BORUSAN MANNESMANN BORU SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 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 2019, 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 2019;
- 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.

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***
Revenue recognition The Group's activity is steel pipe sales. The reason why we focused on this issue is significance of revenue amounts in the consolidated income statements of the Group as of 31 December 2019. Accordingly, taking into consideration the importance of revenue in the consolidated financial statements, accounting of the revenue in the consolidated financial statements correctly is determined as the key audit matter. Please see Note 2 and 28 in the consolidated financial statements for accounting policies and amount of revenue held by the Group as of 31 December 2019.	We performed the following procedures in relation to the revenue recognition: • Understanding the sales processes and evaluating the design and efficiency of the controls related to these processes, • Evaluating of appropriateness of Group's Accounting Policy regarding the revenue recognition, • Testing of customer invoices by sampling method and matching these invoices with shipments and customer collections, • • Evaluation of sales contracts made with the customers and evaluation of the timing of receipt of revenue for delivery methods, • Testing the completeness of the revenue by matching the accounting records and the related invoices with the selections from the shipment documents by sampling method, 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 In accordance with IAS 16, "Property, Plant and Equipment" lands and buildings, machinery and equipment, are measured at fair value on the financial statements. Based on the valuations performed by an independent professional valuer as at 31 December 2019 increase in value and impairment balances of lands and buildings, machinery and equipment are indicated in Note 18. Based on 31 December 2019, the total value of lands and buildings, machinery and equipment is 561,561,176 USD, represents a significant portion of the total assets of the Company. The valuation techniques applied contain important estimates and assumptions such as average peer value calculated per square meter, peer market rents, estimated occupancy rates and discount rate. The assessment of the carrying values of lands, buildings, machinery and equipment was a key audit matter, since the total amount of aforementioned lands, buildings and investment properties as of 31 December 2019 represents a significant share of the total assets of the Company, and these valuations include significant estimations and assumptions.	We performed the following procedures in relation to the fair value calculation of property plant and equipment: • We assessed the competency, capability and objectivity of the independent professional valuer who was appointed by Company management, in accordance with relevant audit standards. We tested completeness of the data used by the independent professional valuation company appointed by the Company management such as rent income, occupancy rates, discount rates by reconciliation with the Company's records on a sample basis. • The compliance of the disclosures of fair value determination of lands and buildings in the financial statements in accordance with the relevant accounting standards were evaluated. We had no material findings as a result of these procedures.

Emphasis of Matter – The Impact of Covid 19

We draw attention to Note 42 of the financial statements, which describes the effects of Covid-19 outbreak on the Company. Our opinion is not modified in respect of this matter.

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.

Coşkun Şen, SMMM
Partner

Istanbul, 16 June 2020

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AND ITS SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2019
(Amounts expressed in US Dollars unless otherwise stated**)**

		Audited	**Audited**
ASSETS	**Note**	**31 December 2019**	**31 December 2018**
Current assets		**491.672.060**	**608.224.662**
Cash and cash equivalents	6	159.137.555	148.021.249
Trade receivables	10	90.538.001	223.720.087
- Due from related parties	37	4.538.797	4.560.878
- Trade receivables from other parties		85.999.204	219.159.209
Other receivables	11	5.367.168	4.170.647
- Other receivables from other parties		5.367.168	4.170.647
Inventories	13	200.016.314	200.200.224
Prepaid expenses	14	15.044.831	14.173.946
Current income tax assets	15	2.055.188	1.213.193
Other current assets	26	11.977.962	16.261.582
- Other current assets from related parties	37	12.703	9.687
- Other current assets from other parties		11.965.259	16.251.895
		484.137.019	**607.760.928**
Assets held for sale and discontinued operations	34	7.535.041	463.734
Non-current assets		**675.248.287**	**688.895.481**
Available-for-sale financial assets	7	52.861.998	48.707.194
Property, plant and equipment	18	609.938.120	624.095.978
Right of Use Assets	20	4.192.598	-
Intangible assets		1.255.437	1.126.033
- Other intangible assets	19	1.255.437	1.126.033
Prepaid expenses	14	6.946.709	14.933.617
Other non-current assets	26	53.425	32.659
TOTAL ASSETS		**1.166.920.347**	**1.297.120.143**

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

BORUSAN MANNESMANN BORU SANAYİ VE TİCARET A.Ş.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2019

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

		Audited	Audited
LIABILITIES	**Note**	**31 December 2019**	**31 December 2018**
Current liabilities		**476.971.733**	**552.741.404**
Short-term borrowings	8	211.698.629	194.334.209
Short-term portion of long-term borrowings	8	89.211.917	64.985.579
- Bank Loans		86.726.350	64.985.579
- Lease Liabilities		2.485.567	-
Trade payables	10	154.493.023	249.734.371
- Due to related parties	37	7.774.666	5.708.789
- Trade payables to other parties		146.718.357	244.025.582
Employee benefit obligations	17	865.047	1.070.085
Other payables	11	3.420.936	4.898.713
- Other payables from third parties		3.420.936	4.898.713
Derivative financial instruments	12	8.747	1.225.973
Deferred revenue	16	94.281	262.610
Current income tax liabilities	35	-	-
Other current liabilities	26	16.091.959	36.229.864
		475.884.539	**552.741.404**
Assets held for sale and discontinued operations		1.087.194	-
Non-current liabilities		**203.845.373**	**217.538.719**
Long-term borrowings	8	133.117.204	145.573.037
- Bank Loans		131.248.630	145.573.037
- Lease Liabilities		1.868.574	-
Provisions for employee benefits	24	2.699.565	2.765.352
Deferred tax liabilities	35	68.028.604	69.200.330
Total liabilities		**680.817.106**	**770.280.123**
EQUITY		**486.103.241**	**526.840.020**
Equity attributable to equity holders of the parent		**485.770.758**	**526.430.401**
Paid -in capital	27	68.996.872	68.996.872
Other comprehensive income/expense not to be reclassified to profit or loss		222.755.046	248.318.639
-Revaluation and measurement gains (losses)	27	189.246.421	218.661.333
-Investment revaluation reserves		32.650.911	28.757.621
-Reserve for actuarial loss on employee termination benefits		857.714	899.685
Other comprehensive income/expense to be reclassified to profit or loss		(1.659.856)	(2.519.022)
-Currency translation differences		(1.651.109)	(1.293.049)
-Cash flow hedge reserve		(8.747)	(1.225.973)
Retained earnings		184.038.798	153.000.212
Net profit for the period		11.639.898	58.633.700
Non-controlling Interest	27	332.483	409.619
TOTAL LIABILITIES AND EQUITY		**1.166.920.347**	**1.297.120.143**

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

BORUSAN MANNESMANN BORU SANAYİ VE TİCARET A.Ş.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Note	Audited 1 January - 31 December 2019	Audited 1 January - 31 December 2018
Revenue	28	806.596.259	1.007.232.058
Cost of sales (-)	28	(717.921.757)	(868.640.566)
Gross profit		**88.674.502**	**138.591.492**
General administrative expenses (-)	29	(45.848.105)	(38.653.889)
Marketing expenses (-)	29	(14.616.401)	(13.160.032)
Other operating income	31	17.665.433	15.556.063
Other operating expenses (-)	31	(271.675)	(724.238)
Operating profit		**45.603.754**	**101.609.396**
Income from investing activities	32	2.773.698	7.954.369
Operating profit before financial income and expense		**48.377.452**	**109.563.765**
Financial income	33	2.148.910	4.491.303
Financial expense (-)	33	(36.225.918)	(39.909.410)
Profit before tax from continued operations		**14.300.444**	**74.145.658**
Tax expense from continued operations		**(1.537.118)**	**(14.911.325)**
- Current tax (expense)	35	398.139	(300.000)
- Deferred tax income/(expense)		(1.935.257)	(14.611.325)
Profit from continued operations		**12.763.326**	**59.234.333**
Discontinued operations		**(1.176.836)**	**(592.147)**
Period profit/(loss) from discontinued operations	18	(1.176.836)	(592.147)
Profit for the period		**11.586.490**	**58.642.186**
Attributable to:		**11.586.490**	**58.642.186**
- Non-controlling interest	27	(53.408)	8.486
- Equity holders of the parent		11.639.898	58.633.700
Earnings per share			
Earnings per share from continuing operations	36	0,0000821	0,0004136
Earnings per share from discontinuing operations		(0,000008)	(0,000004)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in US Dollars unless otherwise stated)

	Audited 1 January - 31 December 2019	Audited 1 January - 31 December 2018
Profit for the period	**11.586.490**	**58.642.186**
Other comprehensive income:		
Items not to be reclassified to profit or loss	**(24.934.805)**	**9.958.140**
Current year revaluation on property, plant and equipment	(28.786.124)	-
Change in investment revaluation reserve	3.893.290	9.583.645
Remeasurement of employee benefit obligations	(41.971)	374.495
Items to be reclassified to profit or loss	**856.177**	**(1.978.901)**
Cash flow hedging reserve	1.217.226	(1.190.139)
Currency translation differences	(361.049)	(788.762)
Other comprehensive (loss)/income	**(24.078.628)**	**7.979.239**
Total comprehensive income	**(12.492.138)**	**66.621.425**
Attributable to:		
- Non-controlling interest	(77.136)	595
- Equity holders of the parent	(12.415.002)	66.620.830

