BORUSAN MANNESMANN BORU
SANAYİ VE TİCARET
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
TOGETHER WITH INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITOR'S REPORT

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. (the "Company") and its subsidiaries (together the "Group") as at 31 December 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholder's equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

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

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

Independence

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

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Borusan Mannesmann Pipe US Inc. and Borusan Mannesman Vobarno Tubi SPA impairment assessment Please see Note 1 in the consolidated financial statements for explanations regarding its subsidiaries share proportions of the Group. The Group holds 100% shares of Borusan Mannesmann Pipe US Inc and 99% of Borusan Mannesmann Vobarno Tubi SPA. The management has evaluated impairment assessment of Borusan Mannesmann Pipe US and Borusan Mannesmann Vobarno Tubi SPA, despite the decline of the accumulated deficit over the years. Management has concluded that there is no impairment risk in respect of the Borusan Mannesmann Pipe US Inc's and Borusan Mannesmann Vobarno Tubi SPA's assets as of 31 December 2016. This conclusion was based on the expected positive operating cash flows and approved budget which shows consistent revenue growth within the forthcoming years. The reason why we focused on this issue; • Significancy of amounts in the consolidated financial statements, • Use of prospective assumptions for impairment assessment of subsidiaries.	We performed the following procedures in relation to the impairment assessment of Borusan Mannesmann Pipe US Inc. and Borusan Mannesman Vobarno Tubi SPA: • Obtaining prospective business plans and budgets of Borusan Mannesmann Vobarno Tubi SPA and Borusan Mannesmann Pipe US Inc, • Evaluating the reasonableness of key assumptions which used for prospective business plan. Reconciling input data to supporting evidence and considered the reasonableness of these budgets, • Evaluating the consistency and realization rate of prospective budgets over the past years with a retrospective evaluation technique, • Assessing the reasonableness of the estimates and assumptions with our audit procedures. We had no material findings as a result of these procedures.

Key audit matter	*How our audit addressed the key audit matter*
Fair value calculation of property plant and equipment Please see Note 18 in the consolidated financial statements for property, plant and equipment held by the Group as of 31 December 2017 accounted with their fair values amounting to 629.261.208 USD. The Group's land, buldings, machineries and equipments were revalued by independent valuation firm in 2014 and recorded in 2015. The reason why we focused on this issue; • The determination of fair value has data which are not easily observable on the market and are audited by an expert, • The calculation of fair value is affected by market conditions, • Significancy of property, plant and equipment amounts in the consolidated financial statements.	We performed the following procedures in relation to the fair value calculation of property plant and equipment: • Checking the frequency of revaluation of property, plant and equipment in accordance with International Accounting Standards ("IAS 16"), • Discussing with the Group Management and the independent valuation firm which made the valuation in 2014, and observing that there is no material and irregular change in the fair value of the property, plant and equipment, • According to discussions with the management and the independent valuation firm, observing that the assumptions and factors considered for the fair value calculation have not been changed significantly. We had no material findings as a result of these procedures.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

Baki Erdal, SMMM
Partner

Istanbul, 12 April 2017

BORUSAN MANNESMANN BORU SANAYİ VE TİCARET ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

CONTENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2016

(Amounts expressed in US Dollars unless otherwise stated)

		Audited	Audited
ASSETS	**Note**	**31 December 2016**	**31 December 2015**
Current assets	**Note**	**314,598,512**	**408,749,003**
Cash and cash equivalents	6	28,585,097	82,805,192
Trade receivables	10	71,726,843	75,956,950
- Due from related parties	37	10,549,065	11,306,084
- Trade receivables from other parties		61,177,778	64,650,866
Other receivables	11	2,105,535	1,113,791
- Other receivables from other parties		2,105,535	1,113,791
Derivative financial instruments	12	384,679	19,994
Inventories	13	172,722,484	179,244,915
Prepaid expenses	14	20,404,206	15,069,280
Current income tax assets	15	3,144,085	-
Other current assets	26	14,692,590	24,310,888
- Other current assets from related parties	37	115,367	118,857
- Other current assets from other parties		14,577,223	24,192,031
		313,765,519	**378,521,010**
Assets held for sale	34	832,993	30,227,993
Non-current assets		**692,294,886**	**673,933,589**
Available-for-sale financial assets	7	38,086,753	38,144,179
Property, plant and equipment	18	649,932,848	633,705,065
Intangible assets		876,585	765,950
- Other intangible assets	19	876,585	765,950
Prepaid expenses	14	3,340,350	1,247,106
Other non-current assets	26	58,350	71,289
TOTAL ASSETS		**1,006,893,398**	**1,082,682,592**

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2016

(Amounts expressed in US Dollars unless otherwise stated)

		Audited	Audited
LIABILITIES	**Note**	**31 December 2016**	**31 December 2015**
Current liabilities		**336,177,162**	**409,347,217**
Short-term borrowings	8	26,230,038	88,193,491
Short-term portion of long-term borrowings	8	57,621,099	19,383,591
Trade payables	10	229,327,928	266,791,334
- Due to related parties	37	3,010,377	3,210,016
- Trade payables to other parties		226,317,551	263,581,318
Employee benefit obligations	17	1,232,781	1,940,684
Other payables	11	10,141,673	14,186,526
- Other payables from third parties		10,141,673	14,186,526
Deferred revenue	16	825,146	2,889,158
Current income tax liabilities	35	-	6,484,757
Other current liabilities	26	10,798,497	9,477,676
Non-current liabilities		**215,283,721**	**244,227,389**
Long-term borrowings	8	153,675,308	185,198,429
Provisions for employee benefits	24	6,079,189	7,087,960
Deferred tax liabilities	35	55,529,224	51,941,000
Total liabilities		**551,460,883**	**653,574,606**
EQUITY		**455,432,515**	**429,107,986**
Equity attributable to equity holders of the parent		**455,045,759**	**428,715,352**
Paid -in capital	27	68,996,872	68,996,872
Other comprehensive income/expense not to be reclassified to profit or loss		232,597,752	232,296,020
-Revaluation and measurement gains (losses)	27	233,389,130	233,081,598
-Reserve for actuarial loss on employee termination benefits		(791,378)	(785,578)
Other comprehensive income/expense to be reclassified to profit or loss		17,235,797	17,345,393
- Currency translation differences		(2,322,858)	(1,848,577)
-Investment revaluation reserves	27	19,173,976	19,173,976
-Cash flow hedge reserve		384,679	19,994
Restricted reserves	27	-	-
Retained earnings		102,447,971	103,047,671
Net profit for the period		33,767,367	7,029,396
Non-controlling Interest	27	**386,756**	**392,634**
TOTAL LIABILITIES AND EQUITY		**1,006,893,398**	**1,082,682,592**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in US Dollars unless otherwise stated)

	Note	Audited 1 January - 31 December 2016	Audited 1 January - 31 December 2015
Revenue	28	650,413,815	716,516,620
Cost of sales (-)	28	(541,025,554)	(634,665,320)
Gross profit		**109,388,261**	**81,851,300**
General administrative expenses (-)	29	(38,289,798)	(42,558,678)
Marketing expenses (-)	29	(12,357,854)	(10,133,803)
Other operating income	31	9,043,093	11,542,911
Other operating expenses (-)	31	(1,518,426)	(562,646)
Operating profit		**66,265,276**	**40,139,084**
Income from investing activities	32	3,695,299	2,929,906
Operating profit before financial income and expense		**69,960,575**	**43,068,990**
Financial income	33	2,692,472	4,574,688
Financial expense (-)	33	(26,884,948)	(28,727,479)
Profit before tax from continued operations		**45,768,099**	**18,916,198**
Tax expense from continued operations		**(12,001,818)**	**(11,884,322)**
- Current tax (expense)/ income	35	(8,365,905)	(7,986,135)
- Deferred tax (expense)/ income		(3,635,913)	(3,898,187)
Profit from continued operations		**33,766,281**	**7,031,876**
Profit for the period		**33,766,281**	**7,031,876**
Attributable to:		**33,766,281**	**7,031,876**
- Non-controlling interest	27	(1,086)	2,480
- Equity holders of the parent		33,767,367	7,029,396
Earnings per share			
Earnings per share from continuing operations	36	0.0002382	0.0000496

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in US Dollars unless otherwise stated)

	Audited 1 January - 31 December 2016	Audited 1 January - 31 December 2015
Profit for the period	**33,766,281**	**7,031,876**
Other comprehensive income:		
Items not to be reclassified to profit or loss	**(5,800)**	**366,093**
Remeasurement of employee benefit obligations	(5,800)	366,093
Items to be reclassified to profit or loss	**(114,388)**	**(559,453)**
Cash flow hedging reserve	364,685	200,476
Currency translation differences	(479,073)	(759,929)
Other comprehensive (loss)/income	**(120,188)**	**(193,360)**
Total comprehensive income	**33,646,093**	**6,838,516**
Attributable to:		
- Non-controlling interest	(5,878)	(5,115)
- Equity holders of the parent	33,651,971	6,843,631

