calculation was higher/lower by 1%, the comprehensive income of the period would have been TRY1,430,888 lower/higher.

- Revaluation of property, plant and equipment

Land, buildings, machinery and equipment are stated at revalued amounts in accordance with IAS 16 revaluation method. 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 revalued by an independent valuation firm (Standart Gayrimenkul Değerleme Uygulamaları A.Ş) on January 2010 effective from December 31st , 2009. The carrying values of the related property, plant and equipment are remeasured to their fair values, and the corresponding surplus along with deferred taxation, is recorded under revaluation reserve in equity. It is noted that there have been no significant changes in the values of tangible fixed assets since the valuation made in January 2010. For the 1 January-31 December 2013 period, if the value determined in the expert's report was higher/lower by 10%, the net period profit would have been TRY3,556,617 and the comprehensive income of the period would have been TRY89,404,107 lower/higher.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Significant Accounting Judgments and Estimates (continued)

- Fair value of financial assets

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

Significant Changes and Errors in the Accounting Policies

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

3. BUSINESS COMBINATIONS

None (31December 2012: None).

4. JOINT VENTURES

None (31December 2012: None).

(Amounts expressed in US Dollars unless otherwise stated)

5. SEGMENT REPORTING

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

Steel 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.

Segment reporting of the period ended on 31 December 2013 is mentioned below:

1 January 2013-31 December 2013	Steel Pipe	Engineering	Total
Total segment revenue	620,119,989	9,815,194	629,935,183
Gross profit	65,971,259	661,456	66,632,715
Depreciation and amortisation	20,609,223	200,105	20,809,328
Capital expenditures	170,473,171	429,001	170,902,172

31 December 2013	Steel Pipe	Engineering	Total
Total assets	929,473,620	9,797,286	939,270,906
Total liabilities *	562,182,785	6,359,506	568,542,291

Segment reporting of the period ended on 31 December 2012 is mentioned below:

1 January 2012-31 December 2012	Steel Pipe	Engineering	Total
Total segment revenue	787,307,748	7,601,391	794,909,139
Gross profit	75,940,980	1,626,435	77,567,415
Depreciation and amortisation	17,490,886	500,105	17,990,991
Capital expenditures	30,419,443	1,004,561	31,424,004

31 December 2012	Steel Pipe	Engineering	Total
Total assets	807,659,574	9,500,934	817,160,508
Total liabilities *	436,786,390	4,355,169	441,141,559

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

As of 31 December 2013 and 31 December 2012 property and equipments division in respect of the geographical positions are as below;

1 January-31 December 2013	Turkey	Apart from Turkey	Total
Property, plant and equipment	380,257,303	120,706,730	500,964,033

1 January-31 December 2012	Turkey	Apart from Turkey	Total
Property, plant and equipment	447,746,805	8,138,044	455,884,849

(Amounts expressed in US Dollars unless otherwise stated)

6. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Cash in hand	5,023	4,231
Bank accounts		
- Demand deposits	4,612,558	3,268,245
- Time deposits	68,328,763	46,856,752
	72,946,344	**50,129,228**

The details of time deposits as of 31 December 2013 and 31 December 2012 are as follows:

Curency	Effective interest rate	Maturity (days)	Original amount	Amount in USD
TRY	% 5.00 - % 5.25	2	1,032,495	483,763
USD	% 2.90	2-30	67,845,000	67,845,000
EUR				
				68,328,763

			31 December 2012	
Curency	**Effective interest rate**	**Maturity (days)**	**Original amount**	**Amount in USD**
USD	% 1.75 - % 3.45	2	46,856,752	46,856,752
				46,856,752

(Amounts expressed in US Dollars unless otherwise stated)

7. FINANCIAL INVESTMENTS

a) Short-term Financial Investments

None (31 December 2012: None).

b) Available-for-sale Financial Assets

Available-for sale financial assets as of 31 December 2013 and 31 December 2012 are stated below:

	31 December 2013		31 December 2012	
	Amount	**Share (%)**	**Amount**	**Share (%)**
Unquoted				
Borçelik Çelik Sanayii Ticaret A.Ş. ("Borçelik")	35,845,000	10.7	35,845,000	10.7
Borusan Mannesmann Cooperatie U.A.(BM Coop) (*)	4,699,631	99.0	4,666,195	99.0
Other	136,013		106,230	
Impairment in fair values of subsidiaries (**)	(2,515,416)		(2,495,123)	
	38,165,228		**38,122,302**	

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

(*) As at 31 December 2012, BM Coop. participated 100% to Borusan Mannesmann Espana S.A. which was established in Spain and has no operations. The financial statements of Borusan Mannesmann Espana S.A. were not consolidated due to their immateriality compared to the consolidated financial statements.

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

The movements for impairment provision of subsidiaries for the periods ended 31 December 2013 and 31 December 2012 are stated below:

	1 January - 31 December 2013	**1 January - 31 December 2012**
Opening	2,495,123	2,235,357
Additions, net	18,085	387,639
Currency translation differences	2,208	(127,873)
Closing	**2,515,416**	**2,495,123**

(Amounts expressed in US Dollars unless otherwise stated)

8. BORROWINGS

a) Short-term Borrowings

	31 December 2013			31 December 2012		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Short-term borrowings:						
USD	50,411,982	50,411,982	% 0.91 -3.48	40,369,854	40,369,854	% 1.12-6.11
EURO	8,341,012	11,476,073	% 2.95 -5.50	7,388,412	9,747,183	% 3.38-4.52
TRY	571,579	267,806	-	74,043	41,537	-
Short-term financial leasing payables						
USD	-	-		-	-	
EURO	-	-		12,969	17,109	
Transaction costs directly attributable to borrowings		**(14,125)**			**(423,616)**	
		62,141,736			**49,752,066**	

As of 31 December 2013, the entire borrowings of the Group consist of unsecured borrowings (31 December 2012: The entire borrowings are unsecured).

b) Short-term Portion of Long-term Borrowings

	31 December 2013			31 December 2012		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Short-term portion of long-term borrowings:						
USD	20,929,947	20,929,947	% 3.70 - 5.76	16,806,636	16,806,636	% 1.65 -3.76
Euro	6,421,794	8,835,496	% 1.19 - 5.21	4,675,195	6,167,765	% 2.30 - 2.62
Transaction costs directly attributable to borrowings		(330,636)				
		29,434,807			**22,974,401**	

As of 31 December 2013; 4,004,937 USD of the short term portion of long-term borrowings of the Group is secured, whereas the remaining 25,760,506 USD is not secured
(31 December 2012 respectively; 3,713,607 USD and 19,260,794 USD).

(Amounts expressed in US Dollars unless otherwise stated)

8. BORROWINGS (continued)

c) Long-term Borrowings

	31 December 2013			31 December 2012		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Long-term borrowings:						
USD	180,142,857	180,142,857	% 3.70 - 5.35	55,571,429	55,571,429	% 3.70 - 5.24
EURO	11,039,145	15,188,328	% 1.05 - 5.29	18,038,313	23,797,095	% 1.92 - 5.62
					-	
Transaction costs directly attributable to borrowings		(953,749)			(1,505,445)	
		194,377,436			**77,863,079**	

The interest rates of long-term borrowings are variable.

