

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

**CONSOLIDATED FINANCIAL STATEMENTS AS
OF 31 DECEMBER 2009
TOGETHER WITH THE REPORT OF
INDEPENDENT AUDITORS**

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. (the "Company") and its Subsidiaries (together the "Group") which comprise the consolidated balance sheet as at 31 December 2009 and the consolidated comprehensive income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and explanatory notes, all expressed in US Dollars.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Deloitte

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries as at 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

İstanbul, 12 March 2010.

DRT Bağımsız Denetim ve S.M.M.M. A.Ş.

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

Borusan Mannesmann Boru Sanayi ve Ticaret Anonim Şirketi and its Subsidiaries

TABLE OF CONTENTS

| | Page |
|--|--------|
| | ----- |
| Consolidated Balance Sheet | 1-2 |
| Consolidated Statement of Comprehensive Income | 3 |
| Consolidated Statement of Changes in Equity | 4 |
| Consolidated Statement of Cash Flows | 5 |
| Notes to the Consolidated Financial Statements | 6 - 48 |

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**CONSOLIDATED BALANCE SHEET****As at 31 December 2009**

(Amounts expressed in US Dollars unless otherwise stated)

ASSETS

| | Notes | 31 December 2009 | 31 December 2008 |
|-------------------------------------|-------|---------------------|---------------------|
| Current assets | | | |
| Cash and cash equivalents | 4 | 9,899,002 | 35,687,627 |
| Trade receivables | 5 | 66,457,861 | 147,044,501 |
| Inventories | 6 | 114,041,440 | 117,869,434 |
| Other receivables and assets | 7 | 9,116,070 | 11,695,845 |
| Total current assets | | 199,514,373 | 312,297,407 |
| Non-current assets | | | |
| Available-for-sale financial assets | 10 | 37,553,332 | 16,347,966 |
| Property, plant and equipment | 8 | 370,728,933 | 198,503,894 |
| Intangible assets | 9 | 945,908 | 718,942 |
| Deferred tax assets | 14 | - | 384,672 |
| Other receivables and assets | 7 | 7,880,344 | 12,101,248 |
| Total non-current assets | | 417,108,517 | 228,056,722 |
| Total assets | | 616,622,890 | 540,354,129 |

(1)

The accompanying policies and explanatory notes on pages 6 through 48 form an integral part of the consolidated financial statements

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**CONSOLIDATED BALANCE SHEET****As at 31 December 2009**

(Amounts expressed in US Dollars unless otherwise stated)

LIABILITIES AND EQUITY

| | Notes | 31 December 2009 | 31 December 2008 |
|--|-------|---------------------|---------------------|
| Current liabilities | | | |
| Trade payables | 11 | 171,981,812 | 276,991,496 |
| Short-term borrowings | 12 | 25,707,160 | 44,120,015 |
| Obligations under finance leases | 12 | 677,650 | 505,332 |
| Income tax payable | 14 | 15,402 | 29,426 |
| Other payables and expense accruals | 13 | 31,984,450 | 27,626,519 |
| Total current liabilities | | 230,366,474 | 349,272,788 |
| Non-current liabilities | | | |
| Long-term borrowings | 12 | 20,286,990 | 30,245,390 |
| Obligations under finance leases | 12 | 488,099 | 360,473 |
| Provision for employee termination benefits | 15 | 10,967,633 | 10,629,532 |
| Deferred tax liability | 14 | 24,523,107 | 1,195,799 |
| Total non-current liabilities | | 56,265,829 | 42,431,194 |
| Equity | | | |
| Issued share capital | 16 | 68,996,872 | 68,996,872 |
| Revaluation reserve | 8 | 202,827,700 | 57,857,388 |
| Investment revaluation reserve | 16 | 19,173,976 | - |
| Cash flow hedge reserve | 7, 13 | 14,617 | 392,988 |
| Legal reserves and retained earnings | | 39,866,871 | 22,723,837 |
| Translation reserves | | (1,117,976) | (1,481,390) |
| Equity attributable to equity holders of the parent | | 329,762,060 | 148,489,695 |
| Minority interest | | 228,527 | 160,452 |
| Total equity | | 329,990,587 | 148,650,147 |
| Total liabilities and equity | | 616,622,890 | 540,354,129 |

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

| | Notes | 1 January- 31 December 2009 | 1 January- 31 December 2008 |
|--|-------|-----------------------------------|-----------------------------------|
| Net sales | 18 | 501,777,133 | 893,691,991 |
| Cost of goods sold and services provided | 19 | (445,500,247) | (849,488,738) |
| Gross profit | | 56,276,886 | 44,203,253 |
| Selling, general and administrative expenses | 20 | (37,945,524) | (57,591,853) |
| Other operating income, net | 21 | 677,074 | (160,024) |
| Financial income | 22 | 13,028,174 | 6,734,797 |
| Financial expense | 22 | (12,725,754) | (24,733,010) |
| Profit / (Loss) before tax | | 19,310,856 | (31,546,837) |
| Taxation on income | | (4,783,883) | 2,550,872 |
| - Current (statutory) | 14 | (125,478) | (679,044) |
| - Deferred | 14 | (4,658,405) | 3,229,916 |
| Profit / (Loss) for the year | | 14,526,973 | (28,995,965) |
| Other comprehensive income / (expense): | | | |
| Change in cash flow hedging reserve | | (378,371) | 761,490 |
| Change in currency translation reserve | | 349,503 | (347,168) |
| Current year revaluation on property, plant and equipment | | 147,668,359 | - |
| Change in investment revaluation reserve | | 19,173,976 | - |
| Other comprehensive income (after tax) for the year | | 166,813,467 | 414,322 |
| Total comprehensive income / (loss) for the year | | 181,340,440 | (28,581,643) |
| Profit / (loss) for the year | | | |
| Equity holders of the parent | | 14,559,805 | (29,023,769) |
| Minority interests | | (32,832) | 27,804 |
| Distribution of total comprehensive income / (loss) | | | |
| Equity holders of the parent | | 181,272,365 | (28,581,399) |
| Minority interests | | 68,075 | (244) |
| Weighted average number of shares | | 28,350,000,000 | 28,350,000,000 |
| Earnings / (Loss) per share in US dollars | | 0.0005 | (0.0010) |

(3)

The accompanying policies and explanatory notes on pages 6 through 48 form an integral part of the consolidated financial statements

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

| | Paid-in share capital | Currency translation reserve | Revaluation reserve | Investment revaluation reserve | Cash flow hedge reserve | Legal reserves and retained earnings | Equity attributable to equity holders of the parent | Minority interest | Total equity |
|---|-----------------------|------------------------------|---------------------|--------------------------------|-------------------------|--------------------------------------|---|-------------------|--------------|
| Balance at 1 January 2008 | 68,996,872 | (1,162,270) | 60,401,835 | - | (368,502) | 70,087,730 | 197,955,665 | 160,696 | 198,116,361 |
| Transfer of 2008 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings | - | - | (2,270,536) | - | - | 2,270,536 | - | - | - |
| Disposals from revaluation reserve | - | - | (273,911) | - | - | 273,911 | - | - | - |
| Total comprehensive income / (loss) for the period | - | (319,120) | - | - | 761,490 | (29,023,769) | (28,581,399) | (244) | (28,581,643) |
| Dividends paid | - | - | - | - | - | (20,884,571) | (20,884,571) | - | (20,884,571) |
| Balance at 31 December 2008 | 68,996,872 | (1,481,390) | 57,857,388 | - | 392,988 | 22,723,837 | 148,489,695 | 160,452 | 148,650,147 |
| Balance at 1 January 2009 | 68,996,872 | (1,481,390) | 57,857,388 | - | 392,988 | 22,723,837 | 148,489,695 | 160,452 | 148,650,147 |
| Transfer of 2009 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings | - | - | (2,034,424) | - | - | 2,034,424 | - | - | - |
| Disposals from revaluation reserve | - | - | (548,805) | - | - | 548,805 | - | - | - |
| Total comprehensive income / (loss) for the period | - | 363,414 | 147,553,541 | 19,173,976 | (378,371) | 14,559,805 | 181,272,365 | 68,075 | 181,340,440 |
| Balance at 31 December 2009 | 68,996,872 | (1,117,976) | 202,827,700 | 19,173,976 | 14,617 | 39,866,871 | 329,762,060 | 228,527 | 329,990,587 |

(4) The accompanying policies and explanatory notes on pages 6 through 48 form an integral part of the consolidated financial statements

