

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

**CONSOLIDATED FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2010  
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 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and explanatory notes, 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 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

İstanbul, 11 March 2011

DRT Bağımsız Denetim ve ŞMMM A.Ş.

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

**Borusan Mannesmann Boru Sanayi ve Ticaret Anonim Şirketi and its Subsidiaries**

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

**CONSOLIDATED BALANCE SHEET**

**As at 31 December 2010**

(Amounts expressed in US Dollars unless otherwise stated)

	Notes	31 December 2010	31 December 2009
<b>Current assets</b>			
Cash and cash equivalents	4	10,732,681	9,899,002
Trade receivables	5,26	82,827,627	66,457,861
Inventories	6	107,261,065	114,041,440
Other receivables and assets	7,26	24,515,212	9,116,070
<b>Total current assets</b>		<b>225,336,585</b>	<b>199,514,373</b>
Asset held for sale	23	4,348,215	-
<b>Non-current assets</b>			
Available-for-sale financial assets	10	37,352,607	37,553,332
Property, plant and equipment	8	363,750,051	370,728,933
Intangible assets	9	807,701	945,908
Other receivables and assets	7,26	16,973,348	7,880,344
<b>Total non-current assets</b>		<b>418,883,707</b>	<b>417,108,517</b>
<b>Total assets</b>		<b>648,568,507</b>	<b>616,622,890</b>

(1)

The accompanying policies and explanatory notes on pages 6 through 50 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 2010**

(Amounts expressed in US Dollars unless otherwise stated)

**LIABILITIES AND EQUITY**

	Notes	31 December 2010	31 December 2009
<b>Current liabilities</b>			
Trade payables	11,26	213,644,451	171,981,812
Short-term borrowings	12	13,431,789	25,707,160
Obligations under finance leases	12	117,544	677,650
Income tax payable	14	120,662	15,402
Other payables and expense accruals	13,26	15,524,992	31,984,450
<b>Total current liabilities</b>		<b>242,839,438</b>	<b>230,366,474</b>
Liabilities related with asset held for sale	23	367,918	-
<b>Non-current liabilities</b>			
Long-term borrowings	12	54,511,671	20,286,990
Obligations under finance leases	12	42,680	488,099
Provision for employee termination benefits	15	11,725,809	10,967,633
Deferred tax liability	14	22,350,577	24,523,107
<b>Total non-current liabilities</b>		<b>88,630,737</b>	<b>56,265,829</b>
<b>Equity</b>			
Issued share capital	16	68,996,872	68,996,872
Revaluation reserve	8	184,679,005	202,827,700
Investment revaluation reserve	16	19,173,976	19,173,976
Cash flow hedge reserve	7,13	56,084	14,617
Legal reserves and retained earnings	17	44,853,415	39,866,871
Currency translation reserves		(1,213,861)	(1,117,976)
<b>Equity attributable to equity holders of the parent</b>		<b>316,545,491</b>	<b>329,762,060</b>
<b>Minority interest</b>		<b>184,923</b>	<b>228,527</b>
<b>Total equity</b>		<b>316,730,414</b>	<b>329,990,587</b>
<b>Total liabilities and equity</b>		<b>648,568,507</b>	<b>616,622,890</b>

(2)

The accompanying policies and explanatory notes on pages 6 through 50 form an integral part of the consolidated financial statements

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**For the year ended 31 December 2010**

(Amounts expressed in US Dollars unless otherwise stated)