As of 31 December 2013; 13,136,818 USD of the long-term borrowings of the Group is secured, whereas the remaining 182,194,367 USD is not secured (31 December 2012 respectively; 17,751,620 USD and 61,616,903 USD).

The redemption schedule of the long-term borrowings for 31 December 2013 and 31 December 2012 are as follows:

	31 December 2013	31 December 2012
2014	-	33,886,111
2015	42,177,324	22,011,963
2016	71,103,838	18,554,449
2017	11,697,244	3,840,159
2018	24,198,931	1,075,842
2019	46,153,848	-
	195,331,185	**79,368,524**

9. OTHER FINANCIAL LIABILITIES

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

	31 December 2013	31 December 2012
Financial liabilities arising from interest-swap agreement	408,434	440,959
	408,434	**440,959**

Fair value of interest-rate swap agreements as of 31 December 2013 is 408,434 USD. 198,161 USD of this amount is recorded in the short-term liabilities, whereas USD 210,273 of this amount is recorded in long-term liabilities.(2012: 440,959 USD; and the 53,503 USD portion of this amount is recorded within the short-term liabilities). This amount is recorded in equity under the cash flow hedge reserve.

(Amounts expressed in US Dollars unless otherwise stated)

10. TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

	31 December 2013	31 December 2012
Trade receivables	95,036,996	139,515,233
Notes receivable	2,034,473	2,213,201
Receivables from related parties (Note 37)	6,291,505	6,027,528
Receivables from factoring	(38,544,309)	(35,706,922)
Allowance for doubtful receivables (-) (*)	(6,129,153)	(7,685,431)
	58,689,512	**104,363,609**

(*) As of 31 December 2013, 86,814 USD (31 December 2012: 83,242 USD) of doubtful receivables are due from related parties.

The movement of the provision for doubtful receivables during the periods ended 31 December 2013 and 31 December 2012 is as follows:

	1 January - 31 December 2013	1 January - 31 December 2012
Opening	7,685,431	7,629,648
Currency translation differences	(1,008,727)	(195,375)
Charge for the year	-	309,404
Collections	(547,551)	(58,246)
Closing	**6,129,153**	**7,685,431**

As of 31 December 2013, the long-term trade receivables of the Group equals 140,561 USD (31 December 2012: 504,881 USD).

Quality and level of the risks on the trade receivables are disclosed in Note 38.

b) Trade payables

	31 December 2013	31 December 2012
Trade payables	240,390,719	211,481,595
Due to related parties (Note 37)	6,562,969	5,403,670
	246,953,688	**216,885,265**

28,025,853 USD of trade payables are interest bearing (22,999,883 USD and 3,652,964 EUR). The weighted average interest rate applied to these trade payables is respectively 3.05% for USD and 4.20% for EUR, and the average maturity of the payables is 180 days (31 December 2012: 41,852,813 USD and 8,282,031 EUR; interest rates are: 4.56% for USD and 4.02% for EUR and average maturity is 270 days). On the other hand, the weighted average interest rate applied to 68,116,508 USD of trade payables (68,116,508 USD) is 2.35% for USD and average maturities are 180-360 days. (31 December 2012: 109,679,921 USD and 17,104,569 EUR; interest rates are 3.31% for USD and 2.09% for EUR; and the average maturities are 180- 360 days).

Long-term trade payables includes interest charges amounting 10,220,275 USD and the weighted average interest rate is 3.8%. (31 December 2012: 5,026,258 USD and 3,681,663 EUR; and the interest rates are 4.31 for USD and 4.21 for EUR).

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

(Amounts expressed in US Dollars unless otherwise stated)

11. OTHER RECEIVABLES AND PAYABLES

a) Other Receivables

	31 December 2013	31 December 2012
Receivables from tax authority	2,122,760	6,981,184
Due from personnel	35,915	56,493
	2,158,675	**7,037,677**

b) Other Payables

	31 December 2013	31 December 2012
Taxes and charges payable	2,482,915	2,426,589
Advances received	1,988,247	1,563,015
Due to related parties (Note 37)	-	30,020,143
	4,471,162	**34,009,747**

12. DERIVATIVE FINANCIAL INSTRUMENTS

Forward transactions are being performed in order to reduce risks deriving from foreign currency exchange rate fluctuations. As of 31 December 2013; total value of foreign currency receivables is 17,922,100 EUR and 1,918,577 GBP, and the total value of foreign currency payables is 1,137,654 EUR (2012: 985,000 GBP, 44,110,000 EUR, 1,137,653 EUR)(Note 38).

	31 December 2013	31 December 2012
Financial liabilities arising from derivative financial instruments	510,857	1,348,502
	510,857	**1,348,502**

As of 31 December 2013, there is no income accrued from forward foreign exchange transactions (31 December 2012: 830,410 USD)

(Amounts expressed in US Dollars unless otherwise stated)

13. INVENTORIES

	31 December 2013	31 December 2012
Raw materials	51,568,780	52,805,373
Work in progress	6,144,971	7,980,657
Finished goods	108,161,707	43,174,946
Trade goods	923,874	485,269
Goods-in-transit	16,416,113	30,087,089
	183,215,445	**134,533,334**

14. PREPAID EXPENSES

Details of current and non-current prepaid expenses of the Group as of 31 December 2013 and 31 December 2012 are as follows:

a) Short-term Prepaid Expenses

	31 December 2013	31 December 2012
Advance payments for raw materials	2,806,260	4,637,535
Other short term prepaid expenses	1,789,955	979,879
Insurance fees	565,473	467,841
	5,161,688	**6,085,255**

b) Long-term Prepaid Expenses

	31 December 2013	31 December 2012
Advances paid for purchases of property, plant and equipment	1,651,698	13,546,358
Other long-term prepaid expenses	1,022,571	778,333
	2,674,269	**14,324,691**

15. CURRENT INCOME TAX ASSETS

As of 31 December 2013, the current income tax assets are 669,200 USD (31 December 2012: None).

16. DEFERRED INCOME

As of 31 December 2013, the short-term deferred income of the Group is as follows:

	31 December 2013	31 December 2012
Other short-term deferred income	574,652	8,320
	574,652	**8,320**

17. EMPLOYEE BENEFIT OBLIGATIONS

As of 31 December 2013, accrued salaries of employees 2,362,702 USD (31 December 2012: 4,092,931 USD).

(Amounts expressed in US Dollars unless otherwise stated)

18. PROPERTY, PLANT AND EQUIPMENT

	1 January 2013	Currency translation differences	Additions	Disposals	Transfers	Assets held for sale	31 December 2013
Cost							
Land	159,528,943	-	-	(1,644,715)	1,021,500	(50,679,165)	108,226,563
Land improvements	4,093,270	-	1,171	-	6,542	(556,811)	3,544,172
Buildings	126,008,272	784,336	1,039,882	(3,083,656)	1,272,005	(11,866,572)	114,154,267
Machinery and equipment	179,161,332	526,318	4,188,656	(12,610,640)	31,601,533	(20,848,187)	182,019,012
Motor vehicles	2,797,313	4,214	209,641	-	-	-	3,011,168
Furniture and fixtures	16,674,745	11,534	721,008	(3,076)	620,953	-	18,025,164
Construction in progress	19,003,409	256,544	145,247,851	(14,947)	(34,343,172)	-	130,149,685
	507,267,284	**1,582,946**	**151,408,209**	**(17,357,034)**	**179,361**	**(83,950,735)**	**559,130,031**
Less: Accumulated depreciation							
Land improvements and leasehold items	(726,711)	-	(207,313)	83,501	34,905	108,058	(707,560)
Buildings	(10,320,601)	(85,640)	(3,050,422)	319,696	-	2,452,405	(10,684,562)
Machinery and equipment	(24,306,638)	(233,043)	(13,613,669)	410,387	(92,442)	8,232,998	(29,602,407)
Motor vehicles	(2,483,335)	(4,194)	(116,505)	-	-	-	(2,604,034)
Furniture and fixtures	(13,506,234)	(7,338)	(1,044,438)	2,135	(11,560)	-	(14,567,435)
	(51,343,519)	**(330,215)**	**(18,032,347)**	**815,719**	**(69,097)**	**10,793,461**	**(58,165,998)**
Net book value	**455,923,765**						**500,964,033**

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 (31 December 2012: 20,000,000 EUR).