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

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

		Other comprehensive income/expense not to be reclassified to profit or loss			Other comprehensive income/expense to be reclassified to profit or loss						
	Issued share capital	Revaluation reserve	Investment 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 2018 reported before	**68.996.872**	**219.085.064**		**525.190**	**(512.178)**	**19.173.976**	**(35.834)**	**177.600.555**	**484.833.645**	**409.024**	**485.242.669**
IFRS 9 accounting policy change effect			19.173.976			(19.173.976)					
Balance at 1 January 2019 restated	68.996.872	219.085.064	19.173.976	525.190	(512.178)	-	(35.834)	177.600.555	484.833.645	409.024	485.242.669
Transfer of 2018 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	-	(423.731)	-	-	-	-	-	423.731	-	-	-
Total comprehensive income / (loss) for the period	-	-	9.583.645	374.495	(780.871)	-	(1.190.139)	58.633.700	66.620.830	595	66.621.425
Dividends paid	-	-	-	-	-	-	-	(25.024.074)	(25.024.074)	-	(25.024.074)
Balance at 31 December 2019	**68.996.872**	**218.661.333**	**28.757.621**	**899.685**	**(1.293.049)**	**-**	**(1.225.973)**	**211.633.912**	**526.430.401**	**409.619**	**526.840.020**
Balance at 1 January 2018 reported before	**68.996.872**	**218.661.333**	**28.757.621**	**899.685**	**(1.293.049)**	**-**	**(1.225.973)**	**211.633.912**	**526.430.401**	**409.619**	**526.840.020**
IFRS 9 accounting policy change effect			-			-					
Balance at 1 January 2019 restated	**68.996.872**	**218.661.333**	**28.757.621**	**899.685**	**(1.293.049)**	**-**	**(1.225.973)**	**211.633.912**	**526.430.401**	**409.619**	**526.840.020**
Transfer of 2018 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	-	(649.527)	-	-	-	-	-	649.527	-	-	-
Total comprehensive income / (loss) for the period	-	(28.765.385)	3.893.290	(41.971)	(358.060)	-	1.217.226	11.639.898	(12.415.002)	(77.136)	(12.492.138)
Dividends paid	-	-	-	-	-	-	-	(23.511.460)	(23.511.460)	-	(23.511.460)
Other disposals	-	-		-	-	-	-	(4.733.181)	(4.733.181)		(4.733.181) -
Balance at 31 December 2019	**68.996.872**	**189.246.421**	**32.650.911**	**857.714**	**(1.651.109)**	**-**	**(8.747)**	**195.678.696**	**485.770.758**	**332.483**	**486.103.241**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	Audited 1 January - 31 December 2019	Audited 1 January - 31 December 2018
Cash flows from operating activities:			
Profit before tax		13.123.608	73.553.511
Reconciliation of profit before tax to operating profit before changes in working capital			
Depreciation and amortization expenses	18, 19	29.362.878	25.200.588
Provision for employee termination benefits	24	883.336	914.299
Interest income	33	(2.148.910)	(4.491.303)
Interest expense	33	36.225.918	39.909.410
Provision for doubtful receivables	10	10.098.280	-
Provision for impairment of invesments in associates and financial assets	7	66.995	44.615
Gain on sale of property, plant and equipment and intangibles	32	9.201	(227.265)
Currency translation differences		(867.804)	(1.541.440)
Dividend income	32	(2.782.899)	(7.727.104)
Operating profit before changes in working capital		**83.970.603**	**125.635.311**
Changes in working capital:			
Trade receivables	10	124.142.912	(125.699.880)
Inventories	13	183.908	(27.702.637)
Other current assets and liabilities, net		(19.772.835)	20.860.385
Trade payables	10	(95.241.347)	86.285.758
Other non-current assets and liabilities, net		7.966.142	(13.982.539)
Collection of doubtful receivables	10	-	9.210
Net cash flows on discontinuing operations		(547.098)	-
Taxes paid	35	(443.856)	(1.127.643)
Employee benefit obligations paid	24	(649.107)	(756.471)
Other inflows (outflows) of cash		(4.500.000)	-
Decrease (increase) in derivative financial assets		(1.217.226)	1.190.090
Net cash provided by/(used in) operating activities		**93.892.095**	**64.711.584**
Cash flow from investing activities:			
Purchase of property, plant and equipment and intangible assets	18, 19	(52.847.641)	(29.534.009)
Proceeds from sale of property, plant and equipment and intangibles		1.880.878	916.368
Net change in available for sale financial assets	7	(123.600)	(102.484)
Proceeds from sale of available held for sale assets	34	-	-
Dividend received	32	2.782.899	7.727.104
Net cash provided by/(used in) investing activities		**(48.307.464)**	**(20.993.021)**
Cash flow from financing activities:			
Redemption of borrowings		4.577.340.179	4.202.469.300
Proceeds from borrowings		(4.552.559.395)	(4.173.471.630)
Payments of lease liabilities		(2.877.866)	-
Dividends paid		(23.511.460)	(25.024.074)
Interest paid		(35.008.692)	(41.100.778)
Interest received	33	2.148.910	4.491.303
Net cash (used in)/provided by financing activities		**(34.468.324)**	**(32.635.879)**
Net increase/(decrease) in cash and cash equivalents		11.116.306	11.082.684
Cash and cash equivalents at the beginning of the year		148.021.249	136.938.565
Cash and cash equivalents at the end of the period		**159.137.555**	**148.021.249**

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

(Amounts expressed in US Dollars unless otherwise stated)

1. CORPORATE INFORMATION

General

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. (Borusan Mannesmann Boru) ("the Company") is a joint stock company incorporated in Turkey. The Company's shares are traded in 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
31 December 2019	1523	292	33	7	1855
31 December 2018	1614	295	29	7	1945

Consolidated financial statements covering accounting period of 1 January - 31 December 2019 are approved with Board of Directors' decision dated on March 3, 2020. 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	97.2

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 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company maintains its accounting records and prepares its statutory accounting reports in Turkish Lira ("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, Borusan Mannesmann Pipe US Inc.(BM Pipe) 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
2014	2,3189	2,1878
2015	2,9076	2,7200
2016	3,5192	3,0232
2017	3,7719	3,6477
2018	5,2609	4,8297
2019	5,9402	5,6708

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 2019 (1 Euro = 6,6506); income and expense and cash flows are converted with twelve-month average of the exchange rates (1 Euro = 6,3477) (As of 31 December 2018, 1 Euro = 6,0280; 31 December 2018 twelve-month average exchange rate 1 Euro= 5,6791).

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.

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

2.4 Significant Changes in Accounting Policies and Estimates

Changes of accounting policies resulting from the first time implementation of the IAS are implemented retrospectively or prospectively in accordance with the transition provisions. Major accounting mistakes detected are applied retrospectively and the financial statements of previous period are revised. If the changes in accounting estimates only apply to one period, then they are applied in the current period when the change occurs; if the changes apply also to the future periods, they are applied in both the period of change and in the future period.

The Group has applied accounting policy changes arising from the first time implementation of the "IFRS 16 Leases" standard one of the new standards, amendments and interpretations that are effective from 1 January 2019, in accordance with the transitional provisions of the relevant standard.

The effects of this standard-led accounting policy change and the effects of the first time implementation of relevant standard are as follows:

The Group - as a lessee

If a contract regulates the right to control the use of an asset that is defined in the contract for a certain period and for a specific price, this contract is considered as a lease in its nature or includes a lease transaction. At the beginning of a contract, the Group assesses whether the contract is a lease or include a lease transaction. The Group considers the following conditions when assessing whether or not a contract transfers the right to control the use of a defined asset for a specified period of time:

a) The existence of a clearly or implicitly identifiable asset that constitutes the subject of the lease.
b) The lessee has the right to obtain almost all of the economic benefits from the use of the defined asset that constitutes the subject of the lease.
c) The lessee has the right to manage the use of the defined asset that constitutes the subject of the lease. According to circumstances listed below, the tenant is deemed to have the right to manage the defined asset constituting the subject of the lease;

    i. The lessee has the right to operate the property for the duration of its use (or to direct others to operate the property in its own way) and the lessor does not have the right to change these operating instructions or
    ii. Designing the asset (or certain features of the asset) in advance in a manner of how and for what purpose the asset will be used during its occupancy by the lessee.

In case that the contract fulfils these conditions, the Group reflects a right of use asset and a lease liability to the consolidated financial statements at the date of the lease's actual start.

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

2.4 Significant Changes in Accounting Policies and Estimates (Continued)

The right-of-use asset

The right-of-use asset is initially recognized by the cost method and includes the followings:

a) The first measurement amount of the lease liability to be recognized as the right of use asset,
b) Deduction of all leasing incentives related to the lease, from the first measurement amount of the lease liability recorded as a right of use asset,
c) All direct costs, that are related to the lease, incurred by the Group to be added to the first measurement amount of the lease liability, which will be recognized as a right of use asset, and
d) Estimated costs to be incurred by the Group shall be added to the initial measurement amount in relation to the dismantling and transporting of the defined asset constituting the subject of the lease, the restoration of the area in which it is placed, or the restoration of the defined asset as required by the terms and conditions of the lease.

In applying the cost method, the Group measures the right of use asset by:

a) deducting the accumulated depreciation and accumulated impairment losses and
b) measuring the cost of the lease in accordance with the re-measurement of the lease liability.

The Group applies depreciation provisions in "IAS 16 Property, Plant and Equipment" while depreciating the right of use asset. In order to determine whether the right of use asset has been impaired or not and to recognize any impairment losses the "IAS 36 Impairment of Assets" standard is implemented.

Lease liability

At the effective date of the lease, the Company measures its leasing liability at the present value of the lease payments not realized at that date. If the interest rate on the lease can be easily determined, this rate is used in discount; if the implied interest rate cannot be easily determined, the payments are discounted by using the alternative borrowing interest rate of the lessee.

Lease payments that are included in the measurement of the lease liability of the Group and the payments that have not occurred on the date when the lease is actually started consist of the following:

a) Amount deducted from all types of rental incentive receivables from fixed payments;
b) Lease payments based on an index or a rate, lease payments made using an index or a rate at the time the initial measurement was actually started.
c) The penalty for termination of the lease in cases the lessee shows a sign of it will use an option to terminate the lease

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

2.4 Significant Changes in Accounting Policies and Estimates (Continued)

After the effective date of the lease, the Group measures its lease liability as follows:

a) Increasing the book value by reflecting interest on lease liability
b) Reducing the book value by reflecting the lease payments made
c) Re-measures the book value to reflect any re-evaluations and reconfigurations, if any. The Group reflects the remeasured amount of the lease obligation to the consolidated financial statements as adjustment in the use of right.

The duration of the contracts, which constitute the lease liabilities of the Group, varies between 1 and 5 years.

Extension and early termination options

A lease obligation is determined by considering the extension of the contracts and early termination options. Most of the extension and early termination options included in the contracts consist of options that are jointly applicable by the Company and the lessor. However, if such extension and early termination options are at the Company's discretion in accordance with the contract and the use of the options is reasonably certain, the lease term shall be determined by taking this issue into account. If there is a significant change in the conditions, the evaluation is reviewed by the Company.

Variable lease payment

Lease payments arising from a part of the Group's lease agreements consist of variable lease payments. The mentioned variable lease payments, which are not covered by the IFRS 16 standard, are recorded as income on the income statement in the relevant period.

Facilitative applications

Contracts related to IT equipment leases (mainly printer, laptop, mobile phone, etc.), which are determined by the Company as low value, short-term lease agreements with a period of 12 months and less, have been assessed under the exemption granted by the IFRS 16 Leases Standard, and payments for these contracts are recognized as an expense in the period in which they are incurred.

The Group - as a lessors

The Group has no significant activity as a lessor.

First transition to IFRS 16 Leases Standard

The IFRS 16 “Leases” standard replaces the IAS 17 “Leasing Operations”, as of 1 January 2019, and the Group retrospectively (“cumulative effect method”) recognized the cumulative effect of applying the standard on its consolidated financial statements at once. Within the scope of the simplified transition application defined in the related standard, the comparative information of the consolidated financial statements and retained earnings have not been restated.

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

2.4 Significant Changes in Accounting Policies and Estimates (Continued)

Under the first implementation of IFRS 16 “Leases”, before 1 January 2019, the lease commitments are accounted for as a “lease obligation” in accordance with IAS 17 in consolidated financial statements. This lease liability has been measured at the present value of the lease payments, which have not been realized as of the date of transition, discounted using the alternative borrowing interest rate at the date of initial application of the Group. The right of use assets are accounted for an amount equal to the lease obligations (adjusted for the amount of prepaid or accrued lease payments) within the scope of simplified transition application in the related standard.

As of 1 January 2019 and 31 December 2019, the details of right of use assets accounted for in the consolidated financial statements on the basis of asset groups are as follows:

	1 January 2019
Operating rental commitments under IAS 17	**6.333.725**
- Short term leases (-)	(723.232)
- Low value rentals (-)	-
- Corrections of extension and early termination options	-
Total rental obligation under IFRS 16 (not discounted)	**5.610.493**
Total rental obligation under IFRS 16 (discounted with alternative borrowing rate)	**5.237.158**
- Short term lease liabilities	2.322.805
- Long term lease liabilities	2.914.353

As of 1 January 2019, the weighted average rate applied to the lease obligations of the Group is 24% for lease contracts in Turkish Lira, 4% for lease contracts in USD and 3% for lease contracts in EUR.