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 2016

(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						
	Share Capital	Revaluation reserve	Reserve for actuarial loss on employment termination benefits	Currency translation reserve	Investment revaluation reserve	Cash flow hedge reserve	Legal reserves and retained earnings	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 January 2015	**68,996,872**	**249,252,830**	**(1,151,671)**	**(1,096,243)**	**19,173,976**	**(180,482)**	**95,281,996**	**430,277,278**	**250,264**	**430,527,542**
Transfer of 2013 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	-	(16,171,232)	-	-	-	-	16,171,232	-	-	-
Total comprehensive income / (loss) for the period	-	-	366,093	(752,334)	-	200,476	7,029,396	6,843,631	(5,115)	6,838,516
Effect of capital increase in subsidiaries	-	-	-	-	-	-	-	-	147,485	147,485
Dividends paid	-	-		-	-	-	(8,405,557)	(8,405,557)	-	(8,405,557)
								-		-
Balance at 31 December 2015	**68,996,872**	**233,081,598**	**(785,578)**	**(1,848,577)**	**19,173,976**	**19,994**	**110,077,067**	**428,715,352**	**392,634**	**429,107,986**
Balance at 1 January 2016	**68,996,872**	**233,081,598**	**(785,578)**	**(1,848,577)**	**19,173,976**	**19,994**	**110,077,067**	**428,715,352**	**392,634**	**429,107,986**
Transfer of 2014 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	-	307,532	-	-	-	-	(307,532)	-	-	-
Disposals from revaluation reserve	-	-	-	-	-	-		-	-	-
Total comprehensive income / (loss) for the period	-	-	(5,800)	(474,281)	-	364,685	33,767,367	33,651,971	(5,878)	33,646,093
Dividends paid	-	-	-	-	-	-	(7,321,564)	(7,321,564)	-	(7,321,564)
Balance at 31 December 2016	**68,996,872**	**233,389,130**	**(791,378)**	**(2,322,858)**	**19,173,976**	**384,679**	**136,215,338**	**455,045,759**	**386,756**	**455,432,515**

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

(Amounts expressed in US Dollars unless otherwise stated)

	Notes	1 January - 31 December 2016	1 January - 31 December 2015
Cash flows from operating activities:			
Profit before tax		45,768,099	18,916,198
Reconciliation of profit before tax to operating profit before changes in working capital			
Depreciation and amortization expenses	18, 19	23,824,147	22,711,296
Provision for employee termination benefits	24	1,036,697	1,285,481
Interest income	33	(2,692,472)	(4,574,688)
Interest expense	33	26,884,948	24,062,325
Provision for doubtful receivables	10	54,886	104,104
Provision for impairment of invesments in associates and financial assets	7	130,260	45,088
Gain on sale of property, plant and equipment and intangibles	32	73,358	(809,053)
Provision for impairment on inventories	13	(6,131,597)	9,495,613
Currency translation differences		(1,352,934)	(245,188)
Dividend income	32	(3,768,657)	(2,120,853)
Operating profit before changes in working capital		**83,826,735**	**68,870,323**
Changes in working capital:			
Trade receivables		4,916,442	52,977,507
Inventories		12,654,028	10,055,832
Other current assets and liabilities, net		(3,634,260)	2,750,665
Trade payables		(37,463,406)	1,267,682
Other non-current assets and liabilities, net		(2,080,305)	(550,341)
Collection of doubtful receivables	10	-	39,508
Taxes paid	35	(16,564,806)	(444,802)
Employee benefit obligations paid	24	(945,226)	(1,116,441)
Net cash provided by/(used in) operating activities		**40,709,202**	**133,849,933**
Cash flow from investing activities:			
Purchase of property, plant and equipment and intangible assets	18, 19	(12,425,855)	(14,528,020)
Proceeds from the sale of tangible and intangible assets		268,839	1,329,512
Net change in available for sale financial assets		(72,834)	(43,500)
Proceeds from sale of available held for sale assets		295,000	24,250,000
Dividends received		3,768,657	2,120,853
Net cash provided by/(used in) investing activities		**(8,166,193)**	**13,128,845**
Cash flow from financing activities:			
Redemption of borrowings		(5,464,017,776)	(7,293,666,053)
Proceeds from borrowings		5,408,404,027	7,208,886,545
Dividends paid		(7,321,564)	(8,405,557)
Interest paid		(26,520,264)	(23,861,849)
Interest received		2,692,473	4,574,688
Net cash (used in)/provided by financing activities		**(86,763,104)**	**(112,472,226)**
Net increase/(decrease) in cash and cash equivalents		(54,220,095)	34,506,552
Cash and cash equivalents at the beginning of the year		82,805,192	48,298,640
Cash and cash equivalents at the end of the period		**28,585,097**	**82,805,192**

(Amounts expressed in US Dollars unless otherwise stated)

1. CORPORATE INFORMATION

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

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

Period	Worker	Official	Manager	Executive	Total
December 31, 2016	1,275	256	34	6	1,571
December 31, 2015	1,352	280	40	7	1,679

Consolidated financial statements covering accounting period of 1 January – 31 December 2016 are approved with Board of Directors' decision dated on February 24, 2017. General assembly has the authority to amend the financial statements.

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

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

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

Business Segment	Subsidiary	Location	(%) of Ownership
Holding	Borusan Mannesmann Holding BV "(BM Holding BV)"	Netherlands	100.0
Steel Pipe	Borusan Mannesmann Pipe US Inc. "(BM Pipe)"	USA	100.0
Steel Pipe	Borusan Mannesmann Vobarno Tubi SPA "(BM Vobarno)"	Italy	99.0
Engineering Services	Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş. "(Borusan Mühendislik)"	Turkey	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 Company as at 31 December 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.1. Basis of preparation (Continued)

2.1.1. Accounting policies (Continued)

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

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

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

2.2. Functional and presentation currency

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

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

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

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

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2. Functional and presentation currency (Continued)

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

Year	Year-end USD/TRY rates	Average USD/TRY rates
2012	1.7826	1.7922
2013	2.1343	1.9021
2014	2.3189	2.1878
2015	2.9076	2.7200
2016	3.5192	3.0232

Consolidated subsidiaries, BM Holding BV and BM Vobarno's functional currency is Euro. In accordance with IAS 21, monetary items in the financial statements are converted via using prevailing Euro exchange rates at 31 December 2016 (1 Euro=3.7099); income and expense and cash flows are converted with twelve-month average of the exchange rates (1 Euro=3.3412) (As of 31 December 2015, 1 Euro=3.1776; 31 December 2015 twelve-month average exchange rate 1 Euro=3.0186).

2.3. Basis of Consolidation

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

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

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

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

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Amendments in International Financial Reporting Standards

a) Standards, amendments and interpretations applicable to 31 December 2016 year end:

- TFRS 14 'Regulatory deferral accounts', effective from annual periods beginning on or after 1 January 2016. TFRS 14, 'Regulatory deferral accounts' permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt TFRS. However, to enhance comparability with entities that already apply TFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

- Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:

    - TFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
    - TFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to TFRS 1) regarding servicing contracts.
    - TFRS 19, 'Employee benefits' regarding discount rates.
    - TFRS 34, 'Interim financial reporting' regarding disclosure of information.

- Amendment to TFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

- Amendments to TAS 16 'Property,plant and equipment'**,** and TAS 41, 'Agriculture', regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of TAS 16, instead of TAS 41. The produce growing on bearer plants will remain within the scope of TAS 41.

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

2.4 Amendments in International Financial Reporting Standards (Continued)

a) Standards, amendments and interpretations applicable to 31 December 2016 year end (Continued):

- Amendment to TAS 16, 'Property, plant and equipment' and TAS 38, "Intangible assets", on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment the it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

- Amendments to TAS 27, 'Separate financial statements' on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- Amendment to TFRS 10 'Consolidated financial statements' and TAS 28, 'Investments in associates and joint ventures', effective from annual periods beginning on or after 1 January 2016.These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

- Amendment to TAS 1, 'Presentation of financial statements' on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improvepresentation and disclosure in financial reports

b) Standards, amendments and interpretations effective after 1 January 2017

- Amendments to TAS 7 'Statement of cash flows' on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- Amendments TAS 12 'Income Taxes', effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarify certain other aspects of accounting for deferred tax assets.

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

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

2.4. Amendments in International Financial Reporting Standards (Continued)

b) Standards, amendments and interpretations effective after 1 January 2017 (Continued)

- TFRS 9 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- TFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. TFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

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

- TFRS 16 'Leases', effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

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

- Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 standards:

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

2.4. Amendments in International Financial Reporting Standards (Continued)

b) Standards, amendments and interpretations effective after 1 January 2017 (Continued)

- TFRS 1, 'First-time adoption of TFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19, and TFRS 10 effective 1 January 2018.
- TFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after
1 January 2017.
- TAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.

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

2.5. Summary of Significant Accounting Policies

Offsetting

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

Comparative information and restatements on prior year's financial statements

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.

Changes in accounting policies

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. There is no material changes in accounting policies of the Group in current year.

Cash and cash equivalents

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

Trade receivables

Trade receivables are arised from product sales or service providing to the customers. If the expected time for the collection of trade receivables is one year or less, these receivables are classified as short-term receivables. Otherwise, they are classified as long-term receivables. Trade receivables are recognized at original invoice amount and are carried at amortized cost less an allowance for any uncollectible amounts. Interest rates used for amortized cost computation for TRY denominated trade receivables is 15% (2015 - 12%) and for foreign currency denominated trade receivables Libor rate is used (2015: Libor). The average collection period of trade receivables is 62 days (2015 - 55 days). Trade receivables for which risks and rewards are transferred to third parties as part of factoring transaction are derecognized.

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Related parties

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

Inventories

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

Property, plant and equipment

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

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

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

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

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

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

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

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

Intangible assets

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

Impairment of assets

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

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 (2015: 33 days) are carried at amortized cost which is the fair value of consideration to be paid in the future for goods and services received, whether or not billed to the Group. Interest rate used for TRY denominated trade payables is 14% (2015: 12%) and interest rates used for foreign currency denominated trade payables are Libor (2015: Libor rate).