The amount of borrowing costs capitalized during the period is 887,549 USD (31 December 2012: 2,806,676 USD).

(Amounts expressed in US Dollars unless otherwise stated)

18. PROPERTY, PLANT AND EQUIPMENT (continued)

	1 January 2012	Currency translation differences	Additions	Disposals	Transfers	Assets held for sale	31 December 2012
Cost							
Land	159,066,902	-	-	(377,841)	839,882	-	159,528,943
Land improvements	2,309,973	-	360,487	(11,437)	1,434,247	-	4,093,270
Buildings	101,344,270	717,792	34,239	(555,589)	24,467,560	-	126,008,272
Machinery and equipment	116,435,249	2,528,500	401,069	(418,360)	60,214,874	-	179,161,332
Motor vehicles	2,799,518	(37,646)	25,631	-	9,810	-	2,797,313
Furniture and fixtures	15,065,429	67,189	85,940	-	1,456,187	-	16,674,745
Construction in progress	77,108,457	4,467	30,313,045	-	(88,422,560)	-	19,003,409
	474,129,798	**3,280,302**	**31,220,411**	**(1,363,227)**	**-**	**-**	**507,267,284**
Less: Accumulated depreciation							
Land improvements and leasehold items	(426,446)	-	(306,045)	5,780	-	-	(726,711)
Buildings	(6,967,939)	(30,142)	(3,361,318)	38,798	-	-	(10,320,601)
Machinery and equipment	(12,035,233)	(163,250)	(12,332,913)	224,758	-	-	(24,306,638)
Motor vehicles	(2,464,313)	102,624	(121,646)	-	-	-	(2,483,335)
Furniture and fixtures	(11,757,712)	30	(1,748,552)	-	-	-	(13,506,234)
	(33,651,643)	**(90,738)**	**(17,870,474)**	**269,336**	**-**	**-**	**(51,343,519)**
Net book value	**440,478,155**						**455,923,765**

(Amounts expressed in US Dollars unless otherwise stated)

18. PROPERTY, PLANT AND EQUIPMENT (continued)

The historical cost of revalued land, buildings and machinery and equipment as of 31 December 2013 and 31 December 2012 are as follows:

	31 December 2013		31 December 2012	
	Land and buildings	Machinery and equipment	Land and buildings	Machinery and equipment
Cost	45,199,995	86,481,478	44,546,365	86,835,813
Accumulated depreciation (-)	(7,260,475)	(34,897,312)	(6,542,710)	(31,281,239)
Net book value	**37,939,520**	**51,584,166**	**38,003,655**	**55,554,574**

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

	Cost		Accumulated depreciation		Net book value	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Machinery and equipment	1,202,026	1,166,991	(634,002)	(535,134)	568,024	631,857

19. INTANGIBLE ASSETS

	31 December 2013	31 December 2012
Cost:		
Cost as of 1 January	3,558,341	3,223,043
Translation differences	26,930	20,843
Additions	900,781	93,934
Transfer/Disposals	(179,361)	220,521
	4,306,691	**3,558,341**
Less: Accumulated amortization		
Accumulated amortizations as of 1 January	2,613,676	2,529,269
Translation differences	26,708	16,310
Current year charge	513,042	236,581
Transfer/Disposals	(69,096)	(168,484)
	3,084,330	**2,613,676**
Net book value	**1,222,361**	**944,665**

Current period amount of depreciation and amortization recorded to cost of goods sold and services provided is USD 15,665,145 and to selling, general and administrative expenses is USD 2,880,244 (2012: USD 14,292,914 and USD 14,292,914 respectively).

20. GOODWILL

None (31 December 2012: None).

21. GOVERNMENT GRANTS

None (31 December 2012: None).

22. CONTINGENT ASSETS AND LIABILITIES

None (31 December 2012: None).

(Amounts expressed in US Dollars unless otherwise stated)

23. COMMITMENTS

- **Export Commitments**

Export commitments amount to 291,608,280 USD as of 31 December 2013 (31 December 2012: USD 332,051,461)

- **Letters of credit**

As of 31 December 2013, the Group has open letter of credit agreements for the future purchases from suppliers amounting to USD 8,247,377 and EUR 2,033,913 (31 December 2012: USD 15,678,508 and EUR 5,588,012).

- **Guarantees, Pledges and Mortgages**

As of 31 December 21013, the Group is contingently liable for safeguards which are USD 30,785,476 in total (31 December 2012: USD 29,803,256), and mortgages in total of USD 27,517,219 (31 December 2012: USD 26,385,056). No guarantees are given during this period.

	USD	EUR	TRY	31 December 2013
A. GPM’s given in the name of its own legal personality	15,719,920	9,380,103	4,609,744	30,785,476
B. GPM’s given on behalf of the fully consolidated companies	-	20,000,000	-	27,517,219
C. GPM’s given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other GPM’s given	-	-	-	-
i. Total amount of GPM’s given on behalf of the majority shareholder	-	-	-	-
ii. Total amount of GPM’s given on behalf of other group companies which	-	-	-	-
iii. Total amount of GPM’s given on behalf of third parties which are not in scope of C	-	-	-	-
Total	**15,719,920**	**29,380,103**	**4,609,744**	**58,302,695**

	USD	EUR	TRY	31 December 2012
A. GPM’s given in the name of its own legal personality	14,078,986	8,213,944	8,713,352	29,803,256
B. GPM’s given on behalf of the fully consolidated companies	-	20,000,000	-	26,385,056
C. GPM’s given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other GPM’s given	-	-	-	-
i. Total amount of GPM’s given on behalf of the majority shareholder	-	-	-	-
ii. Total amount of GPM’s given on behalf of other group companies which	-	-	-	-
iii. Total amount of GPM’s given on behalf of third parties which are not in scope of C	-	-	-	-
Total	**14,078,986**	**28,213,944**	**8,713,352**	**56,188,312**

There are no CPMs that the Group is liable on its immediate parent company (31 December 2012: None)

(Amounts expressed in US Dollars unless otherwise stated)

24. PROVISONS FOR EMPLOYEE BENEFITS

In accordance with the Turkish Labour Law, the Group is responsible for paying severance pay for staff who have completed one year of service and cut ties from the Group or retired, who have completed 25 years of service (20 for women) and are entitled to a pension, who have been called up for military service or who die. The severance pay to be paid is equal to the employee's monthly wage for each year of service and this amount is limited to TRY3,438.22 as of 31 December 2013 (TRY3.033,98 as of 31 December 2012).