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

| | Notes | 1 January- 31 December 2009 | 1 January- 31 December 2008 |
|---|-------|-----------------------------------|-----------------------------------|
| Cash flows provided from operating activities: | | | |
| Profit / (Loss) before taxation | | 19,310,856 | (31,546,837) |
| Depreciation and amortization expense | 8,9 | 10,795,450 | 10,239,551 |
| Interest expense | 22 | 12,725,754 | 24,733,010 |
| Interest income | 22 | (10,856,227) | (5,726,078) |
| Charge for the allowance for doubtful receivables | 5 | 134,063 | 3,231,766 |
| Provision for reserve for employee benefit obligations | 15 | 1,712,346 | (842,713) |
| Provision for inventories | 6 | - | 44,752,300 |
| Provision for financial assets available for sale | 10 | 285,332 | 1,057,527 |
| Gain on sale of property, plant and equipment and intangibles | 21 | (153,094) | (140,718) |
| Net change in currency translation reserve | | 647,488 | 557,903 |
| Operating profit before working capital changes | | 34,601,968 | 46,315,711 |
| Working capital changes | | | |
| Trade receivables | 5 | 80,487,298 | (46,211,432) |
| Inventories | 6 | 3,827,994 | (23,022,196) |
| Other current assets and liabilities – net | 7,13 | 6,937,706 | 10,994,298 |
| Trade payables | 11 | (105,009,684) | 73,402,027 |
| Other non-current assets and liabilities – net | 7 | 1,009,750 | (600,726) |
| Net cash provided by operations | | 21,855,032 | 60,877,682 |
| Taxes paid | 14 | (1,148,771) | (2,595,892) |
| Interest paid | | (13,104,125) | (24,049,850) |
| Employee benefit obligations paid | 15 | (1,353,810) | (3,546,045) |
| Net cash provided by operating activities | | 6,248,326 | 30,685,895 |
| Investing activities: | | | |
| Purchase of property, plant and equipment | 8,9 | (16,913,983) | (22,797,662) |
| Advances given for property, plant and equipment | 7 | 3,211,154 | (2,074,197) |
| Proceeds from sale of property, plant and equipment and intangibles | 8,9 | 872,126 | 319,818 |
| Increase in available for sale financial assets | 10 | (1,307,566) | (1,334,496) |
| Interest received | 22 | 6,374,423 | 5,726,078 |
| Net cash used in investing activities | | (7,763,846) | (20,160,459) |
| Financing activities: | | | |
| Redemption of borrowings | 12 | (84,280,722) | (651,773,420) |
| Proceeds from borrowings | 12 | 60,007,617 | 659,440,490 |
| Dividends paid | 17 | - | (20,884,571) |
| Net cash used in financing activities | | (24,273,105) | (13,217,501) |
| Net decrease in cash and cash equivalents | 4 | (25,788,625) | (2,692,065) |
| Cash and cash equivalents at the beginning of the year | 4 | 35,687,627 | 38,379,692 |
| Cash and cash equivalents at the end of the year | 4 | 9,899,002 | 35,687,627 |

(5)

The accompanying policies and explanatory notes on pages 6 through 48 form an integral part of the consolidated financial statements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

1. CORPORATE INFORMATION

General

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. (Borusan Mannesmann Boru) ("the Company") is a joint stock company incorporated in Turkey. The Company's shares have been traded in Istanbul Stock Exchange since 1994. The Company is registered in Turkey and the address of the registered office is as follows:

Meclis-i Mebusan Caddesi No: 35 - 37
Fındıklı - İstanbul

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

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

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

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

Consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) were authorized for issue on 12 March 2010 by the management of the Company on behalf of the Board of Directors of the Company. Although there is no such intention, the General Assembly and certain regulatory bodies have the power to amend statutory financial statements after issue.

Nature of Activities

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

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Preparation

The Company and its subsidiary based in Turkey maintain their books of account and prepare its statutory financial statements in Turkish Lira (TL) in accordance with regulations on accounting and reporting framework and accounting standards promulgated by the Turkish Capital Market Board (CMB), Turkish Commercial Code tax legislation and starting from 1 January 1994, the Uniform Chart of Accounts issued by Ministry of Finance.

The foreign subsidiaries, Borusan Mannesmann Holding BV and Borusan Mannesmann Vobarno Tubi SPA maintain their books of account in Euro in accordance with the accounting principles and regulations accepted in Netherlands and Italy, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

The consolidated US Dollar (USD) financial statements are based on the statutory records which are maintained under the historical cost convention (except for the revaluation of property, plant and equipment as discussed in Note 8 and available for sale financial assets as discussed in Note 10) with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS, which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain effect.

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries on the basis set out below:

- (i) The balance sheets and statements of income of the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by the Company is eliminated against the related equity accounts. Intercompany transactions and balances between the Company and its subsidiaries and unrealized gains and losses on transactions among them are eliminated.
- (ii) Subsidiaries are consolidated from the date on which control is transferred to the Company.
- (iii) Minority share in the net assets of the consolidated subsidiaries is separately classified in the consolidated financial statements as minority interest.

Minority Interest

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

Comparative Information and Certain Reclassification to Prior Year Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance trends. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes. The Group did not make any reclassifications in prior period financial statements.

2.2 New and Revised International Financial Reporting Standards

The Group has adopted new and revised Standards and Interpretations issued in the current year by the International Accounting Standards Board ("the IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2009.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2 New and Revised International Financial Reporting Standards (Continued)

- IAS 1 “Presentation of financial statements” (Revised)

The revised standard will prohibit the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. The revised standard gives preparers of financial statements the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income or in two separate statements (a separate income statement followed by a statement of comprehensive income). Therefore, the Group elected to present the items of income and expenses and components of other comprehensive income in one statement format. The financial statements and notes are prepared in accordance with the revisions to the standard.

IAS 1 “Presentation of financial statements” (Revised) further requires entities to present a restated balance sheet at the beginning comparative period in addition to presenting balance sheets at the end of the current period and comparative period when entities restate or reclassify comparative information. The revised standard does not have an impact on financial position and statements of Group.

- IFRS 7 “Financial Instruments Disclosures” (Amendment)

The amendments published in March 2009 are applicable for the Group beginning from 1 January 2009. The amendments require enhanced disclosures about fair value measurements and liquidity risk. The amendment requires additional disclosures for any change in the method for determining fair value and the reasons for the change. Besides, it is required to establish a three-level hierarchy for making fair value measurements.

It is also required to give additional disclosures regarding any change in the method for determining fair value and transfers between levels. Reconciliation from the beginning balances to the ending balances should be presented for the fair value measurements which use inputs for the asset or liability that are not based on observable market data (unobservable inputs). If changing one or more of the inputs based on unobservable data would change fair value significantly, the entity shall state that fact and disclose the effect of those changes through sensitivity analysis.

Additionally, for non-derivative financial liabilities including issued financial guarantee contracts, the maturity analysis is required. It is also required to give separate maturity analysis for derivative financial liabilities.

The Group has implemented the amendments to IFRS 7 “Financial Instruments Disclosures” in 2009 and has disclosed fair value hierarchy information in Note 28 to the consolidated financial statements. In the current year, the Group did not make/made significant transfers between fair value hierarchy levels. A reconciliation of the Group’s fair value measurements that are determined using unobservable inputs is also provided. Furthermore, the Group has included contractual maturity analysis in Note 28 to the consolidated financial statements.

- IFRS 8 “Operating segments”

IFRS 8 replaces IAS 14 ‘Segment reporting’ and requires segment information to be presented under a ‘management approach’, where segment information is to be shown on the same basis as that used for internal reporting purposes.

The Group presented the segment information for the first time in a manner that is consistent with its internal reporting.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2 New and Revised International Financial Reporting Standards (Continued)

- IAS 23 “Borrowing Costs” (Revised)

The amendment eliminates the option to recognize all borrowing costs immediately as expense. The Group started to apply IAS 23 “Borrowing Costs” amendments in the current period. The borrowing costs are capitalized if the costs are directly related to the acquisition, construction or production of the qualifying asset.

The following standards, amendments and interpretations are effective from 1 January 2009 but are not adopted by the Group as they are not relevant to the Group’s operations:

Although the following new and revised Standards and Interpretations are effective from 1 January 2009, they are not relevant to the Group’s operations.

- IFRIC 13, “Customer Loyalty Programs”

In accordance with IFRIC 13, an entity shall account for award credits as a separately identifiable component of the sales transactions in which they are granted (the ‘initial sale’). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”

The amendments deal with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRS for the first time and with the recognition of dividend income from subsidiaries in a parent’s separate financial statements.

- Amendments to IFRS 2 “Share-based Payment - Vesting Conditions and Cancellations”

The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of ‘non-vesting’ conditions and clarify the accounting treatment for cancellations.

- IAS 32 “Financial Instruments: Presentation” and IAS 1 “The Presentation of Financial Statements – Amendments relating to puttable instruments and obligations arising on liquidation”

The revisions to IAS 32 “Financial Instruments: Presentation” amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.

- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement – Eligible Hedged Items”

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion and implementation of hedging with options.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2 New and Revised International Financial Reporting Standards (Continued)

The following standards, amendments and interpretations are effective from 1 January 2009 but are not adopted by the Group as they are not relevant to the Group's operations: (Continued)

- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)

The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the 'fair value through profit or loss' category as permitted by the October 2008 amendments to IAS 39 "Financial Instruments: Recognition and Measurement".

- IFRIC 15, "Agreements for the Construction of Real Estate"

The interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and when revenue from the construction of real estate should be recognized.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

The interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.

- IFRIC 18 "Transfers of Assets from Customers"

The interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognize the asset at its fair value on the date of the transfer, with the credit recognized as revenue in accordance with IAS 18 "Revenue".

Standards, amendments and interpretations to existing standards issued but are not yet effective and have not been early adopted by the Group:

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

- IFRS 3 "Business Combinations" (as revised in 2008)

IFRS 3(2008) is effective for business combinations where the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009. The main impact of the adoption will be as follows:

- a) to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquire.
- b) to change the recognition and subsequent accounting requirements for contingent consideration.
- c) to require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognized as an expense in profit or loss as incurred.

The Group will apply IFRS 3 (2008) prospectively to all business combinations from January 1, 2010.