The major part of the trade payables result from the purchase of raw materials and indirect materials. The trade payables resulting from the purchase of raw materials and indirect materials are interest bearing and the average maturities are 180-360 days and the average interest rates applied are in the interval of 0.25% - 2.21% (2015: 180-360 days and the average interest rates applied are in the interval of 1.23% - 3.36%).

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of Significant Accounting Policies (Continued)

Provisions, contingent assets and liabilities

i) Provisions

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

ii) Contingent assets and liabilities

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

Income taxes

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

Current tax

The tax currently payable is based on taxable profit for the 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)

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

Steel pipe sales:

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

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

Engineering sales:

Engineering revenue is recognized proportionally to the level of completion.

Interest and dividend income:

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

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. The Group's qualifiying assets 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)

2.5. Summary of significant accounting policies (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.

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;

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of Significant Accounting Policies (Continued)

Financial instruments (Continued)

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.

An equity instrument is that the remaining benefit after the declining all financial liabilities.

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.

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.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Derivative financial instruments and hedge accounting (Continued)

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 TRY, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

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

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

- Exchange differences which related to assets under construction for future usage and the adjustment item to be considered as interest costs on debts shown in foreign currency and included in these cost of assets,

- Exchange differences arising from transactions carried out in order to provide financial protection against risks arising from foreign currency (accounting policies to providing financial protection against risks are described below).

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Foreign currency transactions (Continued)

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

Earnings per share

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

Events after balance sheet date

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

Statements of cash flows

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

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

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

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

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

Capital and dividends

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

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 at the lower of carrying value and fair value less costs to sell.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Significant accounting judgements and estimations

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

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

- Deferred taxes

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

- Employee termination benefits

The Group made actuarial calculation to calculate the amount of liability in accordance with IAS 19. The Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. The assumptions made by the Group management have been explained in Note 24. For the period 1 January-31 December 2016, if the discount rate used in the calculation was higher/lower by 1%, the comprehensive income of the period would have been USD518,085 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 USD549,918 lower/higher.

- Revaluation of property, plant and equipment

Land, buildings, machinery and equipment are stated at revalued amounts in accordance with IAS 16 revaluation method. Fair values in the financial statements dated 31 December 2016 are based on the appraisal reports prepared by Standart Gayrimenkul Değerleme Uygulamaları A.Ş. for real estate and machinery and equipment in Turkey and CBF s.r.l for real estate and machinery and equipment in Italy. Market prices have been used in valuation of such property, plant and equipment. Net book values of related assets have been adjusted to reflect the revalued amounts and the gain has been accounted for under the revaluation reserve in equity, net-off relevant deferred tax impact.

For the period 1 January-31 December 2016, if the value determined in the expert's report was higher/lower by 1%, the comprehensive income of the period would have been USD894,457 lower/higher (2015: USD893,036).

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5. Summary of significant accounting policies (Continued)

Significant accounting judgements and estimates (Continued)

- Fair value of financial assets

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

Significant changes and errors in the accounting policies

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

Going concern

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

3. BUSINESS COMBINATIONS

None (31 December 2015: None).

4. JOINT VENTURES

None (31 December 2015: None).

5. SEGMENT REPORTING

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

- Steel Pipe: Manufacturing and sale of longitudinally and spirally welded steel pipes and pipes.
- Engineering: Production, maintenance and repair of the machinery and equipment which are related with the steel industry, design and production of spare parts and to design investment projects and conduct the projects.

Basic assets of the segments are tangible assets, intangible assets, inventories, receivables and make up operational cash which deferred tax asset was excluded. Segments' liabilities consist of operational liabilities, which deferred tax liabilities and tax provision were excluded. Investment expenditures consist of the tangible and intangible asset purchases. Segment reporting of the period ended on 31 December 2016 is mentioned below:

1 January 2016-31 December 2016	Steel Pipe	Engineering	Total
Total segment revenue	641,680,783	8,733,032	650,413,815
Gross profit	107,956,278	1,431,983	109,388,261
Depreciation and amortisation	27,617,852	114,993	27,732,845
Capital expenditures	12,419,527	7,040	12,426,567

31 December 2016	Steel Pipe	Engineering	Total
Total assets	996,680,062	10,213,336	1,006,893,398
Total liabilities (*)	492,257,276	3,674,383	495,931,659

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

(Amounts expressed in US Dollars unless otherwise stated)

5. SEGMENT REPORTING (Continued)

Segment reporting of the period ended on 31 December 2015 is mentioned below:

1 January 2015-31 December 2015	Steel Pipe	Engineering	Total
Total segment revenue	709,723,188	6,793,432	716,516,620
Gross profit	80,221,934	1,629,366	81,848,820
Depreciation and amortisation	22,565,376	145,920	22,711,296
Capital expenditures	14,523,794	4,226	14,528,020

31 December 2015	Steel Pipe	Engineering	Total
Total assets	1,072,059,624	10,622,968	1,082,682,592
Total liabilities (*)	590,146,347	5,002,502	595,148,849

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

As of 31 December 2016, a breakdown of property, plant and equipments in respect of the geographical positions is presented below;

31 December 2016	Turkey	Outside Turkey	Total
Tangible assets	495,304,805	154,628,043	649,932,848

31 December 2015	Turkey	Outside Turkey	Total
Tangible assets	472,327,172	161,377,893	633,705,065

6. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in hand	6,936	3,433
Cash at banks	28,578,161	82,801,759
- Demand deposits	11,941,041	27,278,173
- Time deposits	16,637,120	55,523,586
	28,585,097	**82,805,192**

(Amounts expressed in US Dollars unless otherwise stated)

6. CASH AND CASH EQUIVALENTS (Continued)

The details of time deposits as of 31 December 2016 and 31 December 2015 are as follows:

			31 December 2016	
Currency	**Effective interest date**	**Maturity (days)**	**Original currency amount**	**Amount in USD**
USD	%2.35 -2.50	3	6,791,000	6,791,000
Euro	%1.25	3	9,340,000	9,846,120
				16,637,120

			31 December 2015	
Currency	**Effective interest date**	**Maturity (days)**	**Original currency amount**	**Amount in USD**
TL	%5.50	4	205,000	70,505
USD	%1.80-2.10	4	51,945,000	51,945,000
Euro	%1.50	4	3,210,000	3,508,081
				55,523,586

7. FINANCIAL INVESTMENTS

a) Short-term financial investments

None (31 December 2015: None).

b) Available-for-sale financial assets

Available-for sale financial assets as of 31 December 2016 and 31 December 2015 are stated below:

	31 December 2016		31 December 2015	
	Amount	**Share (%)**	**Amount**	**Share (%)**
Unquated				
Borçelik Çelik Sanayii Ticaret A.Ş. ("Borçelik")	35,845,000	10.7	35,845,000	10.7
Borusan Mannesmann Cooperatie U.A. (BM Coop) (*)	4,771,048	99.0	4,748,702	99.0
Other	233,438		182,950	
Impeirmant in fair values of subsidiaries (**)	(2,762,733)		(2,632,473)	
	38,086,753		**38,144,179**	

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

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

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

The movements for impairment provision of subsidiaries for the periods ended 31 December 2016 and 31 December 2015 are stated below:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening	2,632,473	2,587,385
Provision for the period	130,260	45,088
Currency translation difference	-	-
Closing	**2,762,733**	**2,632,473**

(Amounts expressed in US Dollars unless otherwise stated)

8. BORROWINGS

a) Short-term borrowings

	31 December 2016			31 December 2015		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Short-term borrowings:						
USD	20,111,315	20,111,315	%3.75 -3.75	81,449,721	81,449,721	%1.24 -3.45
EURO	5,757,199	6,069,173	%0.65 -0.75	5,177,400	5,658,174	%1.15 -2.25
TL	174,380	49,550	%11.50	3,156,477	1,085,596	%12.75-13.30
		26,230,038			**88,193,491**	

As of 31 December 2016, none of short-term borrowings of the Group are secured. (31 December 2015: None).

b) Short-term portion of long-term borrowings

	31 December 2016			31 December 2015		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Short-term portion of long term borrowings:						
USD	37,840,433	37,840,433	%3.80-5.62	16,836,511	16,836,511	%4.75-5.35
EURO	18,944,980	19,971,578	%3.15-5.20	2,512,659	2,745,985	%4.25-5.20
Transaction costs directly attributable to borrowings		(190,912)			(198,905)	
		57,621,099			**19,383,591**	

As of 31 December 2016; none of the short-term portion of long-term borrowings of the Group are secured. (31 December 2015:None).

c) Long-term borrowings

	31 December 2016			31 December 2015		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Long-term borrowings:						
USD	140,230,769	140,230,769	%4.72-5.62	163,923,077	163,923,077	%3.80-5.35
EURO	12,783,520	13,476,239	%2.80-5.20	19,678,571	21,505,925	%3.80-5.20
Transaction costs directly attributable to borrowings		(31,700)			(230,573)	
		153,675,308			**185,198,429**	

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

As of 31 December 2016; none of the long-term borrowings of the Group are secured (31 December 2015: None).

The redemption schedule of the long-term borrowings for 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	**31 December 2015**
2017	-	57,556,143
2018	66,489,987	66,504,983
2019	56,447,791	30,598,645
2020	15,384,615	15,384,615
2021	15,384,615	15,384,616
	153,707,008	**185,429,002**

(Amounts expressed in US Dollars unless otherwise stated)

9. OTHER FINANCIAL LIABILITIES

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

There is no fair value of interest-rate swap agreements as of 31 December 2016 (2015: None). This amount is recorded in equity under the cash flow hedge reserve.

10. TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

	31 December 2016	31 December 2015
Trade receivables	104,244,686	116,191,070
Notes receivable	242,969	395,223
Receivables from related parties (Note 37)	10,615,582	11,375,042
Receivables factored	(39,571,561)	(47,513,217)
Allowance for doubtful receivables (-) (*)	(3,804,833)	(4,491,168)
	71,726,843	**75,956,950**

(*) As of 31 December 2016, USD66,517 (31 December 2015: USD68,958) of doubtful receivables are due from related parties.

The movement of the provision for doubtful receivables during the periods ended 31 December 2016 and 31 December 2015 is as follows:

	1 January - 31 Dcember 2016	1 January - 31 December 2015
Opening	4,491,168	5,570,650
Currency translation differences	(741,221)	(1,144,078)
Additions	54,886	104,104
Collections	-	(39,508)
Closing balance	**3,804,833**	**4,491,168**

As of 31 December 2016, the Group does not have the long-term trade receivables (31 December 2015: None).

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

b) Trade payables

	31 December 2016	31 December 2015
Trade payables	226,317,551	263,581,318
Due to related parties (Note 37)	3,010,377	3,210,016
	229,327,928	**266,791,334**

USD14,804,418 of trade payables are interest bearing. The weighted average interest rate applied to these trade payables is 3.60%, and the average maturity of the payables is 360 days (31 December 2015: USD23,288,417; interest rates are: 2.52% for USD and average maturity is 180 days). On the other hand, the weighted average interest rate applied to USD135,742,585 and EUR4,730,800 of trade payables is 2.47% for USD and for 0.75% for EUR and average maturities are 180-360 days. (31 December 2015: USD202,682,136 and EUR21,498,490; interest rates are 1.1% for USD and for 1.8%; for EUR and the average maturities are 180- 360 days).

There are no long-term trade payables (31 December 2015: None).

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

(Amounts expressed in US Dollars unless otherwise stated)

11. OTHER RECEIVABLES AND PAYABLES

a) Other receivables

	31 December 2016	31 December 2015
Receivables from tax authority	2,096,855	1,082,568
Due from personnel	8,680	31,223
	2,105,535	**1,113,791**

b) Other payables

	31 December 2016	31 December 2015
Advances received	6,842,609	11,257,846
Taxes and charges payable	3,299,064	2,928,680
	10,141,673	**14,186,526**

12. DERIVATIVE FINANCIAL INSTRUMENTS

Forward transactions are being performed in order to reduce risks deriving from foreign currency exchange rate fluctuations (GBP/USD) and (EUR/USD). As of 31 December 2016; total value of foreign currency receivables is EUR14,764,500 and GBP150,000 (2015: EUR29,669,840, GBP1,520,000 and the total value of foreign currency payables is TRY12,262,000 (Note 38).

	31 December 2016	31 December 2015
Income accrual from derivative financial instruments	384,679	19,994
	384,679	**19,994**

As of 31 December 2016, USD384,679 amounting income has been accrued from forward foreign exchange transactions (31 December 2015: USD19,994).

13. INVENTORIES

	31 December 2016	31 December 2015
Raw materials	72,829,373	70,405,948
Work in progress	25,729,140	34,826,978
Finished goods	50,017,521	68,868,663
Trade goods	180,957	331,757
Goods-in-transit	27,329,509	14,307,182
Impairment	(3,364,016)	(9,495,613)
	172,722,484	**179,244,915**

(Amounts expressed in US Dollars unless otherwise stated)

13. INVENTORIES (Continued)

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

	1 January - 31 Dcember 2016	1 January - 31 December 2015
1 January	**9,495,613**	-
Provision for the year	2,167,471	10,075,041
Reversal of provision (-)	(8,299,068)	(579,428)
Closing	**3,364,016**	**9,495,613**

14. PREPAID EXPENSES

Details of current and non-current prepaid expenses of the Group as of 31 December 2016 and 31 December 2016 are as follows:

a) Short-term prepaid expenses

	31 December 2016	31 December 2015
Advance payments for raw materials	17,653,326	10,702,942
Insurance fees	540,142	424,153
Other short term prepaid expenses	2,210,738	3,942,185
	20,404,206	**15,069,280**

b) Long-term prepaid expenses

	31 December 2016	31 December 2015
Advance payments for fixed assets	2,824,717	636,222
Other long term prepaid expenses	515,633	610,884
	3,340,350	**1,247,106**

15. CURRENT INCOME TAX ASSETS

As of 31 December 2016, income tax asset is USD3,144,085 (31 December 2015: None).

16. DEFERRED REVENUE

As of 31 December 2016, the short-term deferred income of the Group is as follows:

	31 December 2016	31 December 2015
Deffered income	825,146	2,889,158
	825,146	**2,889,158**

17. EMPLOYEE BENEFIT OBLIGATIONS

As of 31 December 2016, accrued salaries of employees USD1,232,781 (31 December 2015: USD1,940,684).

(Amounts expressed in US Dollars unless otherwise stated)

18. PROPERTY, PLANT AND EQUIPMENT

	1 January 2016	Currency transaction differences	Additions	Disposals	Transfers	Transfer from asset held for sale to fixed assets	31 December 2016
Cost							
Land	179,918,000	-	-	-	-	29,100,000	209,018,000
Land improvements	6,932,424	-	-	-	637,345	-	7,569,769
Buildings	162,560,819	(605,290)	-	-	968,964	-	162,924,493
Machinery and equipment	302,738,000	(769,355)	540	(420,000)	7,523,332	-	309,072,517
Motor vehicles	3,507,133	(6,834)	-	(21,000)	30,621	-	3,509,920
Furniture and fixtures	25,188,483	(8,634)	-	(478)	1,183,678	-	26,363,049
Construction in progress	3,217,357	(9,794)	11,968,009	-	(10,343,940)	-	4,831,632
	684,062,216	**(1,399,907)**	**11,968,549**	**(441,478)**	**-**	**29,100,000**	**723,289,380**
Less: Accumulated depreciation							
Land improvements and leaseholds	(349,821)	-	(128,206)	-	-	-	(478,027)
Buildings	(6,761,489)	71,000	(4,846,231)	-	-	-	(11,536,720)
Machinery and equipment	(24,223,323)	296,247	(16,384,784)	94,778	-	-	(40,217,082)
Motor vehicles	(1,967,313)	5,281	(257,031)	4,025	-	-	(2,215,038)
Furniture and fixtures	(17,055,205)	6,380	(1,861,318)	478	-	-	(18,909,665)
	(50,357,151)	**378,908**	**(23,477,570)**	**99,281**	**-**	**-**	**(73,356,532)**
Net book value	**633,705,065**						**649,932,848**

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 2015: 20,000,000 EUR).

(Amounts expressed in US Dollars unless otherwise stated)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2015	Currency translation differences	Additions	Disposals	Transfers	31 December 2015
Land	179,918,000		-	-	-	179,918,000
Land improvements	6,349,796	-	-	-	582,628	6,932,424
Buildings	163,912,553	(1,907,626)	-	-	555,892	162,560,819
Machinery and equipment	295,644,103	(2,374,631)	3,268	(505,000)	9,970,260	302,738,000
Motor vehicles	3,474,644	(21,839)	-	(1,032,643)	1,086,971	3,507,133
Furniture and fixtures	22,019,259	(34,797)	958	-	3,203,063	25,188,483
Construction in progress	4,207,033	(69,623)	14,478,761	-	(15,398,814)	3,217,357
	675,525,388	**(4,408,516)**	**14,482,987**	**(1,537,643)**	**-**	**684,062,216**
Less: Accumulated depreciation						
Land improvements and leaseholds	(277,664)	-	(72,157)	-	-	(349,821)
Buildings	(2,307,729)	213,307	(4,667,067)	-	-	(6,761,489)
Machinery and equipment	(9,310,019)	813,518	(15,731,030)	4,208	-	(24,223,323)
Motor vehicles	(2,738,309)	9,491	(251,471)	1,012,976	-	(1,967,313)
Furniture and fixtures	(15,505,540)	(18,362)	(1,531,303)	-	-	(17,055,205)
	(30,139,261)	**1,017,954**	**(22,253,028)**	**1,017,184**	**-**	**(50,357,151)**
Net book value	**645,386,127**					**633,705,065**

(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 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	Land and buildings	Machinery and equipment	Land and buildings	Machinery and equipment
Cost	84,828,536	217,013,726	84,663,334	210,840,118
Acumulated depreciation (-)	(14,480,783)	(81,966,502)	(12,711,963)	(69,944,693)
Net book value	**70,347,753**	**135,047,224**	**71,951,371**	**140,895,425**

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 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Machinery and equipment	1,202,026	1,202,026	(629,938)	(586,175)	572,088	615,851

19. INTANGIBLE ASSETS

	31 December 2016	31 December 2015
Cost:		
Cost as of 1 January	4,644,621	4,659,767
Translation differences	(18,833)	(60,179)
Additions	457,307	45,033
Transfer/Disposals	-	-
	5,083,095	**4,644,621**
Less: Accumulated amortization		
Accumulated amortizations as of 1 January	3,878,671	3,479,818
Translation differences	(18,738)	(59,415)
Current year charge	346,577	458,268
Transfer/Disposals	-	-
	4,206,510	**3,878,671**
Net book value	**876,585**	**765,950**

Current period amount of depreciation and amortization recorded to cost of goods sold and services provided is USD18,811,722, to selling and marketing expenses is USD329,753 and to general administrative expenses is USD4,682,672 (2015: cost of goods sold and services USD17,760,092, selling and marketing expenses USD328,522 and general administrative expenses USD4,622,682 respectively).