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

As of 31 December 2013 and 31 December 2012 the actuarial assumptions that are used in the calculation of liability are as follows:

	31 December 2013	**31 December 2012**
Discount rate	3.9%	3.7%
Probability of retirement	98.00%	98.00%

The movements of provision for employment termination benefits for the periods ended 31 December 2013 and 2012 are as follows:

	1 January - 31 December 2013	**1 January - 31 December 2012**
Opening (1 January)	13,169,674	11,529,730
Currency translation difference	(1,680,465)	514,720
Service cost	899,660	790,606
Finance cost	1,181,346	344,966
Actuarial loss	9,141	1,408,727
Paid during the period	(3,708,211)	(1,419,075)
	9,871,145	**13,169,674**

25. RETIREMENT PLANS

None (31 December 2012: None).

(Amounts expressed in US Dollars unless otherwise stated)

26. OTHER ASSETS AND LIABILITIES

a) Other Current Assets

	31 December 2013	31 December 2012
VAT receivable	7,012,908	3,017,744
Income accruals	2,072,895	3,134
Other job advances	136,549	123,827
Advances given to personnel	52,838	41,885
	9,275,190	**3,186,590**

b) Other Non-current Assets

As of 31 December 2013, other non-current assets equal 50,407 USD (31 December 2012: 46,108 USD).

c) Other Short-term Liabilities

	31 December 2013	31 December 2012
Accrued export expenses	4,508,729	7,608,944
Accrued cost of sales expenses	2,517,659	2,988,724
Other	189,009	115,646
	7,215,397	**10,713,314**

(Amounts expressed in US Dollars unless otherwise stated)

27. EQUITY

a) Paid-in Share Capital

As of 31 December 2013 and 31 December 2012, Company's composition of shareholders and their respective shares are as follows:

	31 December 2013		31 December 2012	
	TRY	Share (%)	TRY	Share (%)
Borusan Mannesmann Boru Yatırım Holdinş A.Ş.	104,157,266	73.48	20,831,453	73.48
Halka açık	24,641,510	17.38	4,928,302	17.38
Lumbro Nominees Jersey Ltd.	9,450,000	6.67	1,890,000	6.67
Diğer	3,501,224	2.47	700,245	2.47
	141,750,000	**100.00**	**28,350,000**	**100.00**
USD Equivalent	68,996,872		68,996,872	

On 8 November 2013, the statutory capital was increased from TRY28,350,000 to TRY141,750,000. This capital increase was made from "inflation adjustment differences" in the tax accounts and "Foreign Currency Translation Reserve" in the statutory consolidated financial statements prepared in accordance with Turkish Financial Reporting Standards.

As of 31 December 2013, there are 141,750,000,000 shares, each of which has 0.1 Kr nominal value. As of 31 December 2013, the paid-in capital of the company comprises Group A (10% of the total shares) and Group B (90% of the total shares) shares (2012: Group A 10%, Group B 90%). Also, the Company has 100 dividend shares that do not grant voting power (2012: 100 dividend shares). Group A shareholders' rights are as follows:

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

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

b) Revaluation Funds

As of 31 December 2013 and 31December 2012 the movement of revaluation funds are as follows:

	1 January- 31 December 2013		**1 January- 31 December 2012**	
	Property Plant and Equipment Revaluation reserve	**Investment revaluation reserves**	**Property Plant and Equipment Revaluation reserve**	**Investment revaluation reserves**
Balance at 1 January	176,547,517	19,173,976	180,408,817	19,173,976
Current year revaluation of financial investments	(12,317,926)	-	(1,602,924)	-
Disposals from revaluation funds	(2,478,355)	-	(2,258,376)	-
Balance at 31 December	**161,751,236**	**19,173,976**	**176,547,517**	**19,173,976**

Revaluation funds of Property, Plant and Equipment:

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

Cash flow hedge reserve

Cash flow hedge reserve arises as a result recognition in equity of the effective changes in the fair value of the derivate financial instruments subject to a cash flow hedge.

(Amounts expressed in US Dollars unless otherwise stated)

27. EQUITY (continued)

Cash flow hedge reserve (Continued)

Investment revaluation reserve:

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

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 2013 and 31 December 2012, reserves and retained earnings/accumulated deficit (as per the statutory financial statements of the Company) in TRY are as follows:

	31 December 2013	31 December 2012
Legal reserves	13,262,560	9,979,158
Special reserves	2,778	2,778
	13,265,338	**9,981,936**

c) Retained earnings

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

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

- Sources Which Can be Subjected to Dividend Distribution:

The Group has a loss amounting to TRY 2,338,420 in its legal records as of the balance sheet date (profit period in 2012: TRY 59,911,974) and the total of other sources which can be subjected to dividend distribution is TRY 30,567,912. (31 December 2012 : TRY 4,907,455).

(Amounts expressed in US Dollars unless otherwise stated)

27. EQUITY (continued)

d) Non-controlling shares

The activities of non-controlling shares for the periods as of 31 December 2013 and 31 December 2012 are as follows:

	1 January - 31 December 2013	1 January - 31 December 2012
Balance at 1 January	267,000	275,048
Currency translation difference	1,918	7,442
Share in current year result	(37,711)	(15,490)
Balance at 31 December	**231,207**	**267,000**

28. REVENUE AND COST OF SALES

a) Revenue

	1 January – 31 December 2013			1 January – 31 December 2012		
	Domestic sales	Export	Total	Domestic sales	Export	Total
Steel Pipe	285,418,046	334,701,943	620,119,989	282,152,420	505,989,992	788,142,412
Engineering	4,425,254	5,389,941	9,815,195	6,365,328	1,244,121	7,609,449
	289,843,300	**340,091,884**	**629,935,184**	**288,517,748**	**507,234,113**	**795,751,861**

b) Cost of sales

	1 January - 31 December 2013	1 January - 31 December 2012
Direct material	409,004,318	579,253,425
Direct labor	33,489,684	37,534,159
Depreciation and amortization	15,665,145	14,308,067
Repair, maintenance and other production expenses	23,229,478	41,276,889
Net change in work-in-process	1,835,686	(821,137)
Net change in finished goods	(22,443,577)	8,149,662
Cost of trade goods sold	96,834,438	34,050,770
Cost of other sales	5,687,297	4,350,378
	563,302,469	**718,102,213**

(Amounts expressed in US Dollars unless otherwise stated)

29. MARKETING AND GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2013	1 January - 31 December 2012
General administrative expenses	37,375,629	35,737,503
Marketing expenses	12,022,025	13,191,019
	49,397,654	**48,928,522**

30. EXPENSES BY NATURE

a) Marketing Expenses

	1 January - 31 December 2013	1 January - 31 December 2012
Personnel	3,884,818	4,225,869
Sales distribution	3,286,437	4,782,289
Consultancy	1,630,472	431,383
Transportation and travel	757,297	805,595
Direct selling expense	692,934	912,627
Vehicle expenses	471,846	489,791
Rent	441,418	794,762
Depreciation and amortisation expenses	283,459	150,617
Energy	109,975	148,733
Communication	90,363	112,027
Oursourced services	46,719	32,668
Tax	3,502	10,716
Maintenance	708	4,956
Other	322,077	288,986
	12,022,025	**13,191,019**

(Amounts expressed in US Dollars unless otherwise stated)