- IFRS 9 "Financial Instruments: Classification and Measurement"

In November 2009, the first part of IFRS 9 relating to the classification and measurement of financial assets was issued. IFRS 9 will ultimately replace IAS 39 "Financial Instruments: Recognition and Measurement". The standard requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measure the financial assets as either at amortized cost or at fair value. The new standard is mandatory for annual periods beginning on or after January 1, 2013.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2 New and Revised International Financial Reporting Standards (Continued)

Standards, amendments and interpretations to existing standards issued but are not yet effective and have not been early adopted by the Group (Continued):

- IAS 24 “Related Party Disclosures” (Revised 2009)

In November 2009, IAS 24 Related Party Disclosures was revised. The revision to the standard provides government-related entities with a partial exemption from the disclosure requirements of IAS 24. The revised standard is mandatory for annual periods beginning on or after January 1, 2011.

- IAS 27 “Consolidated and Separate Financial Statements” (as revised in 2008)

IAS 27 (revised) is effective for annual periods beginning on or after 1 July 2009. The revisions to IAS 27 principally affect the accounting for transactions or events that result in a change in the Group’s interests in its subsidiaries. The revised standard requires that ownership decreases or increases that do not result in change in control to be recorded in equity.

The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from January 1, 2010.

- IFRIC 17 “Distributions of Non-cash Assets to Owners”

IFRIC 17 is effective for annual periods beginning on or after 1 July 2009. The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. IFRIC 19 addresses only the accounting by the entity that issues equity instruments in order to settle, in full or part, a financial liability.

- Amendments related to Annual Improvements to IFRS (2009)

As part of the Annual Improvement project, in addition to the amendments mentioned above, other amendments were made to various standards and interpretations. These amendments are effective for annual periods beginning on or after January 1, 2010.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Functional and Presentation Currency

Foreign Currency Translation

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

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

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

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

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

| <u>Year</u> | <u>Year End USD/TL Exchange Rates</u> | <u>TL/USD Annual Devaluation Rates</u> |
|-------------|---|--|
| 2007 | 1.1647 | (17.50) |
| 2008 | 1.5123 | 29.85 |
| 2009 | 1.5057 | 0.44 |

2.4 Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Trade Receivables

Trade receivables are recognized at original invoice amount and are carried at amortized cost (which is determined using the effective interest rate method) less an allowance for any uncollectible amounts. Interest rates used for amortized cost computation for TL denominated trade receivables is 20% (2008 - 21%) and for USD and EUR denominated trade receivables libor rate is used (2008: Libor). The average collection period of trade receivables is 75 days (2008 - 65 days).

Related Parties

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

Inventories

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

Property, Plant and Equipment and Depreciation

Property, plant and equipment are initially recorded at cost. The Group's land, buildings, machinery and equipment are stated at revalued amounts less accumulated depreciation and any impairment in value. The revaluations were made in July 1999, in December 2004 and in December 2009 by independent valuation companies. Increases or decreases in the carrying amount arising on revaluation of these assets net off the related deferred income taxes are transferred to revaluation reserve in equity (Note 8). All other tangible assets are stated at historical cost less accumulated depreciation and any accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. On disposal of revalued assets, amounts in revaluation reserves relating to that asset are transferred to retained earnings. Further, the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is realized from the revaluation surplus to retained earnings on an annual basis as the asset is used by the Group.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use and, for qualifying assets, borrowing costs are capitalized in accordance with the Group's accounting policy. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs, are normally charged to the income statement in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Property, Plant and Equipment and Depreciation (Continued)

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.

Investments and Other Financial Assets

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Investments and Other Financial Assets (Continued)

Available-for-sale financial assets

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

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. The Group also has investments in unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets and stated at fair value because the management considers that fair value can be reliably measured.

Loans and Receivables

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

Offsetting

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

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.

Borrowing Costs

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Trade Payables

Trade payables which generally have an average repayment period of 31 days (2008: 33 days) are carried at amortized cost which is the fair value of consideration to be paid in the future for goods and services received, whether or not billed to the Group. Interest rate used for TL denominated trade payables is 20% (2008: 21%) and interest rates used for USD and EURO denominated trade payables are Libor/Euribor (2008: Libor/Euribor).

The major part of the trade payables result from the purchase of raw materials and indirect materials. The trade payables resulting from the purchase of raw materials and indirect materials are interest bearing and the average maturities are 180-360 days and the average interest rates applied are in the interval of 2.25-4.92% (2008: 180-360 days and the average interest rates applied are in the interval of 2.25-8.90%).

Income Taxes

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

Current tax

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

Deferred tax

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

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

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Provisions, Contingent Assets and Liabilities

i) Provisions

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

ii) Contingent Assets and Liabilities

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

Employee Benefits / Employee Termination Benefits

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

Revenue Recognition

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

Sale of goods:

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

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

Dividend and interest revenue:

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend revenue from investments is recognized when the shareholders' rights to receive payment have been established.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Earnings Per Share

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

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

Subsequent Events

Post year-end events that provide additional information about the Group’s position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in notes when material.

Derivative financial instruments and hedge accounting

The Group’s activities expose it primarily to the financial risks of changes in foreign exchange rates. The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized directly in equity and the ineffective portion is recognized immediately in profit or loss.

The Group’s policy with respect to hedging the foreign currency risk of a firm commitment is to designate it as a cash flow hedge.

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period.

Recognition and Derecognition of Financial Instruments

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5 Significant Accounting Judgments and Estimates

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

Doubtful receivables:

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

Impairment of inventory:

At the end of 2008, the Group accounted for net realizable value provision for raw materials, WIP and finished goods where the net realizable value ("NRV") of such inventories were less than cost due to dramatic decrease in demand and unit price of steel and plastic goods and expected decrease in demand and unit prices in short term.

Useful lives of property, plant and equipment:

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

Employee termination benefits:

The Group made actuarial calculation to calculate the amount of liability in accordance with IAS 19. The Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. The assumptions made by the Group management have been explained in Note 15.

Revaluation of property, plant and equipment

Land, buildings, machinery and equipment are stated at revalued amounts in accordance with IAS 16 revaluation method. The revaluations were made in 1999, 2004 and 2009 by independent valuation companies. The revalued amounts on the financial statements as at 31 December 2009 are based on the reports prepared by the independent valuation company.

Fair value of financial assets

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

3. SEGMENT REPORTING

Group's activities separated into two main industrial segments:

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

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

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

| 31 December 2009 | Steel and Plastic Pipe | Engineering | Total |
|-------------------------------|------------------------|-------------|-------------|
| Total segment revenue | 496,151,373 | 5,625,760 | 501,777,133 |
| Gross profit | 55,495,184 | 781,702 | 56,276,886 |
| Depreciation and amortization | 10,508,597 | 286,853 | 10,795,450 |
| Investment expenditures | 17,105,025 | 492,556 | 17,597,581 |

| | Steel and Plastic Pipe | Engineering | Total |
|---|------------------------|-------------|-------------|
| Total assets (excluding deferred tax asset) | 608,295,230 | 8,327,660 | 616,622,890 |
| Total liabilities* | 260,958,434 | 1,135,360 | 262,093,794 |

| 31 December 2008 | Steel and Plastic Pipe | Engineering | Total |
|-------------------------------|------------------------|-------------|-------------|
| Total segment revenue | 882,646,612 | 11,045,379 | 893,691,991 |
| Gross profit | 42,153,150 | 2,050,103 | 44,203,253 |
| Depreciation and amortization | 9,958,914 | 280,637 | 10,239,551 |
| Investment expenditures | 22,020,396 | 777,266 | 22,797,662 |

| | Steel and Plastic Pipe | Engineering | Total |
|---|------------------------|-------------|-------------|
| Total assets (excluding deferred tax asset) | 532,463,165 | 7,506,292 | 539,969,457 |
| Total liabilities* | 388,759,816 | 1,718,941 | 390,478,757 |

*Excluding deferred tax liability and tax and legal liabilities.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

4. CASH AND CASH EQUIVALENTS

| | 31 December 2009 | 31 December 2008 |
|------------------|---------------------|---------------------|
| Banks | | |
| -time deposits | 5,399,655 | 32,581,834 |
| -demand deposits | 4,496,962 | 3,103,822 |
| Cash on hand | 2,385 | 1,971 |
| | 9,899,002 | 35,687,627 |

The detail of time deposits as of 31 December 2009 and 2008 is as follows:

| Currency | Effective interest rate | Maturity (days) | 31 December 2009 | |
|----------|-------------------------|-----------------|------------------|-------------------|
| | | | Original Amount | Amount in USD |
| TL | 6.60% | 4 | 665,000 | 441,655 |
| USD | 0.50 - 1.50% | 4 | 4,958,000 | 4,958,000 |
| | | | | 5,399,655 |
| | | | 31 December 2008 | |
| Currency | Effective interest rate | Maturity (days) | Original Amount | Amount in USD |
| TL | 15% | 2 | 70,000 | 46,288 |
| USD | 2.5 - 5.25 % | 2 - 5 | 31,331,019 | 31,331,019 |
| EUR | 1.5% | 2 | 850,900 | 1,204,527 |
| | | | | 32,581,834 |

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2009**

(Amounts expressed in US Dollars unless otherwise stated)

5. TRADE RECEIVABLES

| | 31 December 2009 | 31 December 2008 |
|--|---------------------|---------------------|
| Trade receivables | 54,707,136 | 138,225,736 |
| Trade receivables from related parties (Note 25) | 16,218,430 | 8,680,071 |
| Cheques and notes receivable | 3,696,951 | 8,204,008 |
| Less: Provision for doubtful receivables (*) | (8,164,656) | (8,065,314) |
| | 66,457,861 | 147,044,501 |

(*) Among the provision for doubtful receivables USD 90,530 is from related parties (2008: USD 496,653).