	Notes	1 January- 31 December 2010	1 January- 31 December 2009
Net sales	18	653,923,046	496,664,029
Cost of goods sold and services provided	19	(616,074,210)	(440,512,766)
<b>Gross profit</b>		<b>37,848,836</b>	<b>56,151,263</b>
Selling, general and administrative expenses	20	(46,516,373)	(37,747,266)
Other operating income, net	21	376,111	677,074
Financial income	22	10,084,789	13,028,174
Financial expense	22	(11,516,602)	(12,725,754)
<b>Profit / (Loss) before tax</b>		<b>(9,723,239)</b>	<b>19,383,491</b>
Taxation on income		1,857,283	(4,783,883)
- Current (statutory)	14	(158,517)	(125,478)
- Deferred	14	2,015,800	(4,658,405)
<b>Profit / (Loss) for the year from continuing operations</b>		<b>(7,865,956)</b>	<b>14,599,608</b>
Profit / (Loss) for the year from discontinued operations	23	(1,102,833)	(72,635)
<b>Profit / (Loss) for the year</b>		<b>(8,968,789)</b>	<b>14,526,973</b>
Other comprehensive income / (expense):			
Cash flow hedging reserve		41,467	(378,371)
Change in currency translation reserve		(125,535)	349,503
Current year revaluation on property, plant and equipment		-	147,668,359
Change in investment revaluation reserve		-	19,173,976
<b>Other comprehensive income (after tax) for the year</b>		<b>(84,068)</b>	<b>166,813,467</b>
<b>Total comprehensive income / (loss) for the year</b>		<b>(9,052,857)</b>	<b>181,340,440</b>
<b>Profit / (loss) for the year</b>			
Equity holders of the parent		(8,954,835)	14,559,805
Minority interests		(13,954)	(32,832)
<b>Distribution of total comprehensive income / (loss)</b>			
Equity holders of the parent		(9,009,253)	181,272,365
Minority interests		(43,604)	68,075
Weighted average number of shares		28,350,000,000	28,350,000,000
Earnings / (Loss) per share in US dollars		(0.0003)	0.0005

(3)

The accompanying policies and explanatory notes on pages 6 through 50 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 2010**

(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
<b>Balance at 1 January 2009</b>	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
<b>Balance at 31 December 2009</b>	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
<b>Balance at 1 January 2010</b>	68,996,872	(1,117,976)	202,827,700	19,173,976	14,617	39,866,871	329,762,060	228,527	329,990,587
Transfer of 2010 depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	-	-	(13,141,600)	-	-	13,141,600	-	-	-
Disposals from revaluation reserve	-	-	(5,007,095)	-	-	5,007,095	-	-	-
Total comprehensive income / (loss) for the period	-	(95,885)	-	-	41,467	(8,954,835)	(9,009,253)	(43,604)	(9,052,857)
Dividends paid	-	-	-	-	-	(4,207,316)	(4,207,316)	-	(4,207,316)
<b>Balance at 31 December 2010</b>	68,996,872	(1,213,861)	184,679,005	19,173,976	56,084	44,853,415	316,545,491	184,923	316,730,414

(4)

The accompanying policies and explanatory notes on pages 6 through 50 form an integral part of the consolidated financial statements



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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**For the year ended 31 December 2010**

(Amounts expressed in US Dollars unless otherwise stated)

	Notes	1 January- 31 December 2010	1 January- 31 December 2009
<b>Cash flows provided from operating activities:</b>			
Profit / (Loss) before taxation		(9,723,239)	19,383,491
Discontinued operations profit / (loss) before taxation		(1,102,833)	(72,635)
Depreciation and amortization expense	8,9	14,436,890	10,795,450
Interest expense	22	11,516,602	12,725,754
Interest income	22	(8,232,459)	(10,856,227)
Charge for the allowance for doubtful receivables	5	(89,422)	134,063
Provision for reserve for employee benefit obligations	15	2,333,592	1,712,346
Provision for financial assets available for sale	10	221,180	285,332
Gain on sale of property, plant and equipment and intangibles	21	(864,998)	(153,094)
Net change in currency translation reserve		1,490,610	647,488
Impairment on property, plant and equipment-asset held for sale	23	777,980	-
<b>Operating profit before working capital changes</b>		<b>10,763,903</b>	<b>34,601,968</b>
<b>Working capital changes</b>			
Trade receivables	5	(17,951,066)	80,487,298
Inventories	6	6,012,160	3,827,994
Other current assets and liabilities – net	7,13	(16,490,476)	6,937,706
Trade payables	11	41,662,639	(105,009,684)
Net cash provided by discontinued operations	23	1,124,022	-
Other non-current assets and liabilities – net	7	(9,093,004)	1,009,750
<b>Net cash provided by operations</b>		<b>16,028,178</b>	<b>21,855,032</b>
Taxes paid	14	(53,257)	(1,148,771)
Interest paid		(11,475,135)	(13,104,125)
Employee benefit obligations paid	15	(1,443,836)	(1,353,810)
<b>Net cash provided by operating activities</b>		<b>3,055,950</b>	<b>6,248,326</b>
<b>Investing activities:</b>			
Purchase of property, plant and equipment	8,9	(27,439,438)	(16,913,983)
Advances given for property, plant and equipment	7	-	3,211,154
Proceeds from sale of property, plant and equipment and intangibles	8,9	401,425	872,126
Increase in available for sale financial assets	10	(20,455)	(1,307,566)
Interest received	22	3,018,450	6,374,423
Net cash used in discontinued operations	23	(343,920)	-
<b>Net cash used in investing activities</b>		<b>(24,383,938)</b>	<b>(7,763,846)</b>
<b>Financing activities:</b>			
Redemption of borrowings	12	(327,199,167)	(84,280,722)
Proceeds from borrowings	12	353,493,917	60,007,617
Dividends paid	17	(4,207,315)	-
Net cash used in discontinued operations		74,254	-
<b>Net cash used in financing activities</b>		<b>22,161,689</b>	<b>(24,273,105)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	4	<b>833,701</b>	<b>(25,788,625)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	4	<b>9,899,002</b>	<b>35,687,627</b>
<b>Cash and cash equivalents at the end of the year</b>	4	<b>10,732,681</b>	<b>9,899,002</b>