Group has presented its right of use assets in a separate line in the consolidated statement of financial position under the name of “right of use assets”. The carrying values of the right of use assets are as follows:

	31 December 2019	1 January 2019
Buildings	1.347.049	2.151.630
Vehicles	2.845.549	2.828.842
	4.192.598	**4.980.472**

Group has presented its lease liabilities in a separate line in the consolidated statement of financial position under the name of “Borrowings”. The carrying values of the lease liabilities are as follows:

	31 December 2019	1 January 2019
Buildings	1.485.214	2.353.751
Vehicles	2.868.927	2.883.407
	4.354.141	**5.237.158**

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

2.5. New and Revised International Financial Reporting Standards("IFRS")

The accounting policies, applied in the preparation of the financial statements as of 31 December 2019, are consistent with those applied in the preparation of the financial statements as of 31 December 2018, except for the new and amended IFRS and IFRIC interpretations, which are valid as of 1 January 2019. The effects of these standards and interpretations on the Company's financial position and the performance have been disclosed in the related paragraphs.

a) New standards applicable as of 31 December 2019 and amendments to existing previous standards and interpretations:

- **Amendment to IFRS 9, 'Financial instruments**'; effective from periods beginning on or after 1 January 2019. This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. The relevant amendment does not have a material impact on the financial position or performance of the Group.

- **Amendment to IAS 28, 'Investments in associates and joint venture**'; effective from periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.

- **IFRS 16, 'Leases' standard;** effective from periods beginning on or after 1 January 2019. This standard replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. For lessors, the accounting stays almost the same. Under IFRS 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.

- **IFRS 23, 'Uncertainty over income tax treatments**'; effective from periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

  The IFRS IC had clarified previously that not IAS 12, however IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

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

2.5. New and Revised International Financial Reporting Standards(“IFRS”) (Continued)

Annual improvements 2015-2017; effective from periods beginning on or after 1 January 2019. These amendments include minor changes to:

- IFRS 3, ‘Business combinations’, – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, ‘Joint arrangements’, – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, ‘Income taxes’ – a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, ‘Borrowing costs’ – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

- ***“*Amendments to IAS 19, ‘Employee benefits’”** on plan amendment, curtailment or settlement’; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
  - use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
  - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

b) *Standards, amendments and interpretations that are issued but not effective as at 31 December 2019*

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, ‘Presentation of financial statements’,and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs:

  i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
  ii) clarify the explanation of the definition of material; and
  iii) incorporate some of the guidance in IAS 1 about immaterial information.

- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

- **Amendments in IFRS 9, TMS 39 and IFRS 7 – Reform of Benchmark Bond Rate;** It is valid for reporting period at the date of 1 January 2020 or starting after this date. These amendments ensure settled facilitative implementations in concern with reform of benchmark bond rate. These implementations are in concern with hedge accounting and the effect of IBOR reform generally should not cause to end of hedging accounting. In addition to this, protection inefficiency of any risk must continue to record in statement of income. By taking into consideration prevalence of hedge accounting in IBOR based contracts these facilitative implementations will impact all companies in sector.

- **IFRS 17, ‘Insurance contracts’**; effective from periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

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

2.5. New and Revised International Financial Reporting Standards(“IFRS”) (Continued)

The Group has not determined the effects that may occur in the consolidated financial statements as a result of the application of the aforementioned standards, but has not anticipated that these differences will have a significant impact on the consolidated financial statements.

2.6. 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

Significant changes in accounting policies and significant accounting errors detected are applied retrospectively and prior period financial statements are restated. Changes in accounting estimates, if only for one period, are made in the current period; if they relate to future periods, are made in future period as well as in the period of change, are applied prospectively. The accounting policies applied in the preparation of these financial statements for the year ended at 31 December 2019 are consistent with those applied in the preparation of financial statements for the year ended at 31 December 2018.

Significant accounting estimations

The preparation of financial statements, require the Group’s management to make judgments, estimates and assumptions that affect certain 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 year. Actual results could differ from those judgments, estimates and assumptions. Those estimates and assumptions are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known. There has been no significant change in the accounting estimates of the Group in the current period.

Cash and cash equivalents

Cash and cash equivalents include 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.

If any provision provided to the cash and cash equivalents as a result of a specific events, Group measures expected credit loss from these cash and cash equivalents by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Group and its expectations for the future indications.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.6. Summary of Significant Accounting Policies(Continued)

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 18% (2018: 24%) and for foreign currency denominated trade receivables Libor rate is used (2018: Libor). The average collection period of trade receivables is 55 days (2018: 58 days). Trade receivables for which risks and rewards are transferred to third parties as part of factoring transaction are derecognized.

Related parties

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

Inventories

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

Property, plant and equipment

Property, plant and equipment are initially recorded at cost. As of 31 December 2019, 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.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.6. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Intangible assets

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

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.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.6. Summary of Significant Accounting Policies(Continued)

As of December 31, 2019, the Group is not exposed to any impairment risk for its subsidiaries Mannesmann Pipe US Inc and Borusan Mannesmann Vobarno Tubi SPA. The Group has reached positive operating cash flows that they have budgeted for these assessments and revenue growth that has been increasing over the years.

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 (2018: 31 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 18% (2018: 24%) and interest rates used for foreign currency denominated trade payables are Libor (2018: 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 %0,90 - %1,26 for EUR based trade payables and %4,11-%4,79 for USD based trade payables (2018: 180-360 days and the average interest rates applied are in the interval of %0,80 - %1,26% for EUR based payables and %2,95-%3,37 for USD based payables).

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.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.6. Summary of significant accounting policies (Continued)

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)

2.6. 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 IAS 19 “Employee Benefits”. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation. Provision for employee termination benefit is made for the present value of the defined benefit obligation calculated. All actuarial gains and losses are recognized in the other comprehensive income as incurred.

Revenue

Revenue 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.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.6. Summary of significant accounting policies (Continued)

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 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.

Financial Instruments

Financial instruments are agreements that increase the financial assets of one enterprise and financial liabilities or capital instruments of another enterprise.

Financial Assets

Classification and measurement

The Group classified its financial assets in three categories; financial assets carried at amortized cost, financial assets carried at fair value though profit of loss, financial assets carried at fair value though other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. Management performs the classification of financial assets at the acquisition date.

a) Financial assets carried at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. They are included in current assets, except for maturities more than12 months after the balance sheet date. Those with maturities more than 12 months are classified as non-current assets. The Group's financial assets carried at amortized cost comprise "trade receivables" and "cash and cash equivalents" in the statement of financial position. In addition, with recourse factoring receivables classified in trade receivables are classified as financial assets carried at amortized cost since collection risk for those receivables are not transferred to counterparty.

Impairment

Group has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, Group measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Group and its expectations for the future indications.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.6. Summary of significant accounting policies (Continued)

b) Financial assets carried at fair value

Assets that are held by the management for collection of contractual cash flows and for selling the financial assets are measured at their fair value. If the management do not plan to dispose these assets in 12 months after the balance sheet date, they are classified as non-current assets. Group make a choice for the equity instruments during the initial recognition and elect profit or loss or other comprehensive income for the presentation of fair value gain and loss:

i) Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise of "derivative instruments" in the statement of financial position. Derivative instruments are recognized as asset when the fair value of the instrument is positive, as liability when the fair value of the instrument is negative. Group's financial instruments at fair value through profit or loss consist of forward contracts, currency swaps and cross currency fixed interest rate swap.

ii) Financial assets carried at fair value through other comprehensive income

Financial assets carried at fair value through other comprehensive income comprise of "financial assets" in the statement of financial position. Group carried these assets at their fair values. The fair value gains and losses are recognized in other comprehensive income after the deduction of impairment losses and foreign exchange income and expenses. When the financial assets carried at fair value through other comprehensive income are sold, fair value gain or loss classified in other comprehensive income is classified to retained earnings.

Financial Liabilities

Financial liabilities are recorded with their values after the transaction expenses are deducted from the financial debt amount received on the date of receipt. Financial liabilities are followed in the consolidated financial statements with their discounted values calculated with the effective interest rate on the following dates. The difference between the amount of the financial debt received (excluding transaction expenses) and the repayment value is recognized on the accrual basis in the consolidated statement of profit or loss. If the Group does not have unconditional right such as postponing the liability for 12 months from the balance sheet date, financial liabilities are classified as short term liabilities.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivative financial instruments to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

These derivative instruments are recorded at fair value at the beginning of the contract and subsequently measured with its fair value. If the fair value is positive, derivatives are classified as financial asset or otherwise financial liability.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.6. Summary of significant accounting policies (Continued)

Such derivative instruments are generally accounted as trading derivative instruments in consolidated financial statements, because they do not have related specifications in terms of hedge accounting. The gains and losses related to the changes in fair values of such financial instruments are shown in the profit or loss statement.

Fair value differences of forward transactions, sourcing from trading contracts in scope of main activities of the Group, are recognised under other real operating income (expense) since they are in scope of main activities of the Group while exchange rate differences, sourcing from forward exchange and exchange of interest rate, are recognised under financing income (expense).

Cash flow hedges

Hedges of exposures to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit and loss are designated as cash flow hedges by the Group.

Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognised in equity as “hedge reserves”. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously recognised under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts recognised under equity are transferred to the consolidated income statement in the period in which the hedged firm commitment or forecasted transaction affects the consolidated income statement

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or losses previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains until the forecast transaction or firm commitment affects profit or loss.

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.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.6. Summary of significant accounting policies (Continued)

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).

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.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.6. 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 25. For the period 1 January - 31 December 2019, if the discount rate used in the calculation was higher/lower by 1%, the comprehensive income of the period would have been USD151.449 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 USD209.819 lower/higher.

- Revaluation of property, plant and equipment

The Group evaluates its land, buildings, machinery and equipment over its fair value within the scope of IAS 16 revaluation model. These fair values identified equivalent price, discounted cash flow, renewal cost etc. methods.As of 31 December 2019 fair values in financial statement based on expertise report Galata Taşınmaz Değerleme ve Danışmanlık Hizmetleri A.Ş. and Aden Gayrimenkul Değerleme ve Danışmanlık A.Ş. for machinery and equipment in Turkey. And National Appraisal Partners LLP and Third Coast Appraisal, LLC. for machinery and equipment in America. And CBF S.r.l. for machinery and equipment in Italy.During valuation of tangible assets, market value was taken as basis.The related values were initially brought to revalued amounts using a book value and the added value was recorded by netting the deferred tax effect on the revaluation fund in equity.

For the period 1 January - 31 December 2019, if the value determined in the expert's report was higher/lower by 1%, the comprehensive income of the period would have been USD480.142 lower/higher (2018: USD893.026).

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.6. Summary of significant accounting policies (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 2018: None).

4. JOINT VENTURES

None (31 December 2018: None).