30. EXPENSES BY NATURE (continued)

b) General Administrative Expenses

	1 January - 31 December 2013	1 January - 31 December 2012
Personnel	14,523,349	16,051,002
Consultancy	3,847,112	3,188,066
Depreciation and amortisation	2,596,785	3,687,547
Energy	2,090,479	2,212,086
Outsourced services	1,702,567	1,298,713
Sponsorship and donations	1,698,687	1,347,910
Information technology	1,392,394	1,112,706
Tax and charges	1,346,706	947,624
Insurance	1,246,228	1,044,981
Transportation and travel	667,030	360,469
Vehicle expenses	607,915	566,762
Rent	439,600	302,922
Maintenance	397,043	442,302
Communication	238,562	318,069
Other	4,581,172	2,856,344
	37,375,629	**35,737,503**

Depreciation and amortization expenses:

	1 January - 31 December 2013	1 January - 31 December 2012
Cost of sales	15,665,145	14,308,067
General administrative expenses	2,596,785	3,687,547
Marketing expenses	283,459	150,617
	18,545,389	**18,146,231**

Personnel expenses:

	1 January - 31 December 2013	1 January - 31 December 2012
Cost of sales	33,489,684	37,534,159
General administrative expenses	14,523,349	16,051,002
Marketing expenses	3,884,818	4,225,869
	51,897,851	**57,811,030**

(Amounts expressed in US Dollars unless otherwise stated)

31. OTHER INCOME AND EXPENSE

a) Other Income

	1 January- 31 December 2013	1 January- 31 December 2012
Interest on credit sales	3,680,806	4,223,179
Prior period income	1,530,567	-
Rent	400,849	-
Insurance claims	344,078	723,069
Scrap sales	286,994	353,794
Currency translation gain	-	3,529,724
Other	481,571	877,832
	6,724,865	**9,707,598**

Income for the prior period consists of the release of provisions in relation to corporate tax and USA anti-damping costs.

b) Other Expense

	1 January- 31 December 2013	1 January- 31 December 2012
Currency translation loss	1,938,363	-
Count differences	168,027	-
Impairment on financial asset held for sale (Not 7)	20,293	385,563
Loss on settlement of subsidiaries	-	395,065
Other	1,270,529	260,819
	3,397,212	**1,041,447**

32. INVESTMENT INCOME

	1 January- 31 December 2013	1 January- 31 December 2012
Gain on disposal of plant, property and equipment	19,224,472	138,988
Dividend income (Not 37)	3,312,350	2,858,233
	22,536,822	**2,997,221**

The profit from fixed asset sales is largely obtained from the sale of the shares of S.S Makine ve İmalat Sanayicileri Toplu İş Yeri Yapı Kooperatifi, and idle buildings and machinery.

(Amounts expressed in US Dollars unless otherwise stated)

33. FINANCIAL INCOME AND EXPENSE

a) Financial Income

	1 January- 31 December 2013	1 January- 31 December 2012
Interest income	562,363	236,539
Income from derivative financial instruments	273,106	2,959,864
	835,469	**3,196,403**

a) Financial Expense

	1 January- 31 December 2013	1 January- 31 December 2012
Interest expenses	10,798,906	10,970,396
Loss on derivative financial instruments	2,382,042	937,426
Interest charges	2,090,679	64,328
Bank expenses	1,259,404	2,246,971
Factoring expense	997,883	1,296,624
	17,528,914	**15,515,745**

34. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Spiral pipe production sites at Gemlik have a 250,000 ton / year capacity, and the production site have been working actively since 2012. The site costed 110m USD at total; and it has provided an important competitive advantage to the Company in the production of pipes tailored for oil and gas lines; especially in terms of technology, production capacity, production elasticity, and the strategic benefits of location.

Production activities in the spiral pipe production sites located in Yenidoğan Mah. Seka Devlet Hastanesi Yanı İzmit/ Kocaeli were suspended due to a urban transformation project of the municipality. The Company has decided to continue its production activities in a modern factory in Gemlik. Production activities of higher-caliber pipes, which is the group with key strategic importance to the company, are going to be carried on in the new production site.

The fixed assets in Kocaeli manufacturing sites were classified as assets held for sale, and presented seperately in the consolidated financial statements.

5,839,813 USD is the total impairment that was made in 31 December 2013 (2012: 502,693 USD).

Assets held for sale, and the regarding liabilities and expenses regarding to these assets are as follows:

	31 December 2013	31 December 2012
Tangible and intangible assets, net	63,364,794	554,794
Other assets	573,199	573,199
	63,937,993	**1,127,993**

Amortisation expense for the current period is 468,882 USD.

35. INCOME TAX ASSETS AND LIABILITIES

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

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

In Turkey, advance tax returns are filed and accrued on a quarterly basis. Advance corporate income tax rate applied in 2013 is 20%. (2012: 20%).

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

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

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

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

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

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.

(Amounts expressed in US Dollars unless otherwise stated)

35. INCOME TAX ASSETS AND LIABILITIES (continued)

As of 31 December 2013 and 31 December 2012, the current statutory tax charges for the Group can be analyzed as follows:

	1 January- 31 December 2013	**1 January- 31 December 2012**
Statutory combined profit before taxes as per historical statutory financial statements	(2,019,547)	42,052,362
Permanent non-tax deductible expenses	5,461,704	7,503,193
Permanent non-taxable income and loss carried forward utilized during the year	(8,376,439)	(5,305,984)
Taxable income per Turkish Tax Legislation	(4,934,282)	44,249,571
Corporation tax at 20%	-	8,849,914
Italy tax charge	-	234,119
Currency translation differences	-	89,055
Provision for current statutory taxes on income	**-**	**9,173,088**

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 2013 have not been included in combined profit before taxes as per historical statutory financial statements.

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 2013 and 31 December 2012 is as follows:

	1 January- 31 December 2013	**1 January- 31 December 2012**
Profit before tax	26,406,091	27,565,157
At statutory income tax calculated with rate at 20%	5,281,218	5,513,031
Effects of:		
Disallowable expenses	838,514	460,247
Tax exempt income	(1,476,425)	(1,000,133)
Non-tax deductible translation loss arising from remeasurement	2,466,778	566,059
Tax expense	**7,110,086**	**5,539,204**

(Amounts expressed in US Dollars unless otherwise stated)

35. INCOME TAX ASSETS AND LIABILITIES (continued)

Current income tax for the periods ended 31 December 2013 and 31 December 2012 are summarized below:

	1 January- 31 December 2013	1 January- 31 December 2012
Provision for current taxes as per statements of income		
- Turkey tax charge	-	8,938,969
- Italy tax charge	-	234,119
Total statutory income tax charge for the year	**-**	**9,173,088**
Prepaid taxes	(750,892)	(8,242,129)
Currency translation differences	81,692	(90)
Income tax payable	**(669,200)**	**930,869**

Deferred tax rate used is 20% as of 31 December 2013 and 31 December 2012. For the periods ended on these dates, deferred tax asset / (liability) calculated with temporary differences and effective tax rate is as follows:

	Temporary differences		Deferred tax asset/(liability)	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Net difference between the tax base and the				
- carrying value of tangible and intangible assets	(165,769,650)	(262,005,095)	(33,153,930)	(30,941,795)
- carrying value of financial assets	(5,045,785)	(20,183,132)	(1,009,157)	(1,009,157)
- carrying value of inventories	(8,885,120)	(532,168)	(1,777,024)	(106,434)
Provision for employee benefits obligation	8,434,380	(11,652,608)	1,686,876	2,330,522
Carry forward tax losses	3,647,995	-	729,599	-
Other provisions and accruals	3,272,530	8,237,515	654,506	1,703,521
Other temporary differences	167,035	730,687	33,407	146,137
Deferred tax liability, net			**(32,835,723)**	**(27,877,206)**

Below is the deferred tax assets / (liabilities) that are recorded in the consolidated balance sheets for the periods ended 31 December 2013 and 31 December 2012:

	31 December 2013	31 December 2012
Deferred tax assets	3,104,388	4,180,180
Deferred tax liabilities	(35,940,111)	(32,057,386)
Deferred tax liability, net	**(32,835,723)**	**(27,877,206)**

(Amounts expressed in US Dollars unless otherwise stated)

35. INCOME TAX ASSETS AND LIABILITIES (continued)

The distribution of deferred tax assets / (liabilities) for the periods ended on 31 December 2013 and 31 December 2012 are as follows:

	31 December 2013	**31 December 2012**
Deferred tax assets:		
Total amount of deferred tax assets be utilized in a year	1,429,666	1,865,260
Total amount of deferred tax assets be utilized in more than a year	1,674,722	2,314,920
	3,104,388	**4,180,180**

Deferred tax liabilities:	**31 December 2013**	**31 December 2012**
Total amount of deferred tax assets be utilized in a year	(1,801,329)	(137,638)
Total amount of deferred tax assets be utilized in more than a year	(34,138,782)	(31,919,748)
	(35,940,111)	**(32,057,386)**

Deferred tax liability for the periods ended on 31 December 2013 and 31 December 2012 are as follows:

	1 January- 31 December 2013	**1 January- 31 December 2012**
1 January	(27,877,206)	(31,810,706)
Tax charge recognized in the equity	2,355,200	733,420
Tax charge recognized in the statement of income	(7,110,086)	3,633,884
Curreny translation reserve	(203,631)	(433,804)
31 December	**(32,835,723)**	**(27,877,206)**

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

	31 December 2013		**31 December 2012**	
	Deferred tax asset	**Deferred tax liability**	**Deferred tax asset**	**Deferred tax liability**
Borusan Mannesmann Boru San. ve Tic A.Ş.	-	30,427,988	-	25,624,825
Borusan Mühendislik	-	427,302	-	303,945
BM Vobarno	-	1,980,433	-	1,948,436
	-	**32,835,723**	**-**	**27,877,206**

(Amounts expressed in US Dollars unless otherwise stated)

36. EARNINGS PER SHARE

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

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

The Group’s earnings per share as of 31 December 2013 and 31 December 2012 is as follows:

	31 December 2013	31 December 2012
Average number of shares existing during the period (total value)	141,750,000,000	141,750,000,000
Net profit for the period attributable to equity holders of the parent	19,333,716	22,018,101
Profit from continuing operations	19,333,716	19,777,564
Earnings per share	**0.0001**	**0.0001**

37. RELATED PARTY BALANCES AND TRANSACTIONS

a) Receivables and Payables to Related Parties

	31 December 2013	31 December 2012
Trade receivables		
Borusan İstikbal Ticaret T.A.Ş. ("İstikbal") (*)	6,216,845	5,632,680
Borusan Makine	54,354	75,144
Kerim Çelik	24,762	22,330
Other	27,266	322,450
Less: Allowance for doubtful receivables	(86,814)	(83,242)
Less: Provision for unaccrued finance income	(31,722)	(25,077)
	6,204,691	**5,944,285**

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

	31 December 2013	31 December 2012
Trade payables to related parties		
Borusan Lojistik	3,838,779	3,620,876
Borçelik	1,757,206	1,127,045
Borusan Holding A.Ş. (Borusan Holding)	134,384	83,392
Kerim Çelik	366	121,784
Diğer	838,057	455,866
Less: Provision for unaccrued finance expense	(5,823)	(5,293)
	6,562,969	**5,403,670**

(Amounts expressed in US Dollars unless otherwise stated)

37. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

	31 December 2013	31 December 2012
Other payables to related parties		
Payables to shareholders	-	20,143
İstikbal (*)	-	30,000,000
	-	**30,020,143**

(*) As of 31 December 2013, there are no borrowings taken over İstikbal (2012: USD interest rate: %1.24 and 1.12; and the maturity is under 6 months).

b) Transactions with Related Parties

	1 January - 31 December 2013	1 January - 31 December 2012
Material purchases		
Borçelik	15,669,263	7,570,222
	15,669,263	**7,570,222**
Service purchases		
Borusan Lojistik	52,421,299	59,883,141
Borusan Holding	2,641,373	2,555,965
Borusan Birlik Danışmanlık	1,484,940	782,869
İstikbal	363,110	1,029,758
Other	489,952	350,718
	57,400,674	**64,602,451**
Interest expenses		
BMBYH	92,634	144,434
	92,634	**144,434**

	1 January - 31 December 2013	1 January - 31 December 2012
Sales		
İstikbal	62,721,804	128,239,032
Borçelik	4,274,318	5,805,449
Other	61,527	866,547
	67,057,649	**134,911,028**
Dividend income		
Borçelik	3,307,027	2,847,843
Other	5,323	10,389
	3,312,350	**2,858,232**

(Amounts expressed in US Dollars unless otherwise stated)

37. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Payments to Key Management

	1 January - 31 December 2013	1 January - 31 December 2012
Salaries and short-term benefits provided to top management	1,845,083	2,678,863
Salaries and short-term benefits provided to board of directors	234,404	512,244
	2,079,487	**3,191,106**

38. FINANCIAL RISK MANAGEMENT

(a) Capital risk management

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

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

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

(b) Financial risk management objectives

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

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

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives (continued)

b.1) Credit risk

	Receivables					
	Trade receivables		Other receivables			
31 December 2013	**Related parties**	**Other**	**Related parties**	**Other**	**Bank accounts**	**Other**
Maximum credit risk exposed as of balance sheet date 31.12.2013	6,204,691	52,484,821	-	2,158,675	72,941,322	-
- the part under guarantee with collaterals, etc.	-	9,004,104	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	6,204,691	39,940,872	-	2,158,675	72,941,322	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as part due or impaired	-	-	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	12,543,949	-	-	-	-
- the part under guarantee with collaterals, etc.	-	1,816,214	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	86,814	6,042,338	-	-	-	-
- Impairment (-)	(86,814)	(6,042,338)	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

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

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives (continued)

b.1) Credit risk (continued)

	Receivables					
	Trade receivables		Other receivables			
31 December 2012	**Related parties**	**Other**	**Related parties**	**Other**	**Bank accounts**	**Other**
Maximum credit risk exposed as of balance sheet date 31.12.2012	5,944,285	98,419,324	-	7,037,677	50,124,997	-
- the part under guarantee with collaterals, etc.	-	19,630,316	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	5,944,285	93,044,561	-	7,037,677	50,124,997	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as part due or impaired	-	-	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	5,374,763	-	-	-	-
- the part under guarantee with collaterals, etc.	-	860,129	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	83,242	7,602,189	-	-	-	-
- Impairment (-)	(83,242)	(7,602,189)	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

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

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives (continued)

b.1) Credit risk (continued)

Disclosures regarding the quality of financial assets

The Group's credit risk primarily arises from its trade receivables. Such credit risk is managed by limiting the risk by the amount of the collaterals received. In managing credit risk, the Group uses 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.