20. GOODWILL

None (31 December 2015: None).

21. GOVERNMENT GRANTS

None (31 December 2015: None).

(Amounts expressed in US Dollars unless otherwise stated)

22. CONTINGENT ASSETS AND LIABILITIES

None (31 December 2015: None).

23. COMMITMENTS

- **Export Commitments**

Export commitments amount to USD199,958,867 as of 31 December 2016 (31 December 2015: USD221,847,079)

- **Letters of credit**

As of 31 December 2016, the Group has open letter of credit agreements for the future purchases from suppliers amounting to USD9,809,166 and EUR346,520 (31 December 2015: USD73,308,382 and EUR2,070,500).

- **Guarantees, Pledges and Mortgages**

As of 31 December 2016, the Group is contingently liable for safeguards which are USD73,564,046 (31 December 2015: USD88,251,371) and mortgages in total of (31 December 2015: USD21,857,202). No guarantees are given during this period.

	USD	EUR	TL	31 December 2016
A. GPM's given in the name of its own legal personality	54,955,086	9,363,935	30,749,386	73,564,046
B. GPM's given on behalf of the fully consolidated companies	-	-	-	-
C. GPM's given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other GPM's given	-	-	-	-
i. Total amount of GPM's given on behalf of the majority shareholder	-	-	-	-
ii. Total amount of GPM's given on behalf of other group companies which	-	-	-	-
iii. Total amount of GPM's given on behalf of third parties which are not in scope of C	-	-	-	-
Total	**54,955,086**	**9,363,935**	**30,749,386**	**73,564,046**

	USD	EUR	TL	31 December 2015
A. GPM's given in the name of its own legal personality	69,019,299	5,894,408	37,189,102	88,251,371
B. GPM's given on behalf of the fully consolidated companies	-	20,000,000	-	21,857,202
C. GPM's given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other GPM's given	-	-	-	-
i. Total amount of GPM's given on behalf of the majority share	-	-	-	-
ii. Total amount of GPM's given on behalf of other group companies which	-	-	-	-
iii. Total amount of GPM's given on behalf of third parties which are not in scope of C	-	-	-	-
Total	**69,019,299**	**25,894,408**	**37,189,102**	**110,108,573**

(Amounts expressed in US Dollars unless otherwise stated)

There are no CPMs that the Group is liable on its immediate parent company (31 December 2015: None)

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 TRY4,426.16 as of 31 December 2016 (TRY4,092.53 as of 31 December 2015).

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 2016 and 31 December 2015 the actuarial assumptions that are used in the calculation of liability are as follows:

	31 December 2016	31 Dcember 2015
Discount rate	%4.70	%4.72
Probability of retirement	%98	%98

The movements of provision for employment termination benefits for the periods ended 31 December 2016 and 2015 are as follows:

	1 January - 31 Dcember 2016	1 January - 31 December 2015
Opening (January)	7,087,960	9,001,791
Currency translation difference	(1,107,491)	(1,625,255)
Service cost	223,260	295,284
Finance cost	813,437	990,197
Actuarial loss	7,249	(457,616)
Paid during the period	(945,226)	(1,116,441)
	6,079,189	**7,087,960**

25. RETIREMENT PLANS

None (31 December 2015: None).

(Amounts expressed in US Dollars unless otherwise stated)

26. OTHER ASSETS AND LIABILITIES

a) Other current assets

	31 December 2016	31 December 2015
Income accruals	8,974,647	7,646,525
VAT receivable	5,602,576	16,545,506
Other current assets from related parties (Note 37)	115,367	118,857
	14,692,590	**24,310,888**

b) Other non-current assets

As of 31 December 2016, other non-current assets equal USD58,350 (31 December 2015: USD71,289).

c) Other short-term liabilities

	31 December 2016	31 December 2015
Accrued cost of sales expenses	5,656,961	4,802,778
Accrued export expenses	5,133,788	4,661,796
Other	7,748	13,102
	10,798,497	**9,477,676**

27. EQUITY

a) Paid-in share capital

The legal capital structure of the company as of 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016		31 December 2015	
	Amount	Share (%)	Amount	Share (%)
Borusan Mannesmann Boru Yatırım Holding A.Ş.	104,157,266	73.48	104,157,266	73.48
Public share	24,641,510	17.38	24,641,510	17.38
Lumbro Nominees Jersey Ltb	9,450,000	6.67	9,450,000	6.67
Other	3,501,224	2.47	3,501,224	2.47
	141,750,000	100.00	141,750,000	100.00

(Amounts expressed in US Dollars unless otherwise stated)

27. EQUITY (Continued)

As of 31 December 2015, there are 141,750,000,000 shares, each of which has 0.1 Kr nominal value. As of 31 December 2015, the paid-in capital of the company comprises Group A (10% of the total shares) and Group B (90% of the total shares) shares (2015: Group A 10%, Group B 90%). Also, the Company has 100 dividend shares that do not grant voting power (2015: 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 2016 and 31 December 2015 the movement of revaluation funds are as follows:

	1 January 31 December 2016		1 January 31 December 2015	
	Property,plant and equipment reveluation reserve	Investment revaluation reserve	Property,plant and equipment reveluation reserve	Investment revaluation reserve
Balance at 1 January	233,081,598	19,173,976	249,252,830	19,173,976
Transfer of amortisation differences between revelued amounts and initially recognised amounts of available-for-sale financial assets	307,532	-	1,096,445	-
Current year revaluation of financial investments	-	-	-	-
Disposals from revaluation funds	-	-	(17,267,677)	-
	233,389,130	**19,173,976**	**233,081,598**	**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. Total deferred income/loss earned by protection against financial risk has been accounted in profit/loss when the effect of hedged transaction effecting to profit/loss.

Investment revaluation reserve:

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

(Amounts expressed in US Dollars unless otherwise stated)

27. EQUITY (Continued)

Cash flow hedge reserve (Continued)

c) Legal reserves

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

	31 December 2016	31 December 2015
Legal reserve	25,325,269	17,542,976
Special reserves	2,778	2,778
	25,328,047	**17,545,754**

d) Retained earnings

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

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

- Sources Which Can be Subjected to Dividend Distribution:

The Group has a profit amounting to TRY 110,589,048 in its statutory records as of the balance sheet date (period profit in 2015: TRY151,022,854) and the total of other sources which can be subjected to dividend distribution is TRY 66,803,358 (31 December 2014 : TRY 20,628,060).

e) Non-controlling interests

The movement of non-controlling interests for the periods as of 31 December 2016 and 31 December 2015 are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Balance at 1 January	392,634	250,264
Currency translation difference	(4,792)	(7,595)
Participation of non-controlling interest in capital increas	-	147,485
Share in current year result	(1,086)	2,480
Balance at 31 December	**386,756**	**392,634**

(Amounts expressed in US Dollars unless otherwise stated)

28. REVENUE AND COST OF SALES

a) Revenue

	1 January – 31 December 2016			1 January – 31 December 2015		
	Sales to Turkey	Sales outside Turkey	Total	Sales to Turkey	Sales outside Turkey	Total
Steel Pipe	261,122,661	380,558,122	641,680,783	283,943,378	425,779,810	709,723,188
Engineering	6,982,612	1,750,420	8,733,032	5,576,396	1,217,036	6,793,432
	268,105,273	**382,308,542**	**650,413,815**	**289,519,774**	**426,996,846**	**716,516,620**

b) Cost of sales

	1 January - 31 December 2016	1 January - 31 December 2015
Direct material	395,913,672	527,698,159
Direct labor	33,282,478	31,217,206
Depreciation and amortization	18,811,722	17,760,092
Repair, maintenance and other production	64,854,688	70,867,356
Net change in work-in-process	6,497,327	(17,348,862)
Net change in finished goods	16,236,317	(16,933,504)
Cost of trade goods sold	3,261,880	11,329,833
Cost of other sales	2,167,470	10,077,520
	541,025,554	**634,667,800**

29. MARKETING AND GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
General administrative expenses	38,289,798	42,558,678
Marketing expenses	12,357,854	10,133,803
	50,647,652	**52,692,481**

(Amounts expressed in US Dollars unless otherwise stated)

30. EXPENSES BY NATURE

a) Marketing expenses

	1 January - 31 December 2016	1 January - 31 December 2015
Personnel	4,140,026	3,242,712
Sales distribution	3,409,244	2,823,852
Consultancy	1,516,317	1,289,294
Direct selling expense	734,715	445,191
Transportation and travel	754,658	741,971
Rent	321,086	265,244
Vehicle expenses	313,384	377,154
Depreciation and amortisation	329,753	328,522
Energy	77,846	92,208
Communication	68,316	50,446
Other	692,509	477,209
	12,357,854	**10,133,803**

b) General administrative expenses

	1 January - 31 December 2016	1 January - 31 December 2015
Personnel	17,048,030	16,631,306
Depreciation and amortisation	4,682,672	4,622,682
Consultancy	4,246,058	5,757,645
Information technology	2,014,435	1,923,306
Outsourced services	2,004,793	1,686,978
Donations	1,281,300	1,709,909
Insurance	1,289,753	1,772,197
Tax and charges	970,472	1,665,846
Rent	496,544	1,104,614
Maintenance	488,127	443,193
Vehicle expenses	479,359	442,364
Transportation and travel	436,403	652,928
Energy	314,802	409,455
Communication	187,321	249,669
Doubtful receivable expense	54,886	111,283
Other	2,294,843	3,375,303
	38,289,798	**42,558,678**