5. SEGMENT REPORTING

The Group was operating under two main industrial divisions until December 31, 2019. As of January 1, 2019, it was decided to stop the activities of Borusan Mühendislik company, which produces technological mechanical equipment for the iron and steel and pipe industry companies. Within the framework of this decision, Borusan Mühendislik's activities are classified as “assets held for sale and discontinued operations” within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations Standard.

Starting from January 1, 2019, only steel pipe production and sales are followed as the main activity within the scope of segment reporting. Since only steel pipe section remains within the scope of consolidation, no reporting is made according to segments starting from January 1, 2019.

(Amounts expressed in US Dollars unless otherwise stated)

6. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash in hand	7.221	3.257
Cash at banks	159.130.334	148.017.992
- Demand deposits	60.159.214	51.670.300
- Time deposits	98.971.120	96.347.692
	159.137.555	**148.021.249**

The details of time deposits as of 31 December 2019 and 31 December 2018 are as follows:

			31 December 2019	
Currency	**Effective interest date**	**Maturity (days)**	**Original currency amount**	**Amount in USD**
USD	1.40 -3.00	1	82.423.551	82.423.551
Euro	0.40-0.75	1	14.780.000	16.547.569
				98.971.120

			31 December 2018	
Currency	**Effective interest date**	**Maturity (days)**	**Original currency amount**	**Amount in USD**
USD	1.5 -3.65	3	62.615.000	62.615.000
Euro	1.30	3	29.440.000	33.732.692
				96.347.692

7. FINANCIAL INVESTMENTS

a) Short-term financial investments

None (31 December 2018: None).

b) Available-for-sale financial assets

Available-for sale financial assets as of 31 December 2019 and 31 December 2018 are stated below:

	31 December 2019		31 December 2018	
	Amount	**Share (%)**	**Amount**	**Share (%)**
Borçelik Çelik Sanayii Ticaret A.Ş. ("Borçelik")	50.536.200	11,78	46.438.000	10,68
Borusan Mannesmann Cooperatie U.A. (BM Coop) (*)	4.855.275	99,00	4.826.912	99,00
Other	438.360		343.124	
Impairment in fair values of subsidiaries (**)	(2.967.837)		(2.900.842)	
	52.861.998		**48.707.194**	

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.

(Amounts expressed in US Dollars unless otherwise stated)

7. FINANCIAL INVESTMENTS (Continued)

b) Available-for-sale financial assets (Continued)

The Group owns 11.8% of the shares of Borçelik Çelik Sanayi ve Ticaret A.Ş. (“Borçelik Grup). Financial assets at fair value through profit or loss are classified as financial assets at fair value through profit or loss. Fair value changes are recognized in other comprehensive income. The fair value of Borçelik is calculated by giving 50% weight to the discounted cash flows and market approach methods. In consideration of this calculation, steel sector beta and company dynamics, the cost of capital to the environment is calculated as 11.6%.

If the long-term growth rates were 100 basis points high / low and all other variables remained constant, the calculated fair value would be higher/lower by USD3.074.000 If the discount rates were 100 basis points high / low and all other variables remained constant, the calculated fair value would be lower/higher than USD4.527.475

The movements for impairment provision of subsidiaries for the periods ended 31 December 2019 and 31 December 2018 are stated below:

	1 January - 31 December 2019	1 January - 31 December 2018
Opening	2.900.842	2.856.227
Provision for the period	66.995	44.615
Closing	**2.967.837**	**2.900.842**

8. BORROWINGS

a) Short-term borrowings

	31 December 2019			31 December 2018		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Short-term borrowings:						
USD	204.192.269	204.192.269	3.12 -5.25%	164.322.875	164.322.875	3.12 -5.25%
EURO	4.149.061	4.645.255	0.45-0.85%	6.645.723	7.614.746	0.45-0.85%
TL	18.153.651	3.056.067	28-33.34%	119.946.640	22.799.643	28-33.34%
Transaction costs directly attributable to borrowings		(194.962)			(403.055)	
		211.698.629			**194.334.209**	

As of 31 December 2019, none of short-term borrowings of the Group are secured (31 December 2018: None).

(Amounts expressed in US Dollars unless otherwise stated)

8. BORROWINGS (Continued)

b) Short-term portion of long-term borrowings

- Bank Credits

	31 December 2019			31 December 2018		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Short-term portion of long term borrowings:						
USD	67.885.490	67.885.490	4.75-6.08%	45.930.567	45.930.567	4.75-6.08%
EURO	16.890.997	18.911.024	2.80-5.20%	12.527.628	14.354.300	2.80-5.20%
TL	1.378.782	232.110	16.95%	25.200.104	4.790.075	16.95%
Transaction costs directly attributable to borrowings		(302.274)			(89.363)	
		86.726.350			**64.985.579**	

As of 31 December 2019; none of the short-term portion of long-term borrowings of the Group are secured (31 December 2018: None).

- Lease Liabilities

	31 December 2019		
Döviz Cinsi	**Amount**	**USD equivalent**	**Discount Rates (%)**
Short-term portion of lease liabilities:			
USD	964.500	964.500	% 4 and 5
EURO	522.861	585.390	% 1 and 3
TL	5.558.107	935.677	% 12 and 24
		2.485.567	

c) Long-term borrowings

- Bank Credits

	31 December 2019			31 December 2018		
Currency	**Amount**	**USD equivalent**	**Interest rate (%)**	**Amount**	**USD equivalent**	**Interest rate (%)**
Long-term borrowings:						
USD	92.495.727	92.495.727	4.75-6.47%	128.769.231	128.769.231	4.75-6.47%
EURO	20.092.451	22.495.346	2.80-5.20%	15.000.000	17.187.173	2.80-5.20%
TL	105.746.025	17.801.762	-	-	-	0,00%
Transaction costs directly attributable to borrowings		(1.544.205)			(383.367)	
		131.248.630			**145.573.037**	

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

As of 31 December 2019; none of the long-term borrowings of the Group are secured (31 December 2018: None).

(Amounts expressed in US Dollars unless otherwise stated)

8. BORROWINGS (Continued)

c) Long-term borrowings (Continued)

The redemption schedule of the long-term borrowings for 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
2020	-	83.460.678
2021	77.464.747	27.162.392
2022	14.278.283	11.777.778
2023	14.278.283	11.777.778
2024	20.715.937	11.777.778
2025	6.055.585	-
	132.792.835	**145.956.404**

- Lease Liabilitiees

	31 December 2019		
Döviz Cinsi	**Amount**	**USD equivalent**	**Discount Rates (%)**
Long term lease liabilities			
USD	1.016.928	1.016.928	% 4 and 5
EURO	587.406	657.655	% 1 and 3
TL	1.152.343	193.991	% 12 and 24
		1.868.574	

The net debt reconciliation of borrowings from leasing transactions during the periods ended 31 December 2019 is as follows:

Lease liabilities reconciliation	
Opening - 1 January 2019	**5.237.158**
Payment	(2.877.866)
Interest expense	430.643
Additions	1.622.213
Disposals	-
Change in lease contracts	160.134
Foreign exchange difference	(193.648)
Currency translation difference	(24.493)
Closing balance - 31 Aralık	**4.354.141**

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 2019 (2018: None). This amount is recorded in equity under the cash flow hedge reserve.

(Amounts expressed in US Dollars unless otherwise stated)

10. TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

	31 December 2019	31 December 2018
Trade receivables	133.451.131	245.053.104
Notes receivable	492.608	802.578
Receivables from related parties (Note 37)	4.707.656	4.633.176
Receivables factored	(36.257.612)	(23.952.163)
Allowance for doubtful receivables (-) (*)	(11.855.782)	(2.816.608)
	90.538.001	**223.720.087**

(*) As of 31 December 2019, USD168.859 (31 December 2018: USD72.298) of doubtful receivables are due from related parties.

The movement of the provision for doubtful receivables during the periods ended 31 December 2019 and 31 December 2018 is as follows:

	1 January - 31 December 2019	1 January - 31 Dcember 2018
Opening	2.816.608	3.682.905
Currency translation differences	(1.059.106)	(857.086)
Additions	10.098.280	-
Collections	-	(9.210)
Closing balance	**11.855.782**	**2.816.608**

As of 31 December 2019, the Group does not have the long-term trade receivables (31 December 2018: None).

Nature and level of the risks arising from trade receivables are disclosed in Note 39.

b) Trade Payables

	31 December 2019	31 December 2018
Trade payables	146.718.357	244.025.582
Due to related parties (Note 37)	7.774.666	5.708.789
	154.493.023	**249.734.371**

USD 75.685.909 of trade payables are interest bearing. The weighted average interest rate applied to USD trade payables is 4,24% and EUR trade receviables is %1,26, and the average maturity of the payables is 180-360 days (31 December 2018: USD 109.504.859 interest rates are: %4,25 for USD, for 0,93 for EUR and average maturity is 360 days).

There are no long-term trade payables (31 December 2018: 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 2019	31 December 2018
Receivables from tax authority	5.324.297	4.089.880
Due from personnel	42.871	80.767
	5.367.168	**4.170.647**

b) Other payables

	31 December 2019	31 December 2018
Advances received	2.172.993	3.015.970
Taxes and charges payable	1.247.943	1.882.743
	3.420.936	**4.898.713**

12. 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 2019; total value receivables are TRY 2.890.000. (2018: GBP 450.000 and the total value of foreign currency payables is TRY 92.145.125) (Note 38).

	31 December 2019	31 December 2018
Expense accrual from derivative financial instruments	8.747	1.225.973
	8.747	**1.225.973**

As of 31 December 2019, USD 8.747 amounting expense has been accrued from forward foreign exchange transactions (31 December 2018: USD 1.225.973).

13. INVENTORIES

	31 December 2019	31 December 2018
Raw materials	94,793,758	98,714,593
Work in progress	40,806,976	38,389,122
Finished goods	63,219,277	62,796,741
Trade goods	286,158	177,307
Goods-in-transit	910,145	122,461
	200,016,314	**200,200,224**

(Amounts expressed in US Dollars unless otherwise stated)

14. PREPAID EXPENSES

Details of current and non-current prepaid expenses of the Group as of 31 December 2019 and 31 December 2018 are as follows:

a) Short-term prepaid expenses

	31 December 2019	31 December 2018
Advance payments for raw materials	9.312.266	10.370.355
Insurance fees	607.036	205.091
Other short term prepaid expenses	5.125.530	3.598.500
	15.044.831	**14.173.946**

b) Long-term prepaid expenses

	31 December 2019	31 December 2018
Advance payments for fixed assets	6.478.734	14.184.535
Other long term prepaid expenses	467.975	749.082
	6.946.709	**14.933.617**

15. CURRENT INCOME TAX ASSETS

As of 31 December 2019, income tax asset is USD 2.055.188 (31 December 2018: USD 1.213.193).

16. DEFERRED REVENUE

As of 31 December 2019, the short-term deferred income of the Group is as follows:

	31 December 2019	31 December 2018
Deffered revenue	94.281	262.610
	94.281	**262.610**

17. EMPLOYEE BENEFIT OBLIGATIONS

As of 31 December 2019, accrued salaries of employees USD 865.047 (31 December 2018: USD 1.070.085).