In accordance to the internal evaluation;	31 December 2013	31 December 2012
Group 1	3,526,415	10,688,285
Group 2	30,075,200	82,925,799
Group 3	12,543,949	5,374,763
Total trade receivables	**46,145,564**	**98,988,847**

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

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

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

There is no trade receivables restructured, or that may be overdue in the case of being not restructured.
(31 December 2012: None)

As of 31 December 2013, the part of overdue trade receivables for which no impairment was calculated equals 12,543,949 USD (31 December 2012: 5,346,714 USD). Below is the aging of this trade receivables:

	31 December 2013	31 December 2012
Trade receivables		
1-30 days overdue	7,844,589	2,863,471
1-3 months overdue	2,503,623	795,798
3- 12 months overdue	2,195,737	1,715,494
The part under guarantee with collaterals	**12,543,949**	**5,374,763**
Total overdue receivables		-
The part under guarantee with collaterals	**1,816,214**	**860,129**

As of 31 December 2013, the Group holds mortgages equal to 462,837 USD, letters of guarantee equals to 7,741 USD, and pledges equal to 1,165,842 USD (31 December 2012 respectively: 710,194 USD of mortgages, 149,935 USD of letter of guarantee, and no pledges).

Overdue and impaired receivables are not secured.

(Amounts expressed in US Dollars unless otherwise stated)

38.FINANCIAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives (continued)

b.2) Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

Liquidity risk tables

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

31 December 2013

	Carrying value	Total cash outflows in accordance with contracts (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings	285,953,979	319,606,240	13,639,452	83,659,873	172,145,118	50,161,797
Trade payables	257,173,963	259,372,674	160,264,832	88,207,231	10,900,611	-
Other payables	4,471,162	4,471,162	4,471,162	-	-	-
Derivative instruments	510,857	510,857	473,346	37,510	-	-
Other financial liabilities	408,434	408,434	-	198,161	210,273	-
Total liabilities	**548,518,395**	**584,369,367**	**178,848,792**	**172,102,775**	**183,256,002**	**50,161,797**

31 December 2012

	Carrying value	Total cash outflows in accordance with contracts (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings	150,572,437	153,941,269	58,032,649	14,619,761	80,213,017	1,075,843
Financial leases	17,109	17,109	17,109	-	-	-
Trade payables	226,768,569	230,867,274	98,011,482	122,226,948	10,628,845	-
Other payables	34,009,747	34,009,747	34,009,747	-	-	-
Derivative instruments	1,348,502	1,348,501	574,256	774,245	-	-
Other financial liabilities	440,956	440,956	-	53,503	387,453	-
Total liabilities	**413,157,320**	**420,624,856**	**190,645,243**	**137,674,457**	**91,229,315**	**1,075,843**

(Amounts expressed in US Dollars unless otherwise stated)

38.FINANCIAL RISK MANAGEMENT (continued)

The details of the committed outstanding future contracts as of 31 December 2013 and 31 December 2012 are as below;

	Average exchange rates		Buying amount		Selling amount		Fair value	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012
USD buy- GBP sell Between 1-5 months	1.6260	-	544,653	-	350,000	-	226,644	-
USD buy- EUR sell Between 1-12 months	1.3445	-	34,664,667	-	26,965,000	-	(993,155)	-
EUR buy USD sell Between 1-6 months	0.7819	-	3,635,000	-	6,184,500	-	71,542	-
USD buy- GBP sell Between 1-5 months	-	1.6122	-	1,544,677	-	985,000	-	(77,258)
USD buy- EUR sell Between 1-6 months	-	1.3196	-	56,586,975	-	44,110,000	-	(2,371,502)
EUR buy- USD sell Between 1-6 months	-	0.7819	-	1,137,653	-	1,455,002	-	44,920

(c) Market risk

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

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

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

(d) Foreign currency risk management

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

Foreign currency sensitivity

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

The following table details the Group's sensitivity to a 10% change in the EUR and TRY exchange rates. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis below have been determined based on the exposure to interest rates at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The negative amount indicates the revaluation of EUR and TRY against USD.

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (continued)

(d) Foreign currency risk management (continued)

	31 December 2013			
	Profit / (loss)		Equity	
	Foreign currency appreciation	Foreign currency depreciaiton	Foreign currency appreciation	Foreign currency depreciaiton
	Change of EUR against USD by 10%			
1 - EUR net assets / liabilities	(1,042,251)	1,042,251	(529,799)	529,799
2 - EUR hedged from risks (-)	-	-	-	-
3- EUR net effect (1+2)	(1,042,251)	1,042,251	(529,799)	529,799
	Change of TL against USD by 10%			
4- TRY net assets / liabilities	597,228	(597,228)	-	-
5- TRY hedged from risks (-)	-	-	-	-
6- TRY net effect (4+5)	597,228	(597,228)	-	-
TOTAL (3 + 6)	**(445,023)**	**445,023**	**(529,799)**	**529,799**

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (continued)

(d) Foreign currency risk management (continued)

	31 December 2012			
	Profit / (loss)		Equity	
	Foreign currency appreciation	Foreign currency depreciaiton	Foreign currency appreciation	Foreign currency depreciaiton
	Change of EUR against USD by 10%			
1 - EUR net assets / liabilities	(2,484,786)	2,484,786	(695,879)	695,879
2 - EUR hedged from risks (-)	-	-	-	-
3- EUR net effect (1+2)	(2,484,786)	2,484,786	(695,879)	695,879
	Change of TL against USD by 10%			
4- TRY net assets / liabilities	1,320,062	(2,353,142)	-	-
5- TRY hedged from risks (-)	-	-	-	-
6- TRY net effect (4+5)	1,320,062	(2,353,142)	-	-
TOTAL (3 + 6)	**(1,164,724)**	**131,644**	**-**	**-**

The assets and liabilities in foreign curencies that are being held by the Group as of 31 December 2013 are as follows, in the original currencies and amounts, and denominated in their USD equivalents:

(Amounts expressed in US Dollars unless otherwise stated)