(5)

The accompanying policies and explanatory notes on pages 6 through 50 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 2010

(Amounts expressed in US Dollars unless otherwise stated)

#### 1. CORPORATE INFORMATION

##### General

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

Meclis-i Mebusan Caddesi No: 35 - 37  
34427 Fındıklı - İstanbul

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 11 March 2011 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 local 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 2010**

(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 2010.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(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)**

New and Revised IFRSs affecting presentation and disclosure only

- Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of Improvements to IFRSs issued in 2009)

The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.

Disclosures in these consolidated financial statements have been modified to reflect the above clarification.

- IFRS 3 (revised in 2008) Business Combinations

IFRS 3 (revised), “Business Combinations” and consequential amendments to IAS 27, “Consolidated and separate financial statements”, IAS 28, “Investments in associates”, and IAS 31, “Interests in joint ventures”, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The main impact of the adoption is as follows:

- 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 acquiree.
- To change the recognition and subsequent accounting requirements for contingent consideration.
- 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.
- In step acquisitions, previously held interests are to be re-measured to fair value at the date of the subsequent acquisition with the value included in goodwill calculation. Gain or loss arising from the re-measurement shall be recognized as part of profit or loss.
- IFRS 3 (2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

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

The application of IAS 27(2008) has not resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes in accounting policies have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(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)**

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

- IAS 28 (revised in 2008) Investments in Associates

The principle adopted under IAS 27(2008) (see above) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

IFRIC 17, “Distributions of non-cash assets to owners”, effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

IFRIC 18, “Transfers of assets from customers”, effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

“Additional exemptions for first-time adopters” (Amendment to IFRS 1) was issued in July 2009. The amendments are required to be applied for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing IFRS preparer.

IFRS 2, “Share-based Payments – Group Cash-settled Share Payment Arrangements” is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as the Group does not have share-based payment plans.

Improvements to International Financial Reporting Standards 2009 were issued in April 2009. The improvements cover 12 main standards/interpretations as follows: IFRS 2 *Share-based Payments*, IFRS 8 *Operating Segments*, IAS 1 *Presentation of Financial Statements*, IAS 17 *Leases*, IAS 18 *Revenue*, IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRIC 9 *Reassessment of Embedded Derivatives*, IFRIC 16 *Hedges of Net Investment in a Foreign Operation*. The effective dates vary standard by standard but most are effective on 1 January 2010.

New and Revised IFRSs in issue but not yet effective

- IFRS 1 (amendments) First-time Adoption of IFRS – Additional Exemptions and Two Other Amendments

Amendments to IFRS 1 which are effective for annual periods on or after 1 July 2010 provide limited exemption for first time adopters to present comparative IFRS 7 fair value disclosures.