(Amounts expressed in US Dollars unless otherwise stated)

18. PROPERTY, PLANT AND EQUIPMENT

	1 January 2019	Currency transaction differences	Additions	Disposals	Transfers	Transfer from asset held for sale to fixed assets	Revaluation adjustment and accumulated depreciation of revalued fixed assets	31 December 2019
Cost								
Land	179.917.999	-	-	-	-	(3.530.184)	(39.774.677)	136.613.137
Land improvements	8.843.386	-	-	-	1.631.875	(11.437)	(767.145)	9.696.679
Buildings	167.557.407	(418.839)	-	-	7.549.280	(2.988.882)	(30.629.391)	141.069.575
Machinery and equipment	341.279.385	(577.850)	-	(1.546.955)	24.730.156	(245.500)	(63.469.414)	300.169.821
Motor vehicles	4.076.838	(8.493)	-	(407.633)	270.752	(13.720)	-	3.917.745
Furniture and fixtures	29.845.432	(4.955)	-	(4.887.791)	3.964.628		-	28.917.313
Construction in progress	15.090.889	(1.288)	51.984.168	-	(38.146.691)		-	28.927.077
	746.611.336	**(1.011.426)**	**51.984.168**	**(6.842.379)**	**-**	**(6.789.723)**	**(134.640.627)**	**649.311.348**
Less: Accumulated depreciation								
Land improvements and leaseholds	(899.958)	-	(418.018)	-	-	11.437	767.145	(539.394)
Buildings	(21.220.224)	57.232	(4.943.299)	-	-	-	23.527.696	(2.578.594)
Machinery and equipment	(75.017.801)	293.598	(18.715.360)	159.127	-	80.627	79.487.046	(13.712.764)
Motor vehicles	(2.826.593)	6.132	(310.149)	292.118	-	13.720	-	(2.824.772)
Furniture and fixtures	(22.550.782)	4.540	(1.827.977)	4.656.515	-	-	-	(19.717.704)
	(122.515.358)	**361.502**	**(26.214.803)**	**5.107.759**	**-**	**105.784**	**103.781.887**	**(39.373.228)**
Net book value	**624.095.978**							**609.938.120**

As of 31 December 2019, the total amount of capitalized finance expense is equal to USD 4.213.447. (31 December 2018: USD 1.191.654).

(Amounts expressed in US Dollars unless otherwise stated)

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2018	Currency transaction differences	Additions	Disposals	Transfers	31 December 2018
Cost						
Land	179.917.999	-	-	-	-	179.917.999
Land improvements	7.771.431	-	-	-	1.071.956	8.843.386
Buildings	165.905.754	(807.864)	13.636	-	2.445.881	167.557.407
Machinery and equipment	327.776.887	(1.095.075)	3.180	(1.104.989)	15.699.381	341.279.385
Motor vehicles	3.941.615	(14.321)	-	(94.000)	243.545	4.076.838
Furniture and fixtures	27.082.379	(11.033)	-	(29.680)	2.803.766	29.845.432
Construction in progress	8.528.437	(1.795)	28.828.775	-	(22.264.528)	15.090.889
	720.924.501	**(1.930.088)**	**28.845.591**	**(1.228.668)**	**-**	**746.611.336**
Less: Accumulated depreciation						
Land improvements and leaseholds	(668.053)	-	(231.905)	-	-	(899.958)
Buildings	(16.740.826)	106.135	(4.585.533)	-	-	(21.220.224)
Machinery and equipment	(58.278.435)	520.429	(17.741.548)	481.753	-	(75.017.801)
Motor vehicles	(2.528.801)	10.295	(336.220)	28.133	-	(2.826.593)
Furniture and fixtures	(20.688.306)	9.595	(1.901.750)	29.680	-	(22.550.782)
	(98.904.421)	**646.455**	**(24.796.957)**	**539.565**	**-**	**(122.515.358)**
Net book value	**622.020.080**					**624.095.978**

(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 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	Land and buildings	Machinery and equipment	Land and buildings	Machinery and equipment
Cost	89.880.239	266.775.190	87.028.155	245.192.002
Accumulated depreciation (-)	(20.324.176)	(119.866.506)	(18.299.758)	(106.737.900)
Net book value	**69.556.063**	**146.908.684**	**68.728.397**	**138.454.102**

19. INTANGIBLE ASSETS

	31 December 2019	31 December 2018
Cost:		
Costs on 1January	6.151.757	5.498.906
Currenct transaction differences	(19.864)	(35.567)
Additions	863.473	688.418
Disposals	(447.039)	-
	6.548.326	**6.151.757**
Less: Accumulated depreciation		
Accumulated amortisation at 1 January	5.025.724	4.651.874
Current transaction differences	(19.677)	(29.781)
Disposals	(291.580)	-
Amortisation of current period	578.423	403.631
	5.292.890	**5.025.724**
Net book value	**1.255.437**	**1.126.033**

Current period amount of depreciation and amortization recorded to cost of goods sold and services provided is USD22.771.567, to selling and marketing expenses is USD1.932.235 and to general administrative expenses is USD4.644.866, transfer to discontinued operations is USD14.210 (31 December 2018: cost of goods sold and services USD19.992.790, selling and marketing expenses USD469.477, general administrative expenses USD4.713.247 and transfer to discontinued operations is USD25.073 respectively).

(Amounts expressed in US Dollars unless otherwise stated)

20. RIGHT OF USE ASSETS

Cost	**Building**	**Vehicles**	**Total**
Opening (1 January 2019)	2.604.031	4.548.043	7.152.074
Currency translation difference	336.239	587.254	923.493
Addition	-	1.619.834	1.619.834
Differences	160.135	-	160.135
Disposal	(518.663)	(370.812)	(889.475)
Balance at 31 December 2019	2.581.742	6.384.319	8.966.061
Accumulated depreciation			
Opening (1 January 2019)	698.453	2.041.040	2.739.493
Currency translation difference	90.180	263.549	353.729
Addition	964.210	1.605.442	2.569.652
Disposal	(518.150)	(371.261)	(889.411)
Balance at 31 December 2019	1.234.693	3.538.770	4.773.463
Net Book Value	**1.347.049**	**2.845.549**	**4.192.598**

Current period amount of depreciation expenses arising from right of use assets recorded to cost of goods sold and services provided is USD1.040.654 and general administrative expenses is USD1.528.998.

The Group as a lessee included the right of use representing the right to use the underlying asset and the lease obligations representing the lease payments that it is liable to pay rent to its consolidated financial statements.

21. GOODWILL

None (31 December 2018: None).

22. GOVERNMENT GRANTS

None (31 December 2018: None).

23. CONTINGENT ASSETS AND LIABILITIES

None (31 December 2018: None)

(Amounts expressed in US Dollars unless otherwise stated)

24. COMMITMENTS

- **Export Commitments**

Export commitments amount to USD234.582.625 as of 31 December 2019 (31 December 2018: USD230.317.676).

- **Letters of credit**

As of 31 December 2019, the Group has open letter of credit agreements for the future purchases from suppliers amounting to USD1.246.763; (31 December 2018: USD10.997.461, EUR5.232.622 and GBP13.000).

- **Guarantees, Pledges and Mortgages**

As of 31 December 2019, the Group is contingently liable for safeguards which are USD47.016.325 (31 December 2018: USD49.442.101). No guarantees are given during this period (31 December 2018: None).

	USD	EUR	TL	31 December 2019
A. GPM's given in the name of its own legal personality	34.450.406	7.828.530	22.579.649	47.016.325
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	**34.450.406**	**7.828.530**	**22.579.649**	**47.016.325**

(Amounts expressed in US Dollars unless otherwise stated)

24. COMMITMENTS (Continued)

There are no CPMs that the Group is liable on its immediate parent company (31 December 2018: None)

	USD	EUR	TL	31 December 2018
A. GPM's given in the name of its own legal personality	36.580.394	5.886.175	32.182.293	49.442.101
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 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	**36.580.394**	**5.886.175**	**32.182.293**	**49.442.101**

25. 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 TRY6,379.86 as of 31 December 2019 (TRY5.434,42 as of 31 December 2018).

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 2019 and 31 December 2018 the actuarial assumptions that are used in the calculation of liability are as follows:

	31 December 2019	31 December 2018
Discount rate	%4.70	%4.70
Probability of retirement	%91	%94

(Amounts expressed in US Dollars unless otherwise stated)

25. PROVISONS FOR EMPLOYEE BENEFITS (Continued)

The movements of provision for employment termination benefits for the periods ended 31 December 2019 and 2018 are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Opening (January)	2.765.352	4.211.943
Currency translation difference	(302.781)	(1.124.297)
Service cost	580.671	442.752
Finance cost	302.665	471.547
Actuarial loss	53.809	(480.122)
Paid during the period	(649.107)	(756.471)
Transfer to discountinued operations	(51.044)	-
	2.699.565	**2.765.352**

26. RETIREMENT PLANS

None (31 December 2018: None).

27. OTHER ASSETS AND LIABILITIES

a) Other current assets

	31 December 2019	31 December 2018
Income accruals	7.538.373	9.851.659
VAT receivable	3.988.683	5.627.104
Other current assets from related parties (Note 37)	12.703	9.687
Other job advances	438.203	773.132
	11.977.962	**16.261.582**

b) Other non-current assets

As of 31 December 2019, other non-current assets equal USD53.425 (2018: USD32.659).

c) Other short-term liabilities

	31 December 2019	31 December 2018
Accrued cost of sales expenses	602.752	12.451.546
Accrued export expenses	4.403.651	21.272.574
Acrrued for cost expenses	7.859.106	-
Other	3.226.450	2.505.744
	16.091.959	**36.229.864**

(*) As of 31 December 2018, USD 19.033.047 for export expense accruals arises from the import duty paid on sales to the US goverment. As of 13 August 2018, U.S. government started to apply 50% taxes to imports of steel products from Turkey.

(Amounts expressed in US Dollars unless otherwise stated)

28. EQUITY

a) Paid-in share capital

The legal capital structure of the group as of 31 December 2019 and 31 December 2018 is as follows:

	31 December 2019		**31 December 2018**	
	TRY	%	TRY	%
Borusan Mannesmann Boru Yatırım Holding A.Ş.	104.157.266	73,48	104.157.266	73,48
Lumbro Corporate Services Limited	9.450.000	6,67	9.450.000	6,67
Public Share and Other	28.142.734	19,85	28.142.734	19,85
	141.750.000	**100,00**	**141.750.000**	**100,00**

As of 31 December 2019, there are 141.750.000.000 shares, each of which has 0.1 Kr nominal value. As of 31 December 2019, the paid-in capital of the group comprises Group A (10% of the total shares) and Group B (90% of the total shares) shares (2018: Group A 10%, Group B 90%). Also, the Group has 100 dividend shares that do not grant voting power (2018: 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 2019 and 31 December 2018 the movement of revaluation funds are as follows:

	31 December 2019		**31 December 2018**	
	Property,plant and equipment reveluation reserve	**Investment revaluation reserve**	**Property,plant and equipment reveluation reserve**	**Investment revaluation reserve**
Balance at 1 January	218.661.333	28.757.621	219.085.064	19.173.976
Transfer of amortisation differences between revelued amounts and initially recognised amounts of available-for-sale	(649.527)	-	(423.731)	-
Current year revaluation of financial investr	-	3.893.290	-	9.583.645
Current year revaluation on property, plant and equipment	(28.765.385)	-	-	-
	189.246.421	**32.650.911**	**218.661.333**	**28.757.621**

28. EQUITY (Continued)

b) Revaluation funds (Continued)

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.