(Amounts expressed in US Dollars unless otherwise stated)

30. EXPENSES BY NATURE (Continued)

Depreciation and amortization expenses:

	1 January - 31 December 2016	1 January - 31 December 2015
Cost of sales	18,811,722	17,760,092
General administrative expenses	4,682,672	4,622,682
Marketing expenses	329,753	328,522
	23,824,147	**22,711,296**

Personnel expenses:

	1 January - 31 December 2016	1 January - 31 December 2015
Cost of sales	33,282,478	31,217,206
General administrative expenses	17,048,030	16,631,306
Marketing expenses	4,140,026	3,242,712
	54,470,534	**51,091,224**

31. OTHER INCOME AND EXPENSE

a) Other income

	1 January- 31 December 2016	1 January- 31 December 2015
Interest on credit sales	7,738,885	8,920,594
Currency translation gain	-	1,592,190
Scrap sales	248,434	401,210
Other	1,055,774	628,917
	9,043,093	**11,542,911**

b) Other expense

	1 January- 31 December 2016	1 January- 31 December 2015
Prior period expenses	450,093	292,331
Currency translation loss	193,192	-
Impairment on financial asset held for sale	130,260	45,088
Other	744,881	225,227
	1,518,426	**562,646**

(Amounts expressed in US Dollars unless otherwise stated)

32. INVESTMENT INCOME

	1 January- 31 December 2016	1 January- 31 December 2015
Dividend income	3,768,657	2,120,853
Gain on disposal of plant, property and equipment	(73,358)	809,053
	3,695,299	**2,929,906**

33. FINANCIAL INCOME AND EXPENSE

a) Financial income

	1 January- 31 December 2016	1 January- 31 December 2015
Income from derivative financial instruments	1,643,348	3,834,644
Interest income	1,049,124	740,044
	2,692,472	**4,574,688**

b) Financial expenses

	1 January- 31 December 2016	1 January- 31 December 2015
Interest expenses	23,174,399	24,056,465
Factoring expense	2,007,427	3,016,874
Bank expense	1,101,588	1,026,590
Loss on derivative financial instruments	560,122	555,171
Interest charges	41,412	72,379
	26,884,948	**28,727,479**

34. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The company put into use a spiral welded pipe production facility in 2012, which has a capacity of 250,000 tonnes/year, for producing full-scale pipe lines through an investment worth 110 million USD. This production facility put into use in the Gemlik region offered a significant opportunity to the Group in terms of technology used, production capacity, design, production flexibility, and strategic location by the sea. In the period after the facility started operating, the facility became an important stepping stone for commercial success gained abroad and in North America.

(Amounts expressed in US Dollars unless otherwise stated)

34. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

The company took into account additional production capacity gained through the spiral welded production facility, which started operating in 2012, and also the impact of the Sekapark and Urban Transformation project that Kocaeli Metropolitan Municipality carried out. Therefore, the company stopped operations at the spiral welded pipeline production facility next to Yenidoğan Mahallesi Seka State Hospital in İzmit, Kocaeli in January 2013. Within this framework, machines, equipment, and operating materials in the facility, whose operations were stopped, were either transferred to other facilities for use or the ones that might be used in the future are protected through methods that will safeguard the items for the long-term. The Group's management decided to start activities related to selling the real estate in Kocaeli based on its market value. The facility's land is classified under assets held for sale and reflected separately in the consolidated financial statements dated 31 December 2015.

Activities related to selling the real estate next to Yenidoğan Mahallesi Seka State Hospital in Kocaeli has continued since 2013 based on its market value. It seems there are not many buyers because;

- the land in question is not a commodity which is sold-purchased frequently,
- the real estate can be used for specific purposes because of its size and location,
- its potential buyers are usually people who would use it for specific purposes. The Group management decided to stop the activities related to selling the real estate as per its evaluation. So the land was re-classified under fixed assets and shown under tangible fixed assets in the consolidated financial statements dated 31 December 2016.

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

	31 December 2016	31 December 2015
Tangible and intangible assets, net	-	29,100,000
Other Assets	832,993	1,127,993
Assets held for sale	**832,993**	**30,227,993**

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 2016 is 20% (2015: 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.

35. INCOME TAX ASSETS AND LIABILITIES (Continued)

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.

Some explanations related to implementing the Law on Restructuring of Certain Receivables No. 6736 entered into force by being promulgated in the Official Gazette No. 29806 dated 19 August 2016. It was prepared for the following purposes and were made in the General Communiqué Serial No.1 on the Law on Restructuring of Certain Receivables No. 6736 promulgated in the Official Gazette No. 29810 (duplicate) dated on 23 August 2016. The purposes:

- to lessen the burden of debt and allow borrowers to pay their debts to the government in instalments
- to solve disputes through peaceful means
- to solve issues under tax review without a lawsuit
- to eliminate potential risks related to the previous taxation period by increasing predictability for taxation
- to promote the transition to a formal economy by adjusting the enterprises' records based on their actual form, and
- to bring some assets into the national economy.

After evaluating the issue, the company made an application for benefiting from the Law on Restructuring of Certain Receivables No. 6736 for disputes related to fined tax assessments worth 20.9 million TRY. As a result of this application, it was decided that the payment worth 1.7 million TRY will be paid in advance in one instalment until 30 November 2016 and the related disputes will be concluded. Also, the Corporate Income Tax base increased to 21.8 Million TRY in 2013, 2014, 2015. As a result of this tax base increase, the Corporate Income Tax expense was calculated as 4,322,928 TRY.

(Amounts expressed in US Dollars unless otherwise stated)

35. INCOME TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2016 and 31 December 2015, the current statutory tax charges for the Group can be analyzed as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Statutory combined profit before taxes as per historical statutory financial statements (*)	36,842,105	55,450,867
Permanent non-tax deductible expenses	10,932,892	6,940,247
Permanent non-taxable income and loss carried forward utilized during the year	(7,406,073)	(19,706,396)
Taxable income per Turkish Tax Legislation	40,368,924	42,684,718
Corporation tax at 20%	8,073,785	8,536,944
Taxes on corporations paid under the Restructuring of Certain Claims Law No. 6736	1,429,941	-
Foreign currency translation differences	(1,137,821)	(550,809)
Provision for current statutory taxes on income	**8,365,905**	**7,986,135**

(*) 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 2016 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 2016 and 31 December 2015 is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Profit before tax	45,768,099	18,916,198
At statutory income tax calculated with rate at 20%	9,153,620	3,783,240
Effects of:		
Disallowable expenses	1,487,479	1,081,327
Tax exempt income	(1,390,054)	(4,022,581)
Non-tax deductible translation loss arising from remeasurement	4,160,771	10,274,621
Taxes on corporations paid under the Restructuring of Certain Claims Law No. 6736	1,429,941	-
Effect of using functional currency as Turkish Lira on financial statements prepared for current tax calculation	(2,839,939)	767,715
Tax expense	**12,001,818**	**11,884,322**

(Amounts expressed in US Dollars unless otherwise stated)

35. INCOME TAX ASSETS AND LIABILITIES (Continued)

Current income tax for the periods ended 31 December 2016 and 31 December 2015 are summarized below:

	1 January - 31 December 2016	1 January - 31 December 2015
Provision for current taxes as per statements of income		
- Turkey tax charge	8,365,905	7,986,135
- Italy tax charge	-	-
Total statutory income tax charge for the year	**8,365,905**	**7,986,135**
Prepaid taxes	(10,080,049)	(1,501,378)
Tax amnesty	(1,429,941)	-
Income taxes payable	**(3,144,085)**	**6,484,757**

As of 31 December 2016 and 31 December 2015 deferred tax rate used is 20% in Turkey, 34% for subsidiaries in the USA and 31.4% for subsidiaries in Italy. For the periods ended on these dates, deferred tax asset / (liability) calculated with temporary differences and effective tax rate is as follows:

	Temporary differences		Deferred tax asset/(liability)	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Net difference between the tax base and the amounts reported based on CMB:				
- carrying value of tangible and intangible assets	(218,999,027)	(206,897,801)	(44,277,674)	(41,940,226)
- carrying value of lands	(185,388,561)	(185,388,561)	(9,269,428)	(9,269,428)
- carrying value of financial assets	(20,183,132)	(20,183,132)	(1,009,157)	(1,009,157)
- carrying value of inventories	(13,845,910)	(6,456,632)	(2,769,182)	(1,291,326)
Provision for employee benefits obligation	5,816,436	6,189,716	1,163,287	1,237,943
Temporary differences of trade receivables	276,382	192,861	55,276	38,572
Temporary differences of trade payables	(112,908)	(109,803)	(22,582)	(21,961)
Carry forward tax losses	359,070	572,079	71,815	114,418
Other provisions and accruals	2,257,426	1,000,824	528,421	200,165
Deferred tax liability, net	**(429,820,224)**	**(411,080,449)**	**(55,529,224)**	**(51,941,000)**

The distribution of deferred tax assets / (liabilities) for the periods ended on 31 December 2016 and 31 December 2015 are as follows:

(Amounts expressed in US Dollars unless otherwise stated)