As of 31 December 2009, trade receivables of USD 61,409,397 (2008: USD 139,197,343) were neither past due nor impaired. As of 31 December 2009, trade receivables of USD 4,278,475 (2008: USD 5,949,341) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

| | 31 December 2009 | 31 December 2008 |
|----------------|---------------------|---------------------|
| Up to 3 months | 3,618,243 | 4,979,307 |
| Over 3 months | 660,232 | 970,034 |
| | 4,278,475 | 5,949,341 |

The carrying amount of trade receivables that would otherwise be past due or impaired whose term have been negotiated is USD 769,989 (2008: USD 1,897,817).

The provision for trade receivables is provided based on estimated irrecoverable amounts from the sales of goods and services provided, determined by reference to past default experience. As of 31 December 2009, USD 8,164,656 (2008: USD 8,065,314) were impaired and provided for. The aging of these receivables is over one year.

The movement of the provision for doubtful receivables during the year 2009 and 2008 is as follows:

| | 1 January - 31 December 2009 | 1 January - 31 December 2008 |
|------------------------------------|------------------------------------|------------------------------------|
| At the beginning of the year | 8,065,314 | 4,833,548 |
| Allowance provided during the year | 1,016,844 | 3,286,936 |
| Amounts recovered during the year | (95,581) | (55,170) |
| Currency translation reserve | (34,721) | - |
| Provisions released | (787,200) | - |
| At the end of the year | 8,164,656 | 8,065,314 |

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2009**

(Amounts expressed in US Dollars unless otherwise stated)

6. INVENTORIES

| | 31 December 2009 | 31 December 2008 |
|---|---------------------|---------------------|
| Raw materials | 56,100,168 | 73,307,017 |
| Work-in-process | 4,943,226 | 12,882,943 |
| Finished goods | 30,989,977 | 68,134,022 |
| Merchandise stocks | 504,321 | 1,578,695 |
| Goods-in-transit | 21,503,748 | 6,719,057 |
| Less : Allowance for decrease at net realizable value | - | (44,752,300) |
| | 114,041,440 | 117,869,434 |

Movement of allowance for net realizable value is as follows:

| | 1 January - 31 December 2009 | 1 January - 31 December 2008 |
|------------------------------|------------------------------------|------------------------------------|
| At the beginning of the year | 44,752,300 | - |
| Provisions released | (44,752,300) | - |
| Charge for the year | - | 44,752,300 |
| At the end of the year | - | 44,752,300 |

Net realizable value of the inventories exposed to allowance in 2009 is nil (2008: USD 118,960,194).

7. OTHER RECEIVABLES AND ASSETS

Details of other receivables and assets as of 31 December 2009 and 2008 are as follows:

| | 31 December 2009 | 31 December 2008 |
|--|---------------------|---------------------|
| Current assets | | |
| Receivable from tax authority | 5,008,579 | 979,260 |
| Advances given with respect to inventory purchases | 1,862,782 | 805,450 |
| Prepaid expenses | 1,395,444 | 779,737 |
| Due from personnel | 141,388 | 41,707 |
| Prepaid income taxes | 110,580 | 7,865,382 |
| Advances given to personnel | 23,693 | 455,309 |
| Forward foreign exchange contract income accrual | 14,617 | 392,988 |
| VAT receivable | - | 376,012 |
| Other | 558,987 | - |
| | 9,116,070 | 11,695,845 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

7. OTHER RECEIVABLES AND ASSETS (Continued)

| | 31 December 2009 | 31 December 2008 |
|--|---------------------|---------------------|
| Non-current assets | | |
| Advances given with respect to property, plant and equipment | 5,307,388 | 8,518,542 |
| Receivable from related parties (Note 25) | 1,550,823 | 3,437,368 |
| Advances given | 859,691 | - |
| Prepaid expenses | 75,829 | 81,848 |
| Deposits and guarantees given | 86,613 | 63,490 |
| | 7,880,344 | 12,101,248 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2009**

(Amounts expressed in US Dollars unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2009 is as follows:

| | 31 December 2008 | Additions | Disposals | Transfers | Currency translation reserve | Revaluation Fund | Net-off of accumulated depreciation | 31 December 2009 |
|--|---------------------|---------------------|--------------------|--------------|------------------------------------|---------------------|---|---------------------|
| Cost | | | | | | | | |
| Land | 52,627,946 | - | - | 1,560,530 | - | 121,586,633 | - | 175,775,109 |
| Land improvements | 3,239,925 | - | (166,599) | 106,983 | - | 993,523 | (1,305,164) | 2,868,668 |
| Building | 51,095,019 | 188,790 | (2,303,902) | 6,237,939 | 163,259 | 37,317,145 | (4,330,446) | 88,367,804 |
| Machinery and equipment | 103,793,573 | 97,334 | (733,029) | 12,372,084 | 133,590 | 6,256,913 | (28,855,567) | 93,064,898 |
| Motor vehicles | 2,953,208 | - | (37,375) | 190,754 | 2,963 | - | - | 3,109,550 |
| Furniture and fixtures | 9,970,554 | 8,787 | (448,185) | 4,758,321 | 3,336 | - | - | 14,292,813 |
| Construction in progress | 14,919,493 | 16,887,203 | - | (25,226,611) | 107 | - | - | 6,580,192 |
| | 238,599,718 | 17,182,114 | (3,689,090) | - | 303,255 | 166,154,214 | (34,491,177) | 384,059,034 |
| Less : Accumulated Depreciation | | | | | | | | |
| Land improvement and leasehold items | (1,811,153) | (192,610) | 236,235 | - | - | - | 1,305,164 | (462,364) |
| Buildings | (6,304,292) | (1,560,693) | 1,722,648 | - | (143,636) | - | 4,330,446 | (1,955,527) |
| Machinery and equipment | (21,528,716) | (7,792,343) | 487,006 | - | (44,055) | - | 28,855,567 | (22,541) |
| Motor vehicles | (2,602,844) | (168,842) | 145,197 | - | (1,966) | - | - | (2,628,455) |
| Furniture and fixtures | (7,848,819) | (789,553) | 378,972 | - | (1,814) | - | - | (8,261,214) |
| | (40,095,824) | (10,504,041) | 2,970,058 | - | (191,471) | - | 34,491,177 | (13,330,101) |
| Net book value | 198,503,894 | | | | | | | 370,728,933 |

The Group's production plant in Vobarno is mortgaged at an amount 20,000,000 EUR as a guarantee for the long-term loan obtained by BM Vobarno Tubi SPA (2008: 5,000,000 EUR).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

The movement of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2008 is as follows:

| Cost | 31 December 2007 | Additions | Disposals | Transfers | Currency translation reserve | 31 December 2008 |
|--|---------------------|--------------------|------------------|--------------|------------------------------------|---------------------|
| Land | 52,612,539 | - | - | 15,407 | - | 52,627,946 |
| Land improvements | 3,197,185 | - | - | 42,740 | - | 3,239,925 |
| Building | 50,053,328 | 230,947 | - | 1,451,297 | (640,553) | 51,095,019 |
| Machinery and equipment | 93,229,426 | 2,596,580 | (343,557) | 8,582,083 | (270,959) | 103,793,573 |
| Motor vehicles | 3,162,435 | 806 | (231,820) | 33,374 | (11,587) | 2,953,208 |
| Furniture and fixtures | 9,399,224 | 181,511 | - | 397,485 | (7,666) | 9,970,554 |
| Construction in progress | 5,999,598 | 19,448,790 | - | (10,522,386) | (6,509) | 14,919,493 |
| | 217,653,735 | 22,458,634 | (575,377) | - | (937,274) | 238,599,718 |
| Less : Accumulated Depreciation | | | | | | |
| Land improvement and leasehold items | (1,604,998) | (206,155) | - | - | - | (1,811,153) |
| Buildings | (5,008,164) | (1,347,800) | - | - | 51,672 | (6,304,292) |
| Machinery and equipment | (14,411,424) | (7,524,825) | 294,022 | - | 113,511 | (21,528,716) |
| Motor vehicles | (2,530,679) | (181,157) | 102,255 | - | 6,737 | (2,602,844) |
| Furniture and fixtures | (7,252,287) | (600,108) | - | - | 3,576 | (7,848,819) |
| | (30,807,552) | (9,860,045) | 396,277 | - | 175,496 | (40,095,824) |
| Net book value | 186,846,183 | | | | | 198,503,894 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

| | 1 January - 31 December 2009 | 1 January - 31 December 2008 |
|--|------------------------------------|------------------------------------|
| 1 January | 57,857,388 | 60,401,835 |
| Depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings | (2,034,424) | (2,270,536) |
| Disposals from revaluation reserve | (548,805) | (273,911) |
| Current year revaluation adjustment | 165,598,073 | - |
| Deferred tax effect of revaluation adjustment | (18,044,532) | - |
| 31 December | 202,827,700 | 57,857,388 |