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. Amounts expressed in Turkish lira.

	31 December 2019	31 December 2018
Legal reserve	69.644.750	57.120.581
Special reserves	2.778	2.778
	69.647.528	**57.123.359**

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.

(Amounts expressed in US Dollars unless otherwise stated)

28. EQUITY (Continued)

d) Retained earnings (Continued)

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 on their statutory records.

- Sources Which Can be Subjected to Dividend Distribution:

The Group has a profit amounting to TRY 84.746.025 in its statutory records as of the balance sheet date (period profit in 2018: TRY87.962.546) and the total of other sources which can be subjected to dividend distribution is TRY 14.126.449 (31 December 2018: TRY 64.020.609).

e) Non-controlling interests

The movement of non-controlling interests for the periods as of 31 December 2019 and 31 December 2018 are as follows:

	1 January - 31 December 2019	**1 January - 31 December 2018**
Balance at 1 January	409.619	409.024
Currency translation difference	(2.989)	(7.891)
Participation of non-controlling interest in revaluation reserve	(20.739)	-
Share in current year result	(53.408)	8.486
Balance at 31 December	**332.483**	**409.619**

29. REVENUE AND COST OF SALES

a) Revenue

	1 January - 31 December 2019			**1 January - 31 December 2018**		
	Sales to Turkey	**Sales outside Turkey**	**Total**	**Sales to Turkey**	**Sales outside Turkey**	**Total**
Steel Pipe	203.189.038	603.407.221	806.596.259	230.494.178	776.737.880	1.007.232.057
	203.189.038	**603.407.221**	**806.596.259**	**230.494.178**	**776.737.880**	**1.007.232.057**

(Amounts expressed in US Dollars unless otherwise stated)

29. REVENUE AND COST OF SALES (Continued)

b) Cost of sales

	1 January - 31 December 2019	1 January - 31 December 2018
Direct material	588.629.695	774.194.359
Direct labor	47.703.502	47.507.507
Depreciation and amortization	22.771.567	19.992.790
Repair, maintenance and other production	59.936.006	64.749.916
Net change in work-in-process	(2.556.091)	(18.331.973)
Net change in finished goods	(422.536)	(20.672.869)
Cost of trade goods sold	1.859.614	1.200.836
	717.921.757	**868.640.566**

30. MARKETING AND GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
General administrative expenses	45.848.105	38.653.889
Marketing expenses	14.616.401	13.160.032
	60.464.506	**51.813.921**

31. EXPENSES BY NATURE

a) Marketing expenses

	1 January - 31 December 2019	1 January - 31 December 2018
Sales distribution	5.192.513	4.251.158
Personnel	2.819.808	2.811.650
Consultancy	2.512.103	1.860.039
Depreciation and amortisation expenses	1.932.235	469.477
Direct selling expense	625.130	1.187.278
Transportation and travel	451.843	486.164
Vehicle expenses	317.765	353.636
Energy	111.193	109.119
Communication	55.268	51.108
Rent	-	846.752
Other	598.543	733.651
	14.616.401	**13.160.032**

(Amounts expressed in US Dollars unless otherwise stated)

31. EXPENSES BY NATURE (Continued)

b) General administrative expenses

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel	15.018.650	17.112.586
Doubtful receivable expense	10.098.279	-
Depreciation and amortisation	4.644.866	4.713.247
Consultancy	3.856.755	4.290.913
Outsourced services	2.148.478	2.068.165
Information technology	1.701.677	1.554.298
Insurance	1.576.405	1.583.266
Donations	1.289.446	1.192.056
Tax and charges	1.247.868	1.594.350
Vehicle expenses	507.280	440.089
Maintenance	473.172	446.292
Transportation and travel	401.188	430.491
Energy	344.573	304.901
Rent	294.962	474.206
Communication	169.024	150.090
Other	2.075.482	2.298.939
	45.848.105	**38.653.889**

Depreciation and amortization expenses:

	1 January - 31 December 2019	1 January - 31 December 2018
Cost of sales	22.771.567	19.992.790
General administrative expenses	4.644.866	4.713.247
Marketing expenses	1.932.235	469.477
Transfer to discontunied operations	14.210	25.074
	29.362.878	**25.200.588**

Personnel expenses:

	1 January - 31 December 2019	1 January - 31 December 2018
Cost of sales	47.703.502	47.507.507
General administrative expenses	15.018.650	17.112.586
Marketing expenses	2.819.808	2.811.650
	65.541.960	**67.431.743**

(Amounts expressed in US Dollars unless otherwise stated)

32. OTHER INCOME AND EXPENSE

a) Other income

Other Income

	1 January - 31 December 2019	1 January - 31 December 2018
Interest on credit sales	8.212.623	11.440.495
Income and profits of the previous period	4.525.854	-
Currency translation gain	2.512.341	704.275
Scrap sales	352.370	468.863
Insurance indemnity gain	438.016	523.185
Other	1.624.229	2.419.245
	17.665.433	**15.556.063**

b) Other expense

	1 January - 31 December 2019	1 January - 31 December 2018
Prior period expenses	-	201.491
Impairment on financial asset held for sale	66.995	44.615
Other	204.680	478.132
	271.675	**724.238**

33. INVESTMENT INCOME

	1 January - 31 December 2019	1 January - 31 December 2018
Dividend income	2.782.899	7.727.104
Gain on disposal of plant, property and equipment	(9.201)	227.265
	2.773.698	**7.954.369**

(Amounts expressed in US Dollars unless otherwise stated)

34. FINANCIAL INCOME AND EXPENSE

a) Financial income

	1 January - 31 December 2019	1 January - 31 December 2018
Income from derivative financial instruments	833.708	3.284.637
Interest income	1.315.202	1.206.666
	2.148.910	**4.491.303**

b) Financial expenses

	1 January - 31 December 2019	1 January - 31 December 2018
Interest expenses	25.956.726	27.314.274
Loss on derivative financial instruments	2.593.486	4.000.053
Factoring expense	2.914.346	4.458.342
Interest charges	2.367.776	2.918.372
Bank expense	2.393.584	1.218.369
	36.225.918	**39.909.410**

35. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

All fixed assets held for sale consist of machine equipments. The Group management considers that these machines and equipment are not often commodities traded and can be used to serve a specific purpose, and that the potential buyer masses are of special needs for this purpose. Group management thinks that sales process is a time-consuming process even if marketing of these fixed assets is being marketed because fixed assets that are ready for sale are not commodities.

The expenditures related to fixed assets held for sale, liabilities related to these assets and fixed assets held for sale are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Revenue	141.222	3.829.805
Cost of sales (-)	(67.424)	(3.457.929)
General administrative expenses (-)	(557.134)	(1.135.512)
Other operating income and expenses(-)	(982.601)	216.857
Financial income and expenses(-)	(18.778)	1.663
Discontinued Operations Before Tax Loss	(1.484.715)	(545.116)
Current tax (expense)	-	-
Deferred tax income/(expense)	307.879	(47.031)
Discontinued Operations Current Loss	**(1.176.836)**	**(592.147)**

(Amounts expressed in US Dollars unless otherwise stated)

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

All the fixed assets held for sale on the balance sheet as of 31 December 2018 are machinery and equipment. The group management considers that these machines and equipment are not commodities that are frequently traded and can be used to serve a specific purpose, and that the potential audience is made up of special needs. The management of the Group believes that the sale process is a time-consuming process even if these fixed assets are marketed at market value because the fixed assets that are ready for sale are not commodity.

There is no sale of these machines and equipment in 2019.

Assets and liabilities held for sale and assets and discontinued operations are as follows; As of 2019: USD463.734 in the tangible assets. (2018: USD463.734), the machinery ready for sale described above is related to the equipment and not the discontinued operations.

	31 December 2019	31 December 2018
Cash and cash equivalents	44.912	-
Trade Receivables, net	94.219	-
Inventories	225.369	-
Other current assets	22.869	-
Property, plant and equipment and intangible assets, net	7.147.672	463.734
Assets held for sale and assets for discontinued operations	**7.535.041**	**463.734**
Trade payables	76.764	-
Provisions for employee benefits	51.043	-
Other current liabilities	71.386	-
Deferred tax liabilities	888.001	-
Assets held for sale and liabilities for discontinued operations	**1.087.194**	-

36. 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 2019 is 22% (2018:22%).

36. INCOME TAX ASSETS AND LIABILITIES (Continued)

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

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

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

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

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

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

(Amounts expressed in US Dollars unless otherwise stated)

36. INCOME TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2019 and 31 December 2018, the current statutory tax charges for the Group can be analyzed as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Statutory combined profit before taxes as per historical statutory financial statements (*)	(14.266.527)	16.518.616
Permanent non-tax deductible expenses	3.074.994	5.048.553
Permanent non-taxable income and loss carried forward utilized during the year	(16.259.456)	(34.411.505)
Taxable income per Turkish Tax Legislation	(27.450.989)	(12.844.336)
Corporation tax at 22% (2018: 22%)	-	-
USA Tax Expense	(398.139)	300.000
Italy Tax Expense	-	-
Foreign currency translation differences	-	-
Provision for current statutory taxes on income	**(398.139)**	**300.000**

(*) 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 2019 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 2019 and 31 December 2018 is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Profit before tax	13.123.608	73.553.511
At statutory income tax calculated with rate at 22% (2018: 22%)	2.887.194	16.181.773
Effects of:		
Disallowable expenses	1.267.906	1.245.010
Tax exempt income	(1.075.383)	(8.775.383)
Loss carried forward utilized during the year	(2.918.828)	(7.794.785)
Effect of using functional currency as Turkish Lira on financial statements prepared for current tax calculation	1.376.228	14.054.710
Tax expense	**1.537.118**	**14.911.325**

The Group accounts for deferred tax assets and liabilities considering the effects of temporary differences arising as a result of different assessments between IAS and tax legislation that are put into effect by the balance sheet of the balance sheet. The tax rate has been accepted as "Institutional Taxes and Temporary Taxes" of 22% over institutional gains for the period of 2018-2019-2020 with the "Draft

(Amounts expressed in US Dollars unless otherwise stated)

36. INCOME TAX ASSETS AND LIABILITIES (Continued)

Law on the Amendment of Certain Tax Laws and Decrees on the Decree Laws and Decrees" dated 28 November 2017.