35. INCOME TAX ASSETS AND LIABILITIES (Continued)

Deferred tax assets:	**31 December 2016**	**31 December 2015**
Total amount of deferred tax assets to be settled in a year	655,511	353,154
Total amount of deferred tax assets to be settled in more than a year	1,163,287	1,237,943
	1,818,798	**1,591,097**

Deferred tax liabilities:	**31 December 2016**	**31 December 2015**
Total amount of deferred tax liabilities be settled in a year	(2,791,764)	(1,313,287)
Total amount of deferred tax liabilities be settled in more than a year	(54,556,258)	(52,218,810)
	(57,348,022)	**(53,532,097)**
Deferred tax liabilities, net	**(55,529,224)**	**(51,941,000)**

The distribution of deferred tax assets / (liabilities) for the periods ended on 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	**31 December 2015**
Deferred tax assets	-	-
Deferred tax liabilities	(55,529,224)	(51,941,000)
Deferred tax liabilities, net	**(55,529,224)**	**(51,941,000)**

Deferred tax liability for the periods ended on 31 December 2016 and 31 December 2015 are as follows:

	1 January - 31 December 2016	**1 January - 31 December 2015**
1 January	(51,941,000)	(48,127,015)
Curreny translation reserve	46,239	175,725
Tax charge recognized in the equity	1,450	(91,523)
Tax charge recognized in the statement of income	(3,635,913)	(3,898,187)
	(55,529,224)	**(51,941,000)**

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 2016		**31 December 2015**	
	Deferred tax asset	**Deferred tax liability**	**Deferred tax asset**	**Deferred tax liability**
Borusan Mannesmann Boru San. ve Tic A.Ş.	-	53,350,302	-	49,638,888
Borusan Mühendislik	-	862,686	-	757,824
BM Vobarno	-	1,316,236	-	1,544,289
	-	**55,529,224**	**-**	**51,941,000**

(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 2016 and 31 December 2015 is as follows:

	31 December 2016	31 December 2015
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	33,767,367	7,029,396
Profit from continuing operations	33,766,281	7,031,876
Total comprehensive income attributable to equity holders of the parent	0.0002	0.0000
Earnings per share	**23.82**	**4.96**

37. RELATED PARTY BALANCES AND TRANSACTIONS

a) Receivables and Payables to Related Parties

	31 December 2016	31 December 2015
Trade receivables		
Borusan İstikbal Ticaret T.A.Ş. (İstikbal) (*)	10,297,703	11,123,348
Borusan Makine ve Güç Sistemleri Sanayi ve Tic. A.Ş.	118,420	194,421
Kerim Çelik Mamulleri İmalat ve Ticaret A.Ş.	8,718	-
Other	197,647	101,948
Less: Allowance for doubtful receivables	(66,517)	(68,958)
Less: Provision for unaccrued finance income	(6,906)	(44,675)
	10,549,065	**11,306,084**

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

	31 December 2016	31 December 2015
Trade payables		
Borusan Lojistik Dağıtım Depolama Taşımacılık ve Tic. A.Ş.	2,353,718	2,554,862
Borusan Birlik Danışmanlık A.Ş.	263,100	375,934
Borçelik Çelik Sanayi Ticaret A.Ş.	38,154	-
Borusan Holding A.Ş. (Borusan Holding)	121,776	89,298
Kerim Çelik Mamulleri İmalat ve Ticaret A.Ş.	9,694	43,816
Other	228,515	183,790
Less: Provision for unaccrued finance expense	(4,580)	(37,684)
	3,010,377	**3,210,016**

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.

(Amounts expressed in US Dollars unless otherwise stated)

37. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

b) Other current assets from related parties

	31 December 2016	31 December 2015
Other current assets		
Personnel advances	78,045	106,206
Job advances	37,322	12,651
	115,367	**118,857**

c) Transactions with related parties

	1 January- 31 December 2016	1 January- 31 December 2015
Material purchases		
Borçelik	579,225	5,961,213
	579,225	**5,961,213**
Service purchases		
Borusan Lojistik	38,838,086	55,376,425
Borusan Holding	2,250,000	2,250,000
Borusan Birlik Danışmanlık	2,011,951	1,756,464
İstikbal	325,348	316,613
Other	424,147	395,532
	43,849,532	**60,095,034**
Interest expenses		
BMBYH	-	66,840
	-	**66,840**

	1 January- 31 December 2016	1 January- 31 December 2015
Sales		
İstikbal	50,071,626	48,552,244
Borçelik	509,601	2,380,609
Other	7,672	19,315
	50,588,899	**50,952,168**
Dividend income		
Borçelik	3,766,605	2,118,664
Other	2,052	2,188
	3,768,657	**2,120,852**

Payments to key management

	1 January- 31 December 2016	1 January- 31 December 2015
Salaries and short-term benefits provided to top	2,311,032	2,270,871
Salaries and short-term benefits provided to board of	427,886	453,199
	2,738,918	**2,724,070**

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

38. FINANCIAL RISK MANAGEMENT

(a) Capital risk management

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

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

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

(b) Financial risk management objectives

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

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

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

b.1) Credit risk

	Receivables					
	Trade receivables		Other receivables			
31 December 2016	**Related parties**	**Other**	**Related parties**	**Other**	**Bank accounts**	**Other**
Maximum credit risk exposed as of balance sheet date	10,549,065	61,177,778	-	2,105,535	28,578,161	-
- the part under guarantee with collaterals, etc.	-	8,735,434	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	10,549,065	35,212,199	-	2,105,535	28,578,161	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as part due or impaired	-	25,965,579	-	-	-	-
- the part under guarantee with collaterals, etc.	-	394,991	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	-	-	-	-	-
- Past due (gross carrying amount)	66,517	3,804,833	-	-	-	-
- Impairment (-)	(66,517)	(3,804,833)	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-

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

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

b.1) Credit risk (Continued)

	Receivables					
	Trade receivables		Other receivables			
31 December 2015	**Related parties**	**Other**	**Related parties**	**Other**	**Bank accounts**	**Other**
Maximum credit risk exposed as of balance sheet date	11,306,084	64,650,866	-	1,113,791	82,801,760	-
- the part under guarantee with collaterals, etc.	-	6,064,057	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	11,306,084	49,107,683	-	1,113,791	82,801,760	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as part due or impaired	-	15,543,183	-	-	-	-
- the part under guarantee with collaterals, etc.	-	952,511	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	-	-	-	-	-
- Past due (gross carrying amount)	68,958	4,491,168	-	-	-	-
- Impairment (-)	(68,958)	(4,491,168)	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- the part under guarantee with collaterals, etc.	-	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-

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

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

b.1) Credit risk (Continued)

Disclosures regarding the quality of financial assets

The Group's credit risk primarily arises from its trade receivables. Such credit risk is managed by limiting the risk by the amount of the collaterals received. In managing credit risk, the Group uses 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 2016**	**31 December 2015**
Group 1	850,070	1,859,079
Group 2	18,945,615	43,011,505
Group 3	25,965,579	15,543,183
Total trade receivables	**45,761,264**	**60,413,767**

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 2015: None)

As of 31 December 2016, the part of overdue trade receivables for which no impairment was calculated equals USD25,965,579 (31 December 2015: USD15,543,183). Below is the aging of such trade receivables:

	31 December 2016	**31 Aralık 2015**
Trade receivables		
1-30 days overdue	3,534,790	10,786,119
1-3 months overdue	6,690,519	2,931,507
3- 12 months overdue	15,740,270	1,825,557
Total overdue receivables	**25,965,579**	**15,543,183**
The part under guarantee with collaterals	**394,991**	**952,511**

As of 31 December 2016, the Group holds mortgages equal to USD73,199, letters of guarantee equals to USD97,931, and pledges equal to USD223,832 (31 December 2015 respectively: USD116,110 of mortgages, USD614,262 of letter of guarantee, and USD222,139 of pledges).Overdue and impaired receivables are not secured.

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

b.2) Liquidity risk

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

Liquidity risk tables

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

31 December 2016

	Carrying value	Total cash outflows in accordance with contracts (I+II+III+IV)	Less than 3 months (I)		3-12 months (II)	1-5 years (III)
Non derivative financial liabilities						
Borrowings	237,526,447	279,064,603	13,266,567	73,481,033	192,317,003	-
Trade payables	229,327,928	231,037,734	135,279,522	95,758,212	-	-
Other payables	10,141,673	10,141,673	10,141,673	-	-	-
Total liabilities	**476,996,048**	**520,244,010**	**158,687,763**	**169,239,245**	**192,317,003**	**-**

31 December 2015

	Carrying value	Total cash outflows in accordance with contracts (I+II+III+IV)	Less than 3 months (I)		3-12 months (II)	1-5 years (III)
Non derivative financial liabilities						
Borrowings	292,775,511	321,084,204	27,885,082	82,274,915	194,932,324	15,991,883
Trade payables	266,791,334	268,535,543	136,661,335	131,874,208	-	-
Other payables	14,186,526	14,186,526	14,186,526	-	-	-
Total liabilities	**573,753,371**	**603,806,273**	**178,732,943**	**214,149,123**	**194,932,324**	**15,991,883**

(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 2016 and 31 December 2015 are as below;

	Average exchange rates		Buying Amount		Selling amount		Fair value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
USD buy- GBP sell Between 1-5 months	1.2293	-	184,395	-	150,000	-	1,104	-
USD buy- EUR sell Between 1-12 months	1.0563	-	15,595,454	-	14,764,500	-	383,575	-
USD buy- GBP sell Between 1-5 months	-	1.4792	-	2,248,447	-	1,520,000	-	(36,675)
USD buy- EUR sell Between 1-6 months	-	1.0954	-	32,499,280	-	29,669,840	-	22,161
USD buy- TRY sell Between 1-6 months	-	2.9318	-	204,655	-	600,000	-	26,843
TRY buy USD sell Between 1-6 months	-	2.9225	-	3,990,419	-	11,662,000	-	7,665