The historical cost of land, buildings and machinery and equipment as of 31 December 2009 and 2008 are as follows:

| | 31 December 2009 | | 31 December 2008 | |
|-------------------------|--------------------|-----------------------------|--------------------|-----------------------------|
| | Cost | Accumulated Depreciation | Cost | Accumulated Depreciation |
| Land | 10,639,776 | - | 10,593,342 | - |
| Building | 38,350,869 | (4,670,671) | 31,259,053 | (3,560,912) |
| Machinery and equipment | 86,835,820 | (14,602,820) | 73,603,697 | (9,510,510) |
| | 135,826,465 | (19,273,491) | 115,456,092 | (13,071,422) |

As of 31 December 2009 and 2008, the gross carrying amount of property and equipment and intangibles, which are fully depreciated, but still in use, is as follows:

| | 31 December 2009 | 31 December 2008 |
|-------------------------|---------------------|---------------------|
| Land improvements | 736,794 | 867,958 |
| Building | 2,465,924 | 2,328,316 |
| Machinery and equipment | 4,117,987 | 3,083,652 |
| Vehicles | 714,175 | 420,224 |
| Furniture and fixtures | 4,865,582 | 4,791,116 |
| Other tangible assets | 146,044 | 338,901 |
| Intangibles | 1,003,794 | 726,975 |
| | 14,050,300 | 12,557,142 |

Finance (Capital) Leases

The Group recognized finance (capital) leases as assets and liabilities in the balance sheets at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Included in machinery and equipment, USD 2,036,625 (2008: USD 1,096,922) (net book value) relates to the tube finishing line and furnace leased by the Group. Property plant and equipment amounting to USD 683,598 has been acquired by capital lease in year 2009.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

9. INTANGIBLE ASSETS

The movement of intangible assets during the years ending 31 December 2009 and 2008 is as follows:

| | 31 December 2009 | 31 December 2008 |
|--|---------------------|---------------------|
| Cost at 1 January | 3,233,029 | 2,867,489 |
| Additions | 415,467 | 339,028 |
| Currency translation reserve | (50,763) | 26,512 |
| Cost at 31 December | 3,597,733 | 3,233,029 |
| Accumulated amortization at 1 January | (2,514,087) | (2,101,475) |
| Charge for the year | (291,409) | (379,506) |
| Currency translation reserve | 153,671 | (33,106) |
| Accumulated amortization at 31 December | (2,651,825) | (2,514,087) |
| Net book value at 31 December | 945,908 | 718,942 |

Current period amount of depreciation and amortization recorded to cost of goods sold and services provided is USD 9,037,736 and to selling, general and administrative expenses is USD 1,757,714 (2008: USD 7,475,571 and USD 2,763,980 respectively).

10. AVAILABLE FOR SALE FINANCIAL ASSETS

| | 31 December 2009 | | 31 December 2008 | |
|--|-------------------|-------|-------------------|-------|
| | | (%) | | (%) |
| Borçelik Çelik Sanayii Ticaret A.Ş. (Borçelik) (*) | 35,845,000 | 10.7 | 15,661,868 | 10.7 |
| Borusan Kültür ve Sanat Hizmetleri Yayıncılık A.Ş. | 395,065 | 18.9 | 395,065 | 18.9 |
| Borusan Mannesmann Cooperatie U.A. (BM Cooperatie) (**) | 2,615,107 | 99.0 | 1,341,758 | 99.0 |
| Other | 41,019 | (***) | 6,802 | (***) |
| Impairment on available for financial asset | (1,342,859) | | (1,057,527) | |
| | 37,553,332 | | 16,347,966 | |

(*) As at 31 December 2008, Group's available for sale financial assets carried at cost since these assets do not have active transactions in the organized financial markets, do not have a market price and it was not possible to determine their fair value by an alternative valuation method.

(**) As at 31 December 2009, BM Cooperatie participated 100% to Borusan Mannesmann Espana S.A. which was established in Spain and has no operations. The financial statements of Borusan Mannesmann Espana S.A. were not consolidated due to their immateriality compared to the consolidated financial statements.

(***) Company's shareholding is insignificant.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

11. TRADE PAYABLES

| | 31 December 2009 | 31 December 2008 |
|----------------------------------|---------------------|---------------------|
| Trade payables | 169,332,133 | 272,477,610 |
| Due to related parties (Note 25) | 2,649,679 | 4,513,886 |
| | <u>171,981,812</u> | <u>276,991,496</u> |

USD 27,422,074 and EUR 15,261,829 of trade payables are interest bearing. The average interest rate applied to these trade payables is 3.32% for USD and 3.47% for EUR and the average maturity of the payables is 180 days (2008: USD 45,831,540 interest rate applied is 3.93% and the average maturity is 270-360 days). On the other hand, the average maturity of the trade payables by the amount USD 97,384,577 is between 180-360 days and average 3.04 % interest rate is applied to them (2008: USD 206,383,626, interest rate applied is 3.55%, maturity 180-360 days).

12. BANK BORROWINGS

As of 31 December 2009 and 2008, short-term borrowings consist of the following:

| | 31 December 2009 | 31 December 2008 |
|---|---------------------|---------------------|
| Short term borrowings | 15,480,572 | 35,012,056 |
| Current portion of long term borrowings | 10,226,588 | 9,107,959 |
| | <u>25,707,160</u> | <u>44,120,015</u> |

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

| | Weighted Average Effective Interest Rate (%) | 31 December 2009 | Weighted Average Effective Interest Rate (%) | 31 December 2008 |
|----------------------------|--|---------------------|--|---------------------|
| USD denominated borrowings | 2.90 | 3,000,000 | 4.78 | 15,012,188 |
| EUR denominated borrowings | 1.37 | 1,544,042 | 6.58 | 12,120,859 |
| TL denominated borrowings | 8.00-11.00 | 10,936,530 | 15.5-17.50 | 7,879,009 |
| | | <u>15,480,572</u> | | <u>35,012,056</u> |

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

As of 31 December 2009 and 2008 long-term borrowings consist of the following:

| | 31 December 2009 | 31 December 2008 |
|--|---------------------|---------------------|
| Long term borrowings | 30,513,578 | 39,353,349 |
| Less : Current portion of long-term borrowings | (10,226,588) | (9,107,959) |
| | <u>20,286,990</u> | <u>30,245,390</u> |

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2009**

(Amounts expressed in US Dollars unless otherwise stated)

12. BANK BORROWINGS (Continued)

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

| | Interest Rate (%) | 31 December 2009 | Interest Rate (%) | 31 December 2008 |
|----------------------------|-------------------|---------------------|-------------------|---------------------|
| EUR denominated borrowings | 2.37 - 5.70 | 12,144,134 | 4.51 - 6.59 | 16,816,819 |
| USD denominated borrowings | 2.04 - 2.13 | 8,142,856 | 4.33 - 5.10 | 13,428,571 |
| | | 20,286,990 | | 30,245,390 |

As of 31 December 2009 and 2008, the detail of secured and unsecured long term borrowings of the Group's is as follows:

| | 31 December 2009 | 31 December 2008 |
|----------------------|---------------------|---------------------|
| Secured borrowings | 6,485,061 | 7,176,408 |
| Unsecured borrowings | 13,801,929 | 23,068,982 |
| Total | 20,286,990 | 30,245,390 |

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

| | 31 December 2009 | 31 December 2008 |
|--------------|---------------------|---------------------|
| 2010 | - | 10,353,120 |
| 2011 | 8,821,359 | 8,541,575 |
| 2012 | 5,009,265 | 4,980,531 |
| 2013 | 2,152,122 | 2,123,388 |
| 2014 | 2,152,122 | 2,123,388 |
| 2015 | 2,152,122 | 2,123,388 |
| Total | 20,286,990 | 30,245,390 |

Obligations under finance leases

As of 31 December 2009, The Group has USD 677,650 short term liabilities related to financial leasing agreements (2008: USD 505,332).

As of 31 December 2009, The Group has USD 488,099 long term liabilities related to financial leasing agreements (2008: USD 360,473).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

13. OTHER PAYABLES AND EXPENSE ACCRUALS

| | 31 December 2009 | 31 December 2008 |
|---------------------------------------|---------------------|---------------------|
| Due to related parties (Note 25) | 22,067,164 | 12,311,454 |
| Accruals for export expenses | 4,431,601 | 7,584,714 |
| Advances taken | 2,194,587 | 2,606,889 |
| Payroll and withholding taxes payable | 1,711,847 | 3,097,920 |
| Expense accruals | 306,597 | 1,183,497 |
| Personnel premium payable | 64,532 | 35,375 |
| Other | 1,208,122 | 806,670 |
| | <u>31,984,450</u> | <u>27,626,519</u> |

14. TAXES ON INCOME

a) Current Statutory Taxes

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

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

The effective tax rate in 2009 is 20% (2008: 20%) for the Group

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2009 is 20%. (2008: 20%).