On 20 December, IFRS 1 is amended to;

- provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs.
- provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

The amendment above will be effective for annual periods beginning on or after 1 July 2011. These amendments are not relevant to the Group, as it is an existing IFRS preparer.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(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)**

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

- IFRS 7 Financial Instruments: Disclosures

In October 2010, IFRS 7 *Financial Instruments: Disclosures* is amended by IASB as part of its comprehensive review of off balance sheet activities. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendment will be effective for annual periods beginning on or after 1 July 2011. The Group has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

- 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 1 January 2013. The Group has not had an opportunity to consider the potential impact of the adoption of this standard.

- IAS 12 Income Taxes

In December 2010, IAS 12 is amended. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale. The amendment will be effective for annual periods beginning on or after 1 January 2012. The Group has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

- IAS 24 (Revised 2009) Related Party Disclosures

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 1 January 2011. The Group has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

- IAS 32 (Amendments) Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements

The amendments to IAS 32 and IAS 1 are effective for annual periods beginning on or after 1 February 2010. The amendments address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously, such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The Group has not yet had an opportunity to consider the potential impact of the adoption of this amendment to the standard.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(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)**

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

- IFRIC 14 (Amendments) Pre-payment of a Minimum Funding Requirement

Amendments to IFRIC 14 are effective for annual periods beginning on or after 1 January 2011. The amendments affect entities that are required to make minimum funding contributions to a defined benefit pension plan and choose to pre-pay those contributions. The amendment requires an asset to be recognized for any surplus arising from voluntary pre-payments made. The Group does not expect any impact of the adoption of this amendment on the financial statements.

- 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. The Group has not yet had an opportunity to consider the potential impact of the adoption of this amendment to the standard.

- Annual Improvements May 2010

Further to the above amendments and revised standards, the IASB has issued Annual Improvements to IFRSs in May 2010 that cover 7 main standards/intepretations as follow: IFRS 1 *First-time Adoption of International Financial Reporting Standards*; IFRS 3 *Business Combinations*; IFRS 7 *Financial Instruments: Disclosures*; IAS 27 *Consolidated and Separate Financial Statements*; IAS 34 *Interim Financial Reporting* and IFRIC 13 *Customer Loyalty Programmes*. With the exception of amendments to IFRS 3 and IAS 27 which are effective on or after 1 July 2010, all other amendments are effective on or after 1 January 2011. Early adoption of these amendments are allowed. The Group has not yet had an opportunity to consider the potential impact of the adoption of these amendments to the standards.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(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:

Year	Year End USD/TL Exchange Rates	TL/USD Annual Devaluation Rates
2007	1.1647	(17.50)
2008	1.5123	29.85
2009	1.5057	0.44
2010	1.5460	2.68

**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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(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 15% (2009 - 20%) and for USD and EUR denominated trade receivables Libor/Euribor rate is used (2009: Libor/Euribor). The average collection period of trade receivables is 70 days (2009 - 75 days).

**Related Parties**

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

**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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(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 2010**

(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 10 days (2009: 31 days) are carried at amortized cost which is the fair value of consideration to be paid in the future for goods and services received, whether or not billed to the Group. Interest rate used for TL denominated trade payables is 15% (2009: 20%) and interest rates used for USD and EURO denominated trade payables are Libor/Euribor (2009: Libor/Euribor).

The major part of the trade payables result from the purchase of raw materials and indirect materials. The trade payables resulting from the purchase of raw materials and indirect materials are interest bearing and the average maturities are 180-360 days and the average interest rates applied are in the interval of 1.46-3.39% (2009: 360 days and the average interest rates applied are in the interval of 2.25-4.92%).

###### **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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(Amounts expressed in US Dollars unless otherwise stated)

**2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2.4 Summary of Significant Accounting Policies (Continued)**

**Non-current Assets Held For Sale and Discontinued Operations**

Non-current assets and disposal groups are classified as held for sale and measured at the lower of carrying value and fair value less costs to sell if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sales, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

**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.

**Deferred taxes:**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(Amounts expressed in US Dollars unless otherwise stated)

**2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2.5 Significant Accounting Judgments and Estimates (Continued)**

**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 2010

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

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

31 December 2009	Steel	Engineering	Total
Total segment revenue	491,038,268	5,625,761	496,664,029
Gross profit	55,369,561	781,702	56,151,263
Depreciation and amortization	10,508,598	286,852	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

\*Excluding deferred tax liability and income tax payable.