(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 2016			
	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	(1,913,092)	1,913,092	(1,336,116)	1,336,116
2 - EUR hedged from risks (-)	-	-	-	-
3- EUR net effect (1+2)	**(1,913,092)**	**1,913,092**	**(1,336,116)**	**1,336,116**
	Change of TL against USD by 10%			
4- TRY net assets / liabilities	558,435	(558,435)	-	-
5- TRY hedged from risks (-)	-	-	-	-
6- TRY net effect (4+5)	**558,435**	**(558,435)**	**-**	**-**
TOTAL (3 + 6)	**(1,354,657)**	**1,354,657**	**(1,336,116)**	**1,336,116**

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

(d) Foreign currency risk management (Continued)

	31 December 2015			
	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	(3,444,198)	3,444,198	(1,481,797)	1,481,797
2 - EUR hedged from risks (-)	-	-	-	-
3- EUR net effect (1+2)	**(3,444,198)**	**3,444,198**	**(1,481,797)**	**1,481,797**
	Change of TL against USD by 10%			
4- TRY net assets / liabilities	(249,292)	249,292	-	-
5- TRY hedged from risks (-)	-	-	-	-
6- TRY net effect (4+5)	**(249,292)**	**249,292**	**-**	**-**
TOTAL (3 + 6)	**(3,693,490)**	**3,693,490**	**(1,481,797)**	**1,481,797**

(Amounts expressed in US Dollars unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (Continued)

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

	31 December 2016				31 December 2015			
	TRY	EUR	GBP	USD equivalents	TL	EUR	GBP	USD equivalents
1 Trade receivables	56,433,207	22,590,978	670,546	40,673,874	47,173,305	40,385,039	1,565,738	62,478,473
2a Monetary financial assets (Including cash and cash equivalents)	4,236,442	11,402,757	-	13,224,463	3,888,607	778,997	-	2,188,729
2b Non-monetary financial assets								
3 Other								
4 Current Assets (1+2+3)	**60,669,649**	**33,993,735**	**670,546**	**53,898,337**	**51,061,912**	**41,164,036**	**1,565,738**	**64,667,202**
5 Trade receivables	-	-	-	-	900,000	50,000	-	364,177
8 Other assets (5+6+7)	-	-	-	-	-	-	-	-
9 TOTAL ASSETS (4+8)	**60,669,649**	**33,993,735**	**670,546**	**53,898,337**	**51,061,912**	**41,164,036**	**1,565,738**	**64,667,202**
10 Trade payables	40,345,072	10,785,922	73,568	22,924,954	27,627,332	25,942,397	10,166	37,866,934
11 Financial liabilities	174,380	24,702,179	-	26,090,303	74,043	12,076,576	-	13,223,473
12a Other monetary liabilities	497,757	3,869,645	-	4,220,775	729,120	338,640	-	620,850
12b Other non-monetary liabilities	-	-	-	-	-	-	-	-
13 Short-term liabilities (10+11+12)	**41,017,209**	**39,357,746**	**73,568**	**53,236,032**	**28,430,495**	**38,357,613**	**10,166**	**51,711,257**
14 Trade payables	-	-	-	-	-	-	-	-
15 Financial liabilities	-	12,783,520	-	13,476,239	-	21,691,223	-	23,705,472
16a Other monetary liabilities	-	-	-	-	-	-	-	-
16b Other non-monetary liabilities	-	-	-	-	-	-	-	-
17 Long-term liabilities (14+15+16)	-	**12,783,520**	-	**13,476,239**	-	**21,691,223**	-	**23,705,472**
18 TOTAL LIABILITIES (13+17)	**41,017,209**	**52,141,266**	**73,568**	**66,712,271**	**28,430,495**	**60,048,836**	**10,166**	**75,416,729**
19Net asset and liability positions of derivatives out of statement of financial situation(19a-19b)	-	**14,764,500**	**150,000**	**15,748,651**	-	**44,110,000**	**985,000**	**49,539,200**
19a Total Hedged Assets	-	14,764,500	150,000	15,748,651	-	44,110,000	985,000	49,539,200
19bTotal Hedged Liabilities	-	-	-	-	-	-	-	-
20 Net foreign currency Asset/ (Liability) position (9-18+19)	**19,652,440**	**(3,383,031)**	**746,978**	**2,934,717**	**22,631,417**	**25,225,200**	**2,540,572**	**38,789,672**
21Monetary Items Net Foreign Currency Asset / (Liability)	**19,652,440**	**(18,147,531)**	**596,978**	**(12,813,934)**	**23,531,417**	**(18,834,800)**	**1,555,572**	**(10,385,351)**
22 Fair value of the financial instruments used for foreign currency hedging	-	**363,858**	**900**	**384,679**	-	**(1,008,420)**	**(26,912)**	**(1,138,486)**
23 Total Hedged Assets in Foreign Currency	-	**14,764,500**	**150,000**	**15,748,651**	-	**44,110,000**	**985,000**	**49,539,200**
24 Total Hedged Liabilities in Foreign Currency	-	-	-	-	-	-	-	-

From 1 January 2016 to 31 December 2016, the Group imported amounting to USD192,342,783, EUR16,436,793 and GBP65,520) and exported amounting to EUR88,260,842, GBP3,864,045 and USD279,545,870). (In the period of 1 January 2015 – 31 December 2015, the Company imported USD206,111,224 and EUR25,617,013 exported amounting to EUR81,836,035, GBP3,237,538 and USD331,246,845).

38. FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk

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

Interest rate sensivity

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

(f) Price risk

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

(Amounts expressed in US Dollars unless otherwise stated)

39. FINANCIAL INSTRUMENTS

31 December 2016 Balance Sheet	Loans and receivables	Available for sale investments	Derivatives	Other financial liabilities at amortised cost	Carrying amount
Financial assets					
Cash and cash equivalents	28,585,097	-	-	-	28,585,097
Trade receivables	61,177,778	-	-	-	61,177,778
Due from related parties	10,549,065	-	-	-	10,549,065
Financial investments	-	38,086,753	-	-	38,086,753
Other receivables	2,105,535	-	-	-	2,105,535
Financial liabilities					
Borrowings	-	-	-	237,526,447	237,526,447
Trade payables	-	-	-	226,317,551	226,317,551
Due to related parties	-	-	-	3,010,377	3,010,377
Other payables	-	-	-	10,141,673	10,141,673

31 December 2015 Balance Sheet	Loans and receivables	Available for sale investments	Derivatives	Other financial liabilities at amortised cost	Carrying amount
Financial assets					
Cash and cash equivalents	82,805,192	-	-	-	82,805,192
Trade receivables	64,650,866	-	-	-	64,650,866
Due from related parties	11,306,084	-	-	-	11,306,084
Financial investments	-	38,144,179	-	-	38,144,179
Other receivables	1,113,791	-	-	-	1,113,791
Derivative instruments	-	-	19,994	-	19,994
Financial liabilities					
Borrowings	-	-	-	292,775,511	292,775,511
Trade payables	-	-	-	263,581,318	263,581,318
Due to related parties	-	-	-	3,210,016	3,210,016
Other payables	-	-	-	14,186,526	14,186,526

(Amounts expressed in US Dollars unless otherwise stated)

39. FINANCIAL INSTRUMENTS (Continued)

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

	Finacial assets at fair value through profit or loss		Available-for-sale financial asset	
31 December 2016	**Trading purpose**	**Derivative financial instruments**	**Stocks**	**Total**
Openning balance, 1 January 2016	-	-	35,845,000	35,845,000
Total gain or losses				
- recognized in profit and loss	-	-	-	-
- recognized in other comprehensive income	-	-	-	-
- currency translation difference	-	-	-	-
Closing balance 31 December 2016	**-**	**-**	**35,845,000**	**35,845,000**

	Finacial assets at fair value through profit or loss		Available-for-sale financial asset	
31 December 2015	**Trading purpose**	**Derivative financial instruments**	**Stocks**	**Total**
Openning balance, 1 January 2015	-	-	35,845,000	35,845,000
Total gain or losses				
- recognized in profit and loss	-	-	-	-
- recognized in other comprehensive income	-	-	-	-
- currency translation difference	-	-	-	-
Closing balance 31 December 2015	**-**	**-**	**35,845,000**	**35,845,000**

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

(Amounts expressed in US Dollars unless otherwise stated)

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

31 December 2016	**Level 1 USD**	**Level 2 USD**	**Level 3 USD**
Permanent fair value measurements:			
Derivative financial instruments at fair value through comprehensive income statement	-	384,679	-
Available for sale financial assets	-	-	38,086,753
Property,plant and equipment	-	629,261,209	-
Non-permanent fair value measurements:			
Non-current assets held for sale	-	832,993	-

31 December 2015	**Level 1 USD**	**Level 2 USD**	**Level 3 USD**
Permanent fair value measurements:			
Derivative financial instruments at fair value through comprehensive income statement	-	19,994	-
Available for sale financial assets	-	-	38,144,179
Property,plant and equipment	-	620,814,610	-
Non-permanent fair value measurements:			
Non-current assets held for sale	-	30,227,993	-

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

41. SUBSEQUENT EVENTS

None (31 December 2015: None).

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

None (31 December 2015: None).

....