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

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

14. TAXES ON INCOME (Continued)

a) Current Statutory Taxes (Continued)

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

As of 31 December 2009 and 2008, the current statutory tax charges for the Group can be analyzed as follows:

| | 1 January-31 December 2009 | 1 January-31 December 2008 |
|---|----------------------------------|----------------------------------|
| Statutory combined profit before taxes as per historical statutory financial statements | 448,961 | 1,697,415 |
| Permanent non-tax deductible expenses and other additions | 208,738 | 13,479 |
| Permanent non-taxable income and tax loss carried forward utilized during the year | (30,309) | (56,814) |
| Taxable income per Turkish tax legislation | 627,390 | 1,654,080 |
| Corporation tax at 20% | 125,478 | 330,816 |
| Italy tax charge | - | 348,228 |
| Provision for current statutory taxes on income | 125,478 | 679,044 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

14. TAXES ON INCOME (Continued)

a) Current Statutory Taxes (Continued)

Reconciliation of taxes by applying effective tax rates to profit before tax provision as reflected in the consolidated income statement for the years ended 31 December 2009 and 2008 is as follows:

| | 1 January-31 December 2009 | 1 January-31 December 2008 |
|---|----------------------------------|----------------------------------|
| Net profit / (loss) from ordinary activities before income tax | 19,310,856 | (31,546,837) |
| At statutory income tax rate at 20% (2008 – 20%) | 3,862,171 | (6,309,367) |
| Effect of : | | |
| Disallowable expenses | 760,725 | 522,175 |
| Tax exempt income | (743,744) | (877,706) |
| Non tax deductible translation (gain)/loss arising from remeasurement | 904,731 | 4,114,026 |
| | <u>4,783,883</u> | <u>(2,550,872)</u> |
| | | |
| | 31 December 2009 | 31 December 2008 |
| Provision for current taxes as per statements of income | | |
| - Turkey tax charge | 125,478 | 330,816 |
| - Italy tax charge | - | 348,228 |
| Total statutory income tax charge for the year | 125,478 | 679,044 |
| Prepaid taxes | (110,076) | (649,618) |
| Income tax payable | 15,402 | 29,426 |

Deferred Taxes

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

| | 31 December 2009 | 31 December 2008 |
|-----------------------------|---------------------|---------------------|
| Deferred tax assets | - | 384,672 |
| Deferred tax liabilities | (24,523,107) | (1,195,799) |
| Deferred tax liability, net | <u>(24,523,107)</u> | <u>(811,127)</u> |

Deferred tax assets and liabilities are based on temporary differences arising between the financial statements as reported for IFRS purposes and the statutory tax financial statements. Such temporary differences usually result in the recognition of income and expenses in different reporting periods for IFRS and tax purposes.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

14. TAXES ON INCOME (Continued)

b) Deferred Taxes (Continued)

The breakdown of deferred tax assets / (liabilities) provided at 31 December 2009 and 2008 using the current tax rates are as follows:

| | Deferred tax base | | Deferred tax asset / (liability) | |
|---|----------------------|---------------------|----------------------------------|---------------------|
| | 31 December 2009 | 31 December 2008 | 31 December 2009 | 31 December 2008 |
| Net difference between the tax base and the | | | | |
| -carrying value of tangible and intangible assets | (267.180.763) | (92.336.792) | (30.026.079) | (12.196.779) |
| -carrying value of financial assets | (20.183.132) | - | (1.009.157) | - |
| -carrying value of inventories | 2.290.966 | (20.461.170) | 458.193 | (4.092.234) |
| Provision for employee benefits obligation | 9.240.880 | 8.882.343 | 1.848.176 | 1.776.469 |
| Allowance for net realizable value of inventories | - | 44.752.300 | - | 8,950.460 |
| Tax losses carried forward | 17.132.758 | 13.286.014 | 3.426.552 | 2.657.203 |
| Other provisions and accruals | 2.223.515 | 8.200.735 | 588.215 | 1.818.285 |
| Other temporary differences | 954.957 | 1.377.346 | 190.993 | 275.469 |
| Deferred tax liability, net | (255.520.819) | (36.299.224) | (24.523.107) | (811.127) |

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

| | 31 December 2009 | 31 December 2008 |
|-------------------------|---------------------|---------------------|
| Will be expired in 2013 | (17,132,758) | (13,286,014) |
| | (17,132,758) | (13,286,014) |

Movements in deferred taxes are analyzed as follows:

| | 1 January-31 December 2009 | 1 January-31 December 2008 |
|--|----------------------------------|----------------------------------|
| Beginning balance | (811,127) | (4,009,688) |
| Tax charge recognized in the statement of income | (4,658,405) | 3,229,916 |
| Tax charge recognized in the equity | (19,053,688) | - |
| Currency translation reserve | 113 | (31,355) |
| | (24,523.107) | (811.127) |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

14. TAXES ON INCOME (Continued)

e) Deferred Taxes (Continued)

As each company is a separate legal entity, their respective deferred tax assets and liabilities cannot be offset against each other. The deferred tax asset/(liability) balances of each consolidated entity are analyzed as follows:

| | 31 December 2009 | | 31 December 2008 | |
|---|------------------|------------|------------------|-----------|
| | Asset | Liability | Asset | Liability |
| Borusan Mannesmann Boru San ve Tic A.Ş. | - | 22,196,563 | - | 1,118,230 |
| Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş. | - | 269,316 | - | 77,569 |
| Borusan Mannesmann Vobarno Tubi SPA | - | 2,057,228 | 384,672 | - |
| | - | 24,523,107 | 384,672 | 1,195,799 |

15. PROVISION FOR EMPLOYEE TERMINATION BENEFITS

Under the Turkish Labor Law, the Group is required to pay termination benefits to each employee whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women), achieves the retirement age (58 for women and 60 for men) if the employee has completed one year of service. The amount payable consists of one month's salary limited to a maximum for each year of service at 31 December 2009 of TL 2,365.16 (USD 1,507.80) (2008: TL 2,173.19, USD 1,473.01).

The maximum payment for retirement payment liability per year of employment is increased to TL 2,427.04 (USD 1,611.90) as of 1 January 2010.

IFRS requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. Accordingly, as at 31 December 2009 and 2008, the following actuarial assumptions were used in the calculation of the liability:

| | 31 December 2009 | 31 December 2008 |
|---|---------------------|---------------------|
| Discount rate | 11% | 12% |
| Expected rates of salary/limit increases | 4.8% | 5.4% |
| Turnover rate to estimate the probability of retirement | 98% | 98% |

Movements of the provision for employee benefits obligation during the years ended 31 December 2009 and 2008 are as follows:

| | 1 January - 31 December 2009 | 1 January - 31 December 2008 |
|------------------------|------------------------------------|------------------------------------|
| Beginning of the year | 10,629,532 | 14,912,952 |
| Translation gain/loss | (20,435) | 105,338 |
| Actuarial gain/loss | 224,614 | (407,985) |
| Interest expense | 505,870 | 839,742 |
| Current service cost | 981,862 | (1,274,470) |
| Payments | (1,353,810) | (3,546,045) |
| End of the year | 10,967,633 | 10,629,532 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

16. SHARE CAPITAL AND INVESTMENT REVALUATION RESERVE

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

| | 2009 | | 2008 | |
|--|------------|---------|------------|---------|
| | TL | Share % | TL | Share % |
| Borusan Mannesmann Boru Yatırım Holding A.Ş. | 20,831,453 | 73.48 | 20,831,453 | 73.48 |
| Publicly traded | 4,555,045 | 16.07 | 4,555,045 | 16.07 |
| Lumbro Nominees Jersey Ltd. | 1,890,000 | 6.67 | 1,890,000 | 6.67 |
| Other | 1,073,502 | 3.78 | 1,073,502 | 3.78 |
| | 28,350,000 | 100 | 28,350,000 | 100 |
| USD Equilavent | 68,996,872 | | 68,996,872 | |

As of 31 December 2009 Group's share capital consists of A Group (10% of total shares) and B Group (90% of total shares) shares (2008: A Group 10%, B Group 90%). There are 100 units of redeemed shares which does not have any voting rights (2008: 100 unit of redeemed shares).

A Group shareholders' rights are as follows:

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

Movements of revaluation reserve of financial assets were as follows;

| | 1 January - 31 December 2009 | 1 January - 31 December 2008 |
|--|------------------------------------|------------------------------------|
| Opening | - | - |
| Current year revaluation of financial investment | 20,183,132 | - |
| Deferred tax effect of revaluation of investment | (1,009,156) | - |
| | 19,173,976 | - |

17. RETAINED EARNINGS AND LEGAL RESERVES

Legal Reserves

Legal reserves consist of first and second legal reserves in accordance with Turkish Commercial Code (TCC). First legal reserve is appropriated out of the statutory profits at the rate of 5% until the total reserves reach a maximum of 20% at the Company's share capital. A second legal reserve is appropriated at the rate of 10% of all distribution in excess of 5% of the Company share capital. Companies whose shares are quoted on the Istanbul Stock Exchange Market perform their dividend appropriation in accordance with Turkish Capital Market Board regulations.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

17. RETAINED EARNINGS AND LEGAL RESERVES

Legal Reserves (Continued)

As of 31 December 2009 and 2008, reserves and retained earnings/accumulated deficit (as per the statutory financial statements of the Company) in TL are as follows:

| | 31 December 2009 | 31 December 2008 |
|------------------|---------------------|---------------------|
| Legal reserves | 20,960,303 | 20,960,303 |
| Special reserves | 2,778 | 2,778 |

Dividends

Dividend distributed from the distributable profit of 2008 and 2007 during the years 2009 and 2008 is as follows:

| | 2009 | 2008 |
|-----------------------------------|------|------------|
| Dividends to common stock holders | - | 19,774,343 |
| Dividend per share | - | 0.007 |
| Dividends to usufructuary | - | 1,110,228 |