Current income tax for the periods ended 31 December 2019 and 31 December 2018 are summarized below:

	1 January - 31 December 2019	1 January - 31 December 2018
Provision for current taxes as per statements of income		
- Turkey tax charge	-	-
- ABD tax charge	(398.139)	300.000
- Italy tax charge	-	-
Total statutory income tax charge for the year	**(398.139)**	**300.000**
Prepaid taxes	(1.657.049)	(1.513.193)
Tax amnesty	-	-
Income taxes payable	**(2.055.188)**	**(1.213.193)**

As of 31 December 2019 and 31 December 2018 deferred tax rate used is 22% (2018: 22%) in Turkey, 21% for subsidiaries in the USA and 24% 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 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Net difference between the tax base and the amounts reported based:				
- carrying value of tangible and intangible assets	(304.591.015)	(301.490.573)	(62.175.216)	(61.503.410)
- carrying value of lands	(112.293.693)	(156.619.416)	(11.229.369)	(15.661.942)
- carrying value of financial assets	(10.593.000)	(10.593.000)	(2.258.117)	(2.018.512)
- carrying value of inventories	(1.416.944)	(1.943.946)	(357.223)	(437.676)
Provision for employee benefits obligation	2.527.030	2.522.212	505.406	504.442
Temporary differences of trade receivables	213.980	746.575	47.076	164.247
Temporary differences of trade payables	(280.283)	(395.863)	(61.662)	(87.090)
Carry forward tax losses	11.509.391	34.075.714	2.301.878	7.156.000
Other provisions and accruals	24.158.788	12.725.103	5.198.623	2.683.611
Deferred tax liability, net			**(68.028.604)**	**(69.200.330)**

(Amounts expressed in US Dollars unless otherwise stated)

36. INCOME TAX ASSETS AND LIABILITIES (Continued)

The distribution of deferred tax assets/(liabilities) for the periods ended on 31 December 2019 and 31 December 2018 are as follows:

Deferred tax assets:	**31 December 2019**	**31 December 2018**
Total amount of deferred tax assets to be settled in a year	7.547.578	10.003.858
Total amount of deferred tax assets to be settled in more than a year	505.406	504.442
	8.052.984	**10.508.300**

Deferred tax liabilities:	**31 December 2017**	**31 December 2016**
Total amount of deferred tax liabilities be settled in a year	(418.886)	(524.766)
Total amount of deferred tax liabilities be settled in more than a year	(75.662.702)	(79.183.864)
	(76.081.588)	**(79.708.630)**
Deferred tax liabilities, net	**(68.028.604)**	**(69.200.330)**

The distribution of deferred tax assets/(liabilities) for the periods ended on 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	**31 December 2018**
Deferred tax assets	-	-
Deferred tax liabilities	(68.028.604)	(69.200.330)
Deferred tax liability, net	**(68.028.604)**	**(69.200.330)**

Deferred tax liability for the periods ended on 31 December 2019 and 31 December 2018 are as follows:

	1 January - 31 December 2019	**1 January - 31 December 2018**
1 January	(69.200.330)	(53.490.597)
Curreny translation reserve	32.095	63.605
Tax charge recognized in the equity	1.879.008	(1.114.982)
Transfer to discontinued operations	888.001	-
Tax charge recognized in continued operations	307.879	(47.031)
Tax charge recognized in the statement of income	(1.935.257)	(14.611.325)
	(68.028.604)	**(69.200.330)**

(Amounts expressed in US Dollars unless otherwise stated)

36. INCOME TAX ASSETS AND LIABILITIES (Continued)

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 2019		31 December 2018	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Borusan Mannesmann Boru San. ve Tic A.Ş.	-	54.658.925	-	61.789.697
Borusan Mühendislik	-	-	-	1.218.542
BM Pipe	-	11.916.000	-	4.785.000
BM Vobarno	-	1.453.679	-	1.407.091
	-	**68.028.604**	**-**	**69.200.330**

37. 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 2019 and 31 December 2018 is as follows:

	31 December 2019	31 December 2018
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	11.639.898	58.633.700
Period profit/(loss) from discontinued operations	(1.176.836)	(592.147)
Profit from continuing operations	12.763.326	59.234.333
Total comprehensive income attributable to equity holders of the parent	0,00009	0,00042
Earnings per share from discontinuing operations	(0,00001)	(0,00000)
Earnings per share	**8,21**	**41,36**

(Amounts expressed in US Dollars unless otherwise stated)

38. RELATED PARTY BALANCES AND TRANSACTIONS

a) Receivables and Payables to Related Parties

	31 December 2019	31 December 2018
Trade receivables		
Salzgitter Mannesmann Internatıonal Gmbh (Salzgitter Mannesmann)	4.650.459	1.184.554
Borusan İstikbal Ticaret T.A.Ş. (İstikbal) (*)	-	3.309.166
Borusan Makine ve Güç Sistemleri Sanayi ve Tic. A.Ş.	-	80.122
Borçelik Çelik Sanayi Ticaret A.Ş.	20.895	97.249
Other	53.796	603
Less: Allowance for doubtful receivables	(168.859)	(72.298)
Less: Provision for unaccrued finance income	(17.494)	(38.518)
	4.538.797	**4.560.878**

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

	31 December 2019	31 December 2018
Trade payables		
Borusan Lojistik Dağıtım Depolama Taşımacılık ve Tic. A.Ş.	6.285.279	5.069.587
Borusan Danışmanlık A.Ş.	-	151.259
Borçelik Çelik Sanayi Ticaret A.Ş.	627.089	307.632
Borusan Holding A.Ş. (Borusan Holding)	134.373	74.902
Other	782.923	149.625
Less: Provision for unaccrued finance expense	(54.998)	(44.216)
	7.774.666	**5.708.789**

Borusan Lojistik and Borusan Holding provides services to the Company, whereas Borçelik 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.

b) Other current assets from related parties

	31 December 2019	31 December 2018
Other current assets		
Personnel advances	12.703	9.687
	12.703	**9.687**

(Amounts expressed in US Dollars unless otherwise stated)

38. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

c) Transactions with related parties

	1 January- 31 December 2019	1 January- 31 December 2018
Material purchases		
Borçelik	5.555.885	2.587.975
	5.555.885	**2.587.975**
Service purchases		
Borusan Lojistik	31.797.152	51.722.270
Borusan Holding	2.268.398	2.287.500
Borusan Birlik Danışmanlık	1.423.490	1.643.152
İstikbal	169.152	-
Other	309.788	311.050
	35.967.980	**55.963.972**

	1 January- 31 December 2019	1 January- 31 December 2018
Sales		
İstikbal	34.025.374	14.260.520
Salzgitter Mannesmann	25.646.151	7.342.240
Borusan Lojistik	-	2.712.975
Borçelik	-	232.435
Other	-	307.373
	59.671.525	**24.855.543**
Dividend income		
Borçelik	2.782.829	7.721.377
Other	70	5.727
	2.782.899	**7.727.104**

Payments to key management

	1 January- 31 December 2019	1 January- 31 December 2018
Salaries and short-term benefits provided to top management	2.258.935	2.842.159
Salaries and short-term benefits provided to board of directors	376.942	433.301
	2.635.877	**3.275.460**

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

39. 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)

39. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

b.1) Credit risk

	Receivables					
	Trade receivables		Other receivables			
31 December 2019	**Related parties**	**Other**	**Related parties**	**Other**	**Bank accounts**	**Other**
Maximum credit risk exposed as of balance sheet date	4.538.797	85.999.204	-	5.367.168	159.130.334	-
- the part under guarantee with collaterals, etc.	-	11.264.537	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	4.538.797	47.935.516	-	5.367.168	159.130.334	-
- the part under guarantee with collaterals, etc.		9.464.399				
B. Net book value of financial assets that are renegotiated, if not that will be accepted as part due or impaired	-	38.063.688	-	-	-	-
- the part under guarantee with collaterals, etc.	-	1.800.137	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	-	-	-	-	-
- Past due (gross carrying amount)	168.859	11.855.782	-	-	-	-
- Impairment (-)	(168.859)	(11.855.782)	-	-	-	-
- 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)

39. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

	Receivables					
	Trade receivables		Other receivables			
31 December 2018	**Related parties**	**Other**	**Related parties**	**Other**	**Bank accounts**	**Other**
Maximum credit risk exposed as of balance sheet date	4.560.878	219.159.209	-	4.170.647	148.017.992	-
- the part under guarantee with collaterals, etc.	-	22.847.368	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	4.560.878	211.530.646	-	4.170.647	148.017.992	-
- the part under guarantee with collaterals, etc.		19.264.029				
B. Net book value of financial assets that are renegotiated, if not that will be accepted as part due or impaired	-	7.628.564	-	-	-	-
- the part under guarantee with collaterals, etc.	-	3.583.339	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	-	-	-	-	-
- Past due (gross carrying amount)	72.298	2.816.608	-	-	-	-
- Impairment (-)	(72.298)	(2.816.608)	-	-	-	-
- 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)

39. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (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 four types of instruments which are Direct Debit System, letters of guarantee, mortgages and credit insurance. 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 2019	31 December 2018
Group 1	4.554.970	126.879.289
Group 2	9.855.655	81.583.670
Group 3	38.063.688	7.628.564
Total trade receivables	**52.474.313**	**216.091.523**

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 2018: None).

As of 31 December 2019, the part of overdue trade receivables for which no impairment was calculated equals USD38.063.688 (31 December 2018: USD7.628.563). Below is the aging of such trade receivables:

	31 December 2019	31 December 2018
Trade receivables		
1-30 days overdue	5.113.235	4.899.140
1-3 months overdue	2.440.688	2.225.876
3- 12 months overdue	30.509.765	503.547
Total overdue receivables	**38.063.688**	**7.628.563**
The part under guarantee with collaterals	**1.800.137**	**3.583.339**

39. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

As of 31 December 2019, the Group holds letters of guarantee equals to USD170.294.603, pledges equal to USD1.605.238, and factoring equal to USD24.604 (31 December 2018 respectively: USD41.781 of mortgages, USD68.901 of letter of guarantee, and USD3.472.657 of pledges).Overdue and impaired receivables are not secured.

The part of USD 37.236.733 of overdue receivables; As explained in the previous reports, it was caused by the disruption of the payments of a customer due to the difficulties in the import process. Within the framework of the legal dispute with this customer, which the management of the company could not agree after the tax on the import process, a net receivable of USD 27.236.733 remained after allocating a provision of USD 10.000.000 regarding the related conflict. It is aimed to resolve the related dispute through mutual negotiations.

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.