38 FINANCIAL RISK MANAGEMENT (continued)

FOREIGN CURRENCY POSITION

	31 December 2013				31 December 2012			
	TRY	**EUR**	**GBP**	**USD equivalents**	**TRY**	**EUR**	**GBP**	**USD equivalents**
1 Trade receivables	44,491,865	15,004,377	-	41,490,052	47,173,305	40,385,039	1,565,738	82,262,831
2a Monetary financial assets (Including cash	1,819,482	1,771,255	-	3,289,496	3,888,607	778,997	-	3,209,118
2b Non-monetary financial assets	-	-	-	-	-	-	-	-
3 Other	-	-	-	-	-	-	-	-
4 Current Assets (1+2+3)	**46,311,347**	**16,775,632**	**-**	**44,779,548**	**51,061,912**	**41,164,036**	**1,565,738**	**85,471,948**
5 Trade receivables	300,000	-	-	140,561	900	50	-	570,843
6a Monetary financial assets	-	-	-	-	-	-	-	-
6b Non-monetary financial assets	-	-	-	-	-	-	-	-
7 Other	-	-	-	-	-	-	-	-
8 Other assets (5+6+7)	**300,000**	**-**	**-**	**140,561**	**900**	**50**	**-**	**570,843**
9 TOTAL ASSETS (4+8)	**46,611,347**	**16,775,632**	**-**	**44,920,109**	**51,062,812**	**41,164,086**	**1,565,738**	**86,042,791**
10 Trade payables	30,594,283	13,084,410	-	32,336,903	27,627,332	25,942,397	10,166	49,739,286
11 Financial liabilities	571,579	14,762,806	-	20,579,374	74,043	12,076,576	-	15,973,594
12a Other monetary liabilities	2,698,850	134,038	-	1,448,931	72,912	33,864	-	855,772
12b Other non-monetary liabilities	-	-	-	-	-	-	-	-
13 Short-term liabilities (10+11+12)	**33,864,712**	**27,981,254**	**-**	**54,365,208**	**27,774,287**	**38,052,837**	**10,166**	**66,568,652**
14 Trade payables	-	-	-	-	-	-	-	-
15 Financial liabilities	-	11,039,145	-	15,188,328	-	21,691,223	-	28,616,207
16a Other non-monetary liabilities	-	-	-	-	-	-	-	-
16b Other non-monetary liabilities	-	-	-	-	-	-	-	-
17 Long-term liabilities (14+15+16)	**-**	**11,039,145**	**-**	**15,188,328**	**-**	**21,691,223**	**-**	**28,616,207**
18 TOTAL LIABILITIES (13+17)	**33,864,712**	**39,020,399**	**-**	**69,553,536**	**27,774,287**	**59,744,060**	**10,166**	**95,184,859**
derivatives out of statement of financial situation(19a-	**-**	**(17,922,100)**	**(1,918,577)**	**(27,814,805)**	**-**	**44,110,000**	**985**	**59,778,540**
19a Total Hedged Assets	-	-	-	-	-	-	-	-
19bTotal Hedged Liabilities	-	(17,922,100)	(1,918,577)	(27,814,805)	-	44,110,000	985	59,778,540
20 Net foreign currency Asset/ (Liabilit Position (TFRS 7B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	**12,746,635**	**(40,166,867)**	**(1,918,577)**	**(52,448,232)**	**23,288,525**	**25,530,026**	**1,556,557**	**50,636,473**
	12,746,635	**(22,244,767)**	**-**	**(24,633,427)**	**23,288,525**	**(18,579,974)**	**1,555,572**	**(9,142,067)**
22 Fair value of the financial instrume	**-**	**(344,002)**	**(24,161)**	**(473,299)**	**-**	**(1,008,420)**	**(26,912)**	**(1,373,701)**
Currency	**-**	**(344,002)**	**(24,161)**	**(473,299)**	**-**	**(1,008,420)**	**(26,912)**	**(1,373,701)**
24 Total Hedged Liabilities in Foreign	-	-	-	-	-	-	-	-

From 1 January 2013 to 31 December 2013, the Group imported amounting to USD 137,638,851 (USD 130,424,082 and EUR 9,926,519) and exported amounting to USD 284,019,063 (EUR 97,022,408. GBP 8,681,730 and USD 207,268,579). (In the period of 1 January 2012 – 31 December 2012, the Company imported USD 201,784,236 (USD 174,983,033 and EUR 35,357,561) exported amounting to USD 410,672,639 (EUR 152,106,488, GBP 16,910,379 and USD 284,874,821)

38. FINANCIAL RISK MANAGEMENT (continued)

(e) Interest rate risk

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

Interest rate sensivity

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.

(f) Price risk

The Group is exposed to price risks arising from the cost of raw material inventories and the steel price changes affecting the sales prices. There are no global derivative instruments to be utilized against the adverse price change effect on the sales margins. The Group optimizes inventory turnover rates by reviewing the sales-production-purchase balance on a consistent basis considering the steel price trend and reflects the changes on steel prices to the selling prices.

(Amounts expressed in US Dollars unless otherwise stated)

39. FINANCIAL INSTRUMENTS

31 December 2013 Balance Sheet	Loans and receivables	Available for sale investments	Derivatives	Other financial liabilities at amortised cost	Carrying amount	Note
Financial assets						
Cash and cash equivalents	72,946,344	-	-	-	72,946,344	6
Trade receivables	52,484,821	-	-	-	52,484,821	10
Due from related parties	6,204,691	-	-	-	6,204,691	11,37
Financial investments	-	38,165,228	-	-	38,165,228	7
Other receivables	2,158,675	-	-	-	2,158,675	11
Derivatives	-	-	-	-	-	
Financial liabilities						
Borrowings	-	-	408,434	285,953,979	286,362,413	8
Trade payables	-	-	-	250,610,994	250,610,994	10
Due to related parties	-	-	-	6,562,969	6,562,969	11,37
Other payables	-	-	-	4,471,162	4,471,162	11
Derivatives	-	-	408,434	-	408,434	9

31 December 2012 Balance Sheet	Loans and receivables	Available for sale investments	Derivatives	Other financial liabilities at amortised cost	Carrying amount	Note
Financial assets						
Cash and cash equivalents	50,129,228	-	-	-	50,129,228	6
Trade receivables	98,419,324	-	-	-	98,419,324	10
Due from related parties	5,944,285	-	-	-	5,944,285	11,37
Financial investments	-	38,122,303	-	-	38,122,302	7
Other receivables	7,037,677	-	-	-	7,037,677	11
Derivatives	-	-	830,410	-	830,410	27
Financial liabilities						
Borrowings	-	-	440,956	150,589,547	151,030,503	8
Trade payables	-	-	-	221,364,896	221,364,896	10
Due to related parties	-	-	-	5,403,670	5,403,670	11,37
Other payables	-	-	-	34,009,747	34,009,747	11
Derivatives	-	-	440,956	-	440,956	9

(Amounts expressed in US Dollars unless otherwise stated)

39. FINANCIAL INSTRUMENTS (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:

	31 December 2013			
Financial assets	Level 1	Level 2	Level 3	**Total**
Fair value through profit and loss	-	(919,291)	-	**(919,291)**
Fair value through comprehensive income	-	63,937,993	35,845,000	**99,782,993**

	31 December 2012			
Financial assets	Level 1	Level 2	Level 3	**Total**
Fair value through profit and loss	-	(1,789,457)	-	**(1,789,457)**
Fair value through comprehensive income	-	-	35,845,000	**35,845,000**

(Amounts expressed in US Dollars unless otherwise stated)

39. FINANCIAL INSTRUMENTS (continued)

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

	Available-for-sale financial assets	
31 December 2013	**Equity investments**	**Total**
Opening balance, 1 January 2013	35,845,000	35,845,000
Total gain or losses		
- recognized in profit and loss	-	-
- recognized in other comprehensive income	-	-
Closing balance, 31 December 2013	**35,845,000**	**35,845,000**

	Available-for-sale financial assets	
31 December 2012	**Equity investments**	**Total**
Opening balance, 1 January 2012	35,845,000	35,845,000
Total gain or losses		
- recognized in profit and loss	-	-
- recognized in other comprehensive income	-	-
Closing balance, 31 December 2012	**35,845,000**	**35,845,000**

40. SUBSEQUENT PERIOD EVENTS

None (31 December 2012: None).

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

None (31 December 2012: None).

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