18. NET SALES

| | 1 January-31 December 2009 | | | 1 January-31 December 2008 | | |
|------------------------|----------------------------|--------------------|--------------------|----------------------------|--------------------|--------------------|
| | Domestic Sales | Export | Total | Domestic Sales | Export | Total |
| Steel and Plastic Pipe | 224,716,213 | 271,435,160 | 496,151,373 | 429,298,167 | 453,348,445 | 882,646,612 |
| Engineering Services | 4,068,002 | 1,557,758 | 5,625,760 | 10,472,013 | 573,366 | 11,045,379 |
| | <u>228,784,215</u> | <u>272,992,918</u> | <u>501,777,133</u> | <u>439,770,180</u> | <u>453,921,811</u> | <u>893,691,991</u> |

19. COST OF SALES

| | 1 January - 31 December 2009 | 1 January - 31 December 2008 |
|---|------------------------------------|------------------------------------|
| Raw material | 348,424,397 | 734,979,116 |
| Direct labor | 30,760,806 | 45,955,895 |
| Depreciation and amortization | 9,037,736 | 7,475,571 |
| Repair, maintenance and other production expenses | 26,178,567 | 26,628,151 |
| Net change in finished goods | 18,301,380 | (20,704,117) |
| Net change in work-in-process | 3,804,939 | (489,374) |
| Cost of trade goods sold | 4,461,998 | 9,615,664 |
| Cost of other sales | 4,530,424 | 1,275,532 |
| Allowance for net realizable value of inventory | - | 44,752,300 |
| | <u>445,500,247</u> | <u>849,488,738</u> |

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2009**

(Amounts expressed in US Dollars unless otherwise stated)

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | 1 January - 31 December 2009 | 1 January - 31 December 2008 |
|------------------------------------|------------------------------------|------------------------------------|
| Personnel expenses | 14,420,042 | 20,897,966 |
| Consultancy expenses | 4,435,458 | 6,723,911 |
| Sales and distribution expenses | 2,258,243 | 5,391,578 |
| Outsourced services | 2,019,413 | 3,332,047 |
| Depreciation expenses | 1,757,714 | 2,763,980 |
| Utility expenses | 1,564,563 | 2,617,320 |
| Rent expenses | 1,397,377 | 1,624,228 |
| Transportation and travel expenses | 1,252,946 | 1,703,536 |
| Provision for bad debt receivables | 1,016,844 | 3,641,166 |
| Insurance expenses | 736,893 | 632,230 |
| Other | 7,086,031 | 8,263,891 |
| | <u>37,945,524</u> | <u>57,591,853</u> |

21. OTHER OPERATING (EXPENSE) / INCOME, net

| | 1 January - 31 December 2009 | 1 January - 31 December 2008 |
|---|------------------------------------|------------------------------------|
| Impairment on financial assets held for sale | (285,332) | (1,057,527) |
| Gain on sale of scrap | 142,416 | 566,889 |
| Gain on sale of property, plant and equipment | 153,094 | 140,718 |
| Other, net | 666,896 | 189,896 |
| | <u>677,074</u> | <u>(160,024)</u> |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

22. FINANCIAL INCOME / (EXPENSE), net

| | 1 January - 31 December 2009 | 1 January - 31 December 2008 |
|--------------------------------|------------------------------------|------------------------------------|
| Financial income | | |
| Interest income | 6,374,423 | 5,726,078 |
| Dividend income | 2,171,947 | 1,008,719 |
| Translation gain | 4,119,948 | - |
| Hedging income | 361,856 | - |
| Total financial income | 13,028,174 | 6,734,797 |
| Financial expense | | |
| Interest expense | (9,422,087) | (13,995,542) |
| Hedging expenses | (46,842) | (2,691,096) |
| Factoring expenses | (925,521) | (2,521,679) |
| Discount expense | (635,705) | (1,087,041) |
| Other financial expenses | (1,695,599) | (2,463,129) |
| Translation loss | - | (1,974,523) |
| Total financial expense | (12,725,754) | (24,733,010) |

24. BUSINESS COMBINATIONS

None during the current year (2008: None).

24. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Guarantee Letters

As of 31 December 2009, the Group is contingently liable for guarantee letters given to custom authorities amounting to TL 6,910,465 (2008: TL 11,820,332), given to domestic customers amounting to TL 580,088 and USD 7,666,705 (2008: TL 822,480 and USD 6,659,876) and given to foreign customers USD 22,713,545; EUR 8,155,937, Algerian Dinar 2,961,766 and Kuwait Dinar 400,000 (2008: USD 62,528,074; EUR 5,241,571 and Algerian Dinar 22,090,082).

(c) Export Commitments

Export commitments amount to USD 36,093,600 as of 31 December 2009 (31 December 2008: USD 13,931,148)

(d) Letter of credits

As of 31 December 2009, The Group has open letter of credit agreements for the future purchases from suppliers amounting to USD 48,149,456 and EUR 174,512 (2008: USD 18,293,430 and GBP 187,200).

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2009**

(Amounts expressed in US Dollars unless otherwise stated)

25. RELATED PARTY BALANCES AND TRANSACTIONS31 December 2009

| | Receivables | | Payables | |
|---|-------------|-------------|-----------|------------|
| | Current | Non Current | Current | |
| | Trade | Non Trade | Trade | Non Trade |
| Borusan İstikbal Ticaret T.A.Ş. (İstikbal) | 15,367,918 | - | - | 18,928,904 |
| Borçelik Çelik Sanayii Ticaret A.Ş. (Borçelik) | 271,363 | - | - | - |
| Borusan Mannesmann Espana S.A. | - | 1,550,823 | - | - |
| Borusan Lojistik Dağıtım Depolama Taşımacılık ve Ticaret A.Ş. (Lojistik) | - | - | 2,527,345 | - |
| Borusan Holding A.Ş. | - | - | 19,619 | - |
| Borusan Mannesmann Boru Yatırım Holding A.Ş. (BMBYH) | - | - | - | 3,102,370 |
| Kerim Çelik | 478,525 | - | - | - |
| Other | 143,991 | - | 130,840 | 35,890 |
| Less : Allowance for imputed interest | (43,367) | - | (28,125) | - |
| Less : Provision for doubtful receivables | (90,530) | - | - | - |
| | 16,127,900 | 1,550,823 | 2,649,679 | 22,067,164 |

31 December 2008

| | Receivables | | Payables | |
|---|-------------|-------------|-----------|------------|
| | Current | Non Current | Current | |
| | Trade | Non Trade | Trade | Non Trade |
| Borusan İstikbal Ticaret T.A.Ş. (İstikbal) | 8,177,268 | - | 404,769 | 9,527,215 |
| Borçelik Çelik Sanayii Ticaret A.Ş. (Borçelik) | 430,011 | - | - | - |
| Borusan Mannesmann Espana S.A. | - | 3,437,368 | - | - |
| Borusan Lojistik Dağıtım Depolama Taşımacılık ve Ticaret A.Ş. (Lojistik) | - | - | 3,909,607 | - |
| Borusan Holding A.Ş. | - | - | 69,512 | - |
| Borusan Mannesmann Boru Yatırım Holding A.Ş. (BMBYH) | - | - | - | 2,748,504 |
| Kerim Çelik | 5,055 | - | - | - |
| Other | 181,361 | - | 194,437 | 35,735 |
| Less : Allowance for imputed interest | (113,624) | - | (64,439) | - |
| Less : Provision for doubtful receivables | (496,653) | - | - | - |
| | 8,183,418 | 3,437,368 | 4,513,886 | 12,311,454 |

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

Non-trading payables to İstikbal bear interest at 1.91% for USD denominated, 2.30 – 2.31% for EUR denominated and 9% for TL denominated payables (2008: 4.05% for USD denominated and 17.5% for TL denominated payables).

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2009**

(Amounts expressed in US Dollars unless otherwise stated)

25. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

| 1 January - 31 December 2009 | Services obtained | Sales | Product purchases | Finance expense | Dividend income |
|---------------------------------|----------------------|-------------|----------------------|--------------------|--------------------|
| Borçelik | - | 4,401,771 | 3,869,401 | - | 2,167,727 |
| Lojistik | 54,346,732 | - | - | - | - |
| Borusan Holding | 2,100,001 | - | - | - | - |
| İstikbal | 555,475 | 106,332,232 | - | 136,407 | - |
| Borusan Birlik Danışmanlık | 621,991 | - | - | - | - |
| BMBYH | - | - | - | 239,108 | - |
| Other | 694,431 | 1,095,902 | - | - | 4,221 |
| | 58,318,630 | 111,829,905 | 3,869,401 | 375,515 | 2,171,948 |

| 1 January - 31 December 2008 | Services obtained | Sales | Product purchases | Finance expense | Dividend income |
|---------------------------------|----------------------|-------------|----------------------|--------------------|--------------------|
| Borçelik | - | 9,964,651 | 1,754,989 | - | 1,006,073 |
| Lojistik | 90,932,830 | - | - | - | - |
| Borusan Holding | 2,098,667 | - | - | - | - |
| İstikbal | 731,941 | 120,732,884 | - | 121,195 | - |
| Borusan Birlik Danışmanlık | 972,608 | - | - | - | - |
| BMBYH | - | - | - | 165,318 | - |
| Other | 644,289 | 890,733 | - | - | 72,005 |
| | 95,380,335 | 131,588,268 | 1,754,989 | 286,513 | 1,078,078 |