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**4. CASH AND CASH EQUIVALENTS**

	31 December 2010	31 December 2009
Banks		
-time deposits	7,282,492	5,399,655
-demand deposits	3,436,626	4,496,962
Cash on hand	13,563	2,385
	<u>10,732,681</u>	<u>9,899,002</u>

The detail of time deposits as of 31 December 2010 and 2009 is as follows:

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

Currency	Effective interest rate	Maturity (days)	31 December 2009	
			Original Amount	Amount in USD
TL	6.6%	4	665,000	441,655
USD	0.5 - 1.5%	4	4,958,000	4,958,000
				<u>5,399,655</u>

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**5. TRADE RECEIVABLES**

	31 December 2010	31 December 2009
Trade receivables	71,795,951	54,707,136
Trade receivables from related parties (Note 26)	11,029,294	16,218,430
Cheques and notes receivable	8,071,324	3,696,951
Less: Provision for doubtful receivables (*)	(8,068,942)	(8,164,656)
	<b>82,827,627</b>	<b>66,457,861</b>

(\*) Among the provision for doubtful receivables USD 83,631 is from related parties (2009: USD 90,530).

As of 31 December 2010, trade receivables of USD 76,357,281 (2009: USD 61,409,397) were neither past due nor impaired. As of 31 December 2010, trade receivables of USD 5,917,349 (2009: USD 4,278,475) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	31 December 2010	31 December 2009
Up to 30 days	1,492,344	1,312,497
30 to 90 days	3,711,242	2,305,745
90 to 360 days	713,763	660,233
	<b>5,917,349</b>	<b>4,278,475</b>

The carrying amount of trade receivables that would otherwise be past due or impaired whose term have been negotiated is USD 552,997 (2009: USD 769,989).

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 2010, USD 8,068,942 (2009: USD 8,164,656) 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 2010 and 2009 is as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
1 January	8,164,656	8,065,314
Allowance provided during the year	220,230	1,016,844
Amounts recovered during the year	(261,942)	(95,581)
Currency translation reserve	(6,292)	(34,721)
Provisions released	(47,710)	(787,200)
<b>31 December</b>	<b>8,068,942</b>	<b>8,164,656</b>

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**6. INVENTORIES**

	31 December 2010	31 December 2009
Raw materials	45,968,953	56,100,168
Work-in-process	5,995,120	4,943,226
Finished goods	41,301,291	30,989,977
Merchandise stocks	397,016	504,321
Goods-in-transit	13,598,685	21,503,748
	<b>107,261,065</b>	<b>114,041,440</b>

Movement of allowance for net realizable value is as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
1 January	-	44,752,300
Provisions released	-	(44,752,300)
Charge for the year	-	-
<b>31 December</b>	<b>-</b>	<b>-</b>

Net realizable value of the inventories exposed to allowance in 2010 is nil (2009: nil).

**7. OTHER RECEIVABLES AND ASSETS**

Details of other receivables and assets as of 31 December 2010 and 2009 are as follows:

	31 December 2010	31 December 2009
<b>Current assets</b>		
Receivable from related parties (Note 26)	17,300,000	-
Advances given with respect to inventory purchases	1,554,533	1,862,782
VAT receivable	1,501,878	-
Other job advances	1,498,866	558,987
Prepaid expenses	919,154	1,395,444
Receivable from tax authority	827,809	5,008,579
Income accruals	526,569	-
Due from personnel	61,602	141,388
Prepaid income taxes	95,975	110,580
Advances given to personnel	25,715	23,693
Forward foreign exchange contract income accrual	56,084	14,617
Other	147,027	-
	<b>24,515,212</b>	<b>9,116,070</b>

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**7. OTHER RECEIVABLES AND ASSETS (Continued)**

	31 December 2010	31 December 2009
<b>Non-current assets</b>		
Advances given with respect to property, plant and equipment	13,717,565	5,307,388
Receivable from related parties (Note 26)	1,687,680	1,550,823
Advances given	1,359,692	859,691
Prepaid expenses	93,701	75,829
Deposits and guarantees given	114,710	86,613
	<u>16,973,348</u>	<u>7,880,344</u>

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**8. PROPERTY, PLANT AND EQUIPMENT**

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

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

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 (2009: 20,000,000 EUR).