(Amounts expressed in US Dollars unless otherwise stated)

31 December 2019

	Carrying value	**Total cash outflows in accordance with contracts (I+II+III+IV)**	**Less than 3 months (I)**	**3-12 months (II)**	**1-5 years (III)**	**More than 5 years (IV)**
Non derivative financial liabilities						
Borrowings	429.673.609	453.009.821	40.285.477	266.854.821	139.594.076	6.275.447
Lease Liabilities	4.354.141	4.626.052	985.034	1.775.985	1.865.033	-
Trade payables	154.493.023	155.727.532	65.155.710	90.571.822	-	-
Other payables	3.420.936	3.420.936	3.420.936	-	-	-
Derivative financial instruments	8.747	8.747	8.747	-	-	-
Total liabilities	**591.950.456**	**616.793.088**	**109.855.904**	**359.202.628**	**141.459.109**	**6.275.447**

31 December 2018

	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	404.892.825	434.553.747	53.902.588	200.445.484	167.845.572	12.360.103
Trade payables	249.734.371	251.557.807	170.725.598	80.832.209	-	-
Other payables	4.898.713	4.898.713	4.898.713	-	-	-
Derivative financial instruments	1.225.973	1.225.973	933.453	292.520	-	-
Total liabilities	**660.751.882**	**692.236.240**	**230.460.352**	**281.570.213**	**167.845.572**	**12.360.103**

(Amounts expressed in US Dollars unless otherwise stated)

39. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives (Continued)

The details of the committed outstanding future contracts as of 31 December 2019 and 31 December 2018 are as below;

	Average exchange rates		Buying Amount		Selling amount		Fair value	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
USD buy- TL sell Between 1-6 months	5,7381	-	503.654	-	2.890.000	-	(8.747)	-
USD buy- TL sell Between 1-6 months		5,9771	-	15.416.314	-	92.145.125	-	(1.236.996)
USD buy- GBP sell Between 1-6 months		1,3105	-	589.725	-	450.000	-	11.023

(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)

39. FINANCIAL RISK MANAGEMENT (Continued)

(d) Foreign currency risk management (Continued)

	31 December 2019			
	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	(1.649.145)	1.649.145	(16.823.990)	16.823.990
2 - EUR hedged from risks (-)	-	-	-	-
3- EUR net effect (1+2)	**(1.649.145)**	**1.649.145**	**(16.823.990)**	**16.823.990**
	Change of TL against USD by 10%			
4- TRY net assets / liabilities	(13.659.171)	13.659.171	-	-
5- TRY hedged from risks (-)	-	-	-	-
6- TRY net effect (4+5)	**(13.659.171)**	**13.659.171**	**-**	**-**
TOTAL (3 + 6)	**(15.308.316)**	**15.308.316**	**(16.823.990)**	**16.823.990**

(Amounts expressed in US Dollars unless otherwise stated)

39. FINANCIAL RISK MANAGEMENT (Continued)

(d) Foreign currency risk management (Continued)

	31 December 2018			
	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	(1.839.124)	1.839.124	(18.734.243)	18.734.243
2 - EUR hedged from risks (-)	-	-	-	-
3- EUR net effect (1+2)	**(1.839.124)**	**1.839.124**	**(18.734.243)**	**18.734.243**
	Change of TL against USD by 10%			
4- TRY net assets / liabilities	(9.662.773)	9.662.773	-	-
5- TRY hedged from risks (-)	-	-	-	-
6- TRY net effect (4+5)	**(9.662.773)**	**9.662.773**	-	-
TOTAL (3 + 6)	**(11.501.897)**	**11.501.897**	**(18.734.243)**	**18.734.243**

(Amounts expressed in US Dollars unless otherwise stated)

39. FINANCIAL RISK MANAGEMENT (Continued)

(d) Foreign currency risk management (Continued)

The assets and liabilities in foreign curencies that are being held by the Group as of 31 December 2019 are as follows, in the original currencies and amounts, and denominated in their USD equivalents:

	31 December 2019				31 December 2018			
	TRY	**EUR**	**GBP**	**USD equivalents**	**TL**	**EUR**	**GBP**	**USD equivalents**
1 Trade receivables	44.247.542	22.358.187	-	32.480.876	96.827.764	29.024.768	104.063	51.793.681
2a Monetary financial assets (Including cash and cash equivalents)	1.938.902	15.785.020	-	17.999.185	9.051.793	32.451.982	-	38.904.435
2b Non-monetary financial assets	-	-	-	-	-	-	-	-
3 Other	-	-	-		-	-	-	
4 Current Assets (1+2+3)	**46.186.444**	**38.143.207**	**-**	**50.480.061**	**105.879.557**	**61.476.750**	**104.063**	**90.698.116**
5 Trade receivables	-	-	-	-	-	-	-	-
8 Other assets (5+6+7)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9 TOTAL ASSETS (4+8)	**46.186.444**	**38.143.207**	**-**	**50.480.061**	**105.879.557**	**61.476.750**	**104.063**	**90.698.116**
10 Trade payables	50.543.745	11.498.675	-	21.382.585	55.848.712	45.333.804	11.953	62.574.921
11 Financial liabilities	6.936.877	21.562.921	-	25.309.457	145.146.744	19.173.350	-	49.558.763
12a Other monetary liabilities	245.536	893.202	-	1.041.356	1.511.831	360.835	-	700.820
12b Other non-monetary liabilities	-	-	-	-	-	-	-	-
13 Short-term liabilities (10+11+12)	**57.726.158**	**33.954.798**	**-**	**47.733.398**	**202.507.287**	**64.867.989**	**11.953**	**112.834.504**
14 Trade payables	-	-	-	-	-	-	-	-
15 Financial liabilities	106.898.341	20.679.861	-	41.148.753	-	15.000.000	-	17.187.173
16a Other monetary liabilities	-	-	-	-	-	-	-	-
16b Other non-monetary liabilities	-	-	-	-	-	-	-	-
17 Long-term liabilities (14+15+16)	**106.898.341**	**20.679.861**	**-**	**41.148.753**	**-**	**15.000.000**	**-**	**17.187.173**
18 TOTAL LIABILITIES (13+17)	**164.624.499**	**54.634.659**	**-**	**88.882.151**	**202.507.287**	**79.867.989**	**11.953**	**130.021.677**
19Net asset and liability positions of derivatives out of statement of financial situation(19a-19b)	**(2.890.000)**	**-**	**-**	**(486.516)**	**92.145.125**	**-**	**450.000**	**18.084.146**
19a Total Hedged Assets	-	-	-	-	92.145.125	-	450.000	18.084.146
19bTotal Hedged Liabilities	2.890.000	-	-	486.516	-	-	-	-
20 Net foreign currency Asset/ (Liability) position (9-18+19)	**(121.328.055)**	**(16.491.452)**	**-**	**(38.888.606)**	**(4.482.605)**	**(18.391.239)**	**542.110**	**(21.239.415)**
21Monetary Items Net Foreign Currency Asset / (Liability)	**(118.438.055)**	**(16.491.452)**	**-**	**(38.402.090)**	**(96.627.730)**	**(18.391.239)**	**92.110**	**(39.323.561)**
22 Fair value of the financial instruments used for foreign currency hedging	**(51.958)**	**-**	**-**	**(8.747)**	**(6.449.719)**	**-**	**-**	**(1.225.973)**
23 Total Hedged Assets in Foreign Currency	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
24 Total Hedged Liabilities in Foreign Currency	**2.890.000**	**-**	**-**	**486.516**	**92.145.125**	**-**	**450.000**	**18.084.146**

From 1 January 2019 to 31 December 2019, the Group imported amounting to 88,399,144 USD ve 31,524,903 EUR ve 416,229 GBP) and exported amounting to 491,201,785 USD, 96,620,800 EUR ve 3,177,643 GBP (In the period of 1 January 2018 - 31 December 2018, the Group imported amounting to USD132.184.415, EUR57.445.507 and GBP465.160) and exported amounting to USD627.234.568, EUR124.023.403 and GBP2.766.174

39. 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 risks 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)

40. FINANCIAL INSTRUMENTS

31 December 2019 Balance Sheet	**Loans and receivables**	**Available for sale investments**	**Derivatives**	**Other financial liabilities at amortised cost**	**Carrying amount**
Financial assets					
Cash and cash equivalents	159.137.555	-	-	-	159.137.555
Trade receivables	85.999.204	-	-	-	85.999.204
Due from related parties	4.538.797	-	-	-	4.538.797
Financial investments	-	52.861.998	-	-	52.861.998
Other receivables	5.367.168	-	-	-	5.367.168
Financial liabilities					
Borrowings	-	-	-	434.027.750	434.027.750
Trade payables	-	-	-	154.493.023	154.493.023
Due to related parties	-	-	-	7.774.666	7.774.666
Other payables	-	-	-	3.420.936	3.420.936
Derivative instruments	-	-	8.747	-	8.747

31 December 2018 Balance Sheet	**Loans and receivables**	**Available for sale investments**	**Derivatives**	**Other financial liabilities at amortised cost**	**Carrying amount**
Financial assets					
Cash and cash equivalents	148.021.249	-	-	-	148.021.249
Trade receivables	219.159.209	-	-	-	219.159.209
Due from related parties	4.560.878	-	-	-	4.560.878
Financial investments	-	48.707.194	-	-	48.707.194
Other receivables	4.170.647	-	-	-	4.170.647
Derivative instruments	-	-	-	-	-
Financial liabilities					
Borrowings	-	-	-	404.892.825	404.892.825
Trade payables	-	-	-	244.025.582	244.025.582
Due to related parties	-	-	-	5.708.789	5.708.789
Other payables	-	-	-	4.898.713	4.898.713
Derivative instruments	-	-	1.225.973		1.225.973

(Amounts expressed in US Dollars unless otherwise stated)

40. 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 2019	**Trading purpose**	**Derivative financial instruments**	**Stocks**	**Total**
Openning balance, 1 January 2019	-	-	46.438.000	46.438.000
Total gain or losses				
- Recognized in profit and loss	-	-	-	-
- Recognized in other comprehensive income	-	-	4.098.200	4.098.200
- Currency translation difference	-	-	-	-
Closing balance 31 December 2019	**-**	**-**	**50.536.200**	**50.536.200**

	Finacial assets at fair value through profit or loss		Available-for-sale financial asset	
31 December 2018	**Trading purpose**	**Derivative financial instruments**	**Stocks**	**Total**
Openning balance, 1 January 2018	-	-	35.845.000	35.845.000
Total gain or losses				
- Recognized in profit and loss	-	-	-	-
- Recognized in other comprehensive income	-	-	10.593.000	10.593.000
- Currency translation difference	-	-	-	-
Closing balance 31 December 2018	**-**	**-**	**46.438.000**	**46.438.000**

41. 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.

(Amounts expressed in US Dollars unless otherwise stated)

41. 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 2019	**Level 1 USD**	**Level 2 USD**	**Level 3 USD**
Permanent fair value measurements:			
Derivative financial instruments at fair value through comprehensive income statement	-	(8.747)	-
Available for sale financial assets	-	-	52.861.998
Property,plant and equipment	-	561.561.176	-
Non-permanent fair value measurements:			
Non-current assets held for sale	-	7.535.041	-

31 December 2018	**Level 1 USD**	**Level 2 USD**	**Level 3 USD**
Permanent fair value measurements:			
Derivative financial instruments at fair value through comprehensive income statement	-	(1.225.973)	-
Available for sale financial assets	-	-	48.707.194
Property,plant and equipment	-	592.516.766	-
Non-permanent fair value measurements:			
Non-current assets held for sale	-	463.734	-

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 2019.

42. SUBSEQUENT EVENTS

Late in 2019, news first emerged from China about the COVID-19 ("Coronavirus"). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organisation ("WHO"). In the first few months of 2020, the virus spread globally. On 11 March 2020 WHO declared COVID-19 a Global Pandemic.

Due to coronavirus, there may be disruptions in the Group's procurement, production and sales processes in parallel with the developments in the sector in which the Group operates and in the macroeconomic environment. In this context, production activities of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. in Halkalı were stopped for 10 days starting from April 3, 2020, and production activities in Italy could only start on May 3, 2020. It is observed that the effect of the epidemic gradually diminished and life began to partially normalize in countries where the Group actively takes place as of the date when the financial statements are approved. When the effects of Covid 19 on the Group's financial statements are evaluated; No serious collection risk is anticipated in the trade receivables of the Group. In addition to this, in parallel with the revised production planning; Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş.'s factory in Halkalı started production with 216 employees as of April 13, 2020, and Borusan Mannesmann Vobarno Tubi SPA in Italy started its activities again as of May 3, 2020, in line with the decisions taken by the Italian Government. Management considers the impacts of this outbreak to be a non-adjusting post balance sheet event. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

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

None (31 December 2018: None).

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