Compensation of key management personnel:

| | 1 January - 31 December 2009 | 1 January - 31 December 2008 |
|--|------------------------------------|------------------------------------|
| Salaries and other short term benefits | 1,926,409 | 2,420,576 |
| | 1,926,409 | 2,420,576 |

26. SUBSEQUENT EVENTS

None.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

27. FOREIGN CURRENCY POSITION

As at 31 December 2009 and 2008, the detail of foreign currency position of the Group is as follows;

| | EUR (USD Equivalent) | GBP (USD) | TL (USD Equivalent) | Toplam USD |
|---------------------------|-------------------------|------------------|------------------------|---------------------|
| <u>31 December 2009</u> | | | | |
| Cash and cash equivalents | 2,966,879 | - | 1,974,121 | 4,941,000 |
| Trade receivables, net | 19,207,061 | 3,611,731 | 20,290,159 | 43,108,951 |
| Trade payables, net | (6,307,219) | (2,372) | (12,578,153) | (18,887,744) |
| Advances received | (10,043,236) | - | (7,988,037) | (18,031,273) |
| Borrowings | (18,764,277) | - | (10,936,532) | (29,700,809) |
| | <u>(12,940,792)</u> | <u>3,609,359</u> | <u>(9,238,442)</u> | <u>(18,569,875)</u> |
| <u>31 December 2008</u> | | | | |
| Cash and cash equivalents | 3,430,417 | - | 1,391,121 | 4,821,538 |
| Trade receivables, net | 29,350,705 | 1,554,169 | 21,801,828 | 52,706,702 |
| Trade payables, net | (4,021,139) | - | (16,143,315) | (20,164,454) |
| Advances received | (57,904) | (233,114) | (8,360,884) | (8,651,902) |
| Borrowings | (27,417,562) | - | (6,875,301) | (34,292,863) |
| | <u>1,284,517</u> | <u>1,321,055</u> | <u>(8,186,551)</u> | <u>(5,580,979)</u> |

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital risk management

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

The capital structure of the Group consists of debt which includes the borrowings disclosed in Note 12 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 16 and 17.

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

The Group's overall strategy remains unchanged from 2008.

Significant accounting policies

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Categories of financial instruments and fair values

31 December 2009

Balance Sheet

| | Loans and receivables (including cash and cash equivalents) | Available for sale investments | Financial liabilities at amortized cost | Fair value through profit and loss | Total |
|--|---|-----------------------------------|--|---------------------------------------|-------------|
| Financial Assets | | | | | |
| Cash and cash equivalents | 9,899,002 | - | - | - | 9,899,002 |
| Trade receivables | 66,457,861 | - | - | - | 66,457,861 |
| Other assets | 3,966,103 | - | - | - | 3,966,103 |
| Available for sale investments | - | 37,553,332 | - | - | 37,553,332 |
| Forward foreign exchange contract income accrual | - | - | - | 14,617 | 14,617 |
| | 80,322,966 | 37,553,332 | - | 14,617 | 117,890,915 |
| Financial Liabilities | | | | | |
| Borrowings | - | - | 45,994,150 | - | 45,994,150 |
| Finance lease obligations | - | - | 1,165,749 | - | 1,165,749 |
| Trade payables | - | - | 171,981,812 | - | 171,981,812 |
| Other payables | - | - | 2,194,587 | - | 2,194,587 |
| | - | - | 221,336,298 | - | 221,336,298 |

31 December 2008

Balance Sheet

| | Loans and receivables (including cash and cash equivalents) | Available for sale investments | Financial liabilities at amortized cost | Fair value through profit and loss | Total |
|--|---|-----------------------------------|--|---------------------------------------|-------------|
| Financial Assets | | | | | |
| Cash and cash equivalents | 35,687,627 | - | - | - | 35,687,627 |
| Trade receivables | 147,044,501 | - | - | - | 147,044,501 |
| Other assets | 10,674,878 | - | - | - | 10,674,878 |
| Available for sale investments | - | 16,347,966 | - | - | 16,347,966 |
| Forward foreign exchange contract income accrual | - | - | - | 392,988 | 392,988 |
| | 193,407,006 | 16,347,966 | - | 392,988 | 210,147,960 |
| Financial Liabilities | | | | | |
| Borrowings | - | - | 74,365,405 | - | 74,365,405 |
| Finance lease obligations | - | - | 865,805 | - | 865,805 |
| Trade payables | - | - | 276,991,496 | - | 276,991,496 |
| Other payables | - | - | 2,606,889 | - | 2,606,889 |
| | - | - | 354,829,595 | - | 354,829,595 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk management objectives

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

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

Market risk

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

Foreign currency risk management

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

Foreign currency sensitivity

The Group is mainly exposed to EURO and TL foreign currency risk.

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

| | EUR impact | | TL impact | |
|-----------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | 1 January- 31 December 2009 | 1 January- 31 December 2008 | 1 January- 31 December 2009 | 1 January- 31 December 2008 |
| Profit and loss | 1,294,079 | (1,368,972) | 923,844 | (1,389,843) |

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management

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

Interest rate sensitivity

The sensitivity analysis above have been determined based on the exposure to interest rates at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

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

Price risk management

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

Credit risk management

The Group's credit risk primarily arises from its trade receivables. Such credit risk is managed by limiting the risk by the amount of the collaterals received. In managing credit risk, the Group uses three types of instruments which are Direct Debit System, letters of guarantee and mortgages. The Group monitors the customers' credit limits on a consistent basis and creditworthiness of the customers are systematically assessed based on the financial position, past experience and other factors. Trade receivables are reviewed depending on the Group policies and procedures and they are carried at net amounts in the balance sheet subsequent to any provision for doubtful receivables (Note 5).

Liquidity risk management

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

Liquidity risk tables

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value of financial instruments

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

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

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

| Financial assets | 31 December 2009 | | | Total |
|---|------------------|---------|------------|------------|
| | Level 1 | Level 2 | Level 3 | |
| Fair value through profit or loss | - | 14,617 | - | 14,617 |
| Fair value through comprehensive income | - | - | 35,845,000 | 35,845,000 |

| Financial assets | 31 December 2008 | | | Total |
|-----------------------------------|------------------|---------|---------|---------|
| | Level 1 | Level 2 | Level 3 | |
| Fair value through profit or loss | - | 392,988 | - | 392,988 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value of financial instruments (Continued)

| | Financial assets at Fair Value Through ProVTPL | | Available-for-sale financial assets | Total |
|---|---|----------------------------|--|--------------|
| | Trading securities | Trading derivatives | Equity investments | |
| Opening balance, 1 January 2009 (*) | - | 392,988 | 15,661,868 | 16,054,856 |
| Total gains or losses | | | | |
| -recognized in statement of income / (loss) | - | (392,988) | - | (392,988) |
| -recognized in other comprehensive income | - | 14,617 | 20,183,132 | 20,197,749 |
| Ending balance, 31 December 2009 | - | 14,617 | 35,845,000 | 35,859,617 |

| | Financial assets at FVTPL | | Available-for-sale financial assets | Total |
|---|----------------------------------|----------------------------|--|--------------|
| | Trading securities | Trading derivatives | Equity investments | |
| Opening balance, 1 January 2008 | - | (368,502) | - | (368,502) |
| Total gains or losses | | | | |
| -recognized in statement of income / (loss) | - | 368,502 | - | 368,502 |
| -recognized in other comprehensive income | - | 392,988 | - | 392,988 |
| Ending balance, 31 December 2008 | - | 392,988 | - | 392,988 |

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(Amounts expressed in US Dollars unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

| | 31 December 2009 | | | | | Total |
|--|------------------|----------------------|------------------|-------------------|-------------|-------------|
| | Up to 3 months | 3 months - 12 months | 1 year - 5 years | More than 5 years | Adjustment | |
| Borrowings | 14,272,540 | 14,155,448 | 17,834,145 | 2,930,060 | (3,198,043) | 45,994,150 |
| Obligations under finance leases | 558,878 | 236,198 | 488,099 | - | (117,426) | 1,165,749 |
| Trade payables (including related parties) | 76,250,934 | 98,992,676 | - | - | (3,261,798) | 171,981,812 |
| Other payables | 19,477,907 | 5,058,926 | - | - | (275,082) | 24,261,751 |
| | 110,560,259 | 118,443,248 | 18,322,244 | 2,930,060 | (6,852,349) | 243,403,462 |

| | 31 December 2008 | | | | | Total |
|--|------------------|----------------------|------------------|-------------------|--------------|-------------|
| | Up to 3 months | 3 months - 12 months | 1 year - 5 years | More than 5 years | Adjustment | |
| Borrowings | 2,150,413 | 43,164,143 | 27,168,222 | 4,246,800 | (2,364,173) | 74,365,405 |
| Obligations under finance leases | 574,572 | - | 360,473 | - | (69,240) | 865,805 |
| Trade payables (including related parties) | 107,245,368 | 177,669,077 | - | - | (7,922,949) | 276,991,496 |
| Other payables | 10,859,909 | 4,312,691 | - | - | (254,257) | 14,918,343 |
| | 120,830,262 | 225,145,911 | 27,528,695 | 4,246,800 | (10,610,619) | 367,141,049 |