The amount of borrowing costs capitalized during the year is USD 426,309 (2009: nil)

(26)

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

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**8. PROPERTY, PLANT AND EQUIPMENT (Continued)**

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

	31 December 2008	Additions	Disposals	Transfers	Currency translation reserve	Revaluation Fund	Net-off of accumulated depreciation	31 December 2009
<b>Cost</b>								
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
	<b>238,599,718</b>	<b>17,182,114</b>	<b>(3,689,090)</b>	<b>-</b>	<b>303,255</b>	<b>166,154,214</b>	<b>(34,491,177)</b>	<b>384,059,034</b>
<b>Less : Accumulated Depreciation</b>								
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)
	<b>(40,095,824)</b>	<b>(10,504,041)</b>	<b>2,970,058</b>	<b>-</b>	<b>(191,471)</b>	<b>-</b>	<b>34,491,177</b>	<b>(13,330,101)</b>
<b>Net book value</b>	<b>198,503,894</b>							<b>370,728,933</b>

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**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 2010	1 January - 31 December 2009
1 January	202,827,700	57,857,388
Depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	(13,141,600)	(2,034,424)
Disposals from revaluation reserve	(5,007,095)	(548,805)
Current year revaluation adjustment	-	165,598,073
Deferred tax effect of revaluation adjustment	-	(18,044,532)
<b>31 December</b>	<b>184,679,005</b>	<b>202,827,700</b>

The historical cost of land, buildings and machinery and equipment as of 31 December 2010 and 2009 are as follows:

	31 December 2010		31 December 2009	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and Building	43,876,624	(4,982,658)	48,990,645	(4,670,671)
Machinery and equipment	86,660,044	(19,128,263)	86,835,820	(14,602,820)
	130,536,668	(24,110,921)	135,826,465	(19,273,491)

As of 31 December 2010 and 2009, the gross carrying amount of property and equipment and intangibles, which are fully depreciated, but still in use, is as follows:

	31 December 2010	31 December 2009
Land improvements	736,794	736,794
Building	2,465,924	2,465,924
Machinery and equipment	4,364,398	4,117,987
Vehicles	735,008	714,175
Furniture and fixtures	5,235,613	4,865,582
Other tangible assets	147,593	146,044
Intangibles	1,063,687	1,003,794
	14,749,017	14,050,300

**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 1,120,899 (2009: USD 2,036,625) (net book value) relates to the tube finishing line and furnace leased by the Group.



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**9. INTANGIBLE ASSETS**

The movement of intangible assets during the years ending 31 December 2010 and 2009 is as follows:

	31 December 2010	31 December 2009
Cost at 1 January	3,597,733	3,233,029
Additions	79,198	415,467
Transfers	(34,232)	-
Currency translation reserve	(215,773)	(50,763)
<b>Cost at 31 December</b>	<b>3,426,926</b>	<b>3,597,733</b>
Accumulated amortization at 1 January	(2,651,825)	(2,514,087)
Charge for the year	(198,792)	(291,409)
Transfers	17,966	-
Currency translation reserve	213,426	153,671
<b>Accumulated amortization at 31 December</b>	<b>(2,619,225)</b>	<b>(2,651,825)</b>
<b>Net book value at 31 December</b>	<b>807,701</b>	<b>945,908</b>

Current period amount of depreciation and amortization recorded to cost of goods sold and services provided is USD 10,451,635 and to selling, general and administrative expenses is USD 3,746,236 and discontinued operations is USD 239,019 (2009: USD 8,833,896 and USD 1,757,714 respectively).

**10. AVAILABLE FOR SALE FINANCIAL ASSETS**

	31 December 2010		31 December 2009	
		(%)		(%)
Borçelik Çelik Sanayi Ticaret A.Ş. (Borçelik)	35,845,000	10.68	35,845,000	10.68
Borusan Kültür ve Sanat Hizmetleri Yayıncılık A.Ş.	395,065	18.86	395,065	18.86
Borusan Mannesmann Cooperatie U.A. (BM Cooperatie) (*)	2,615,107	99.00	2,615,107	99.00
Other (**)	61,474	(**)	41,019	(**)
Impairment on available for sale financial assets	(1,564,039)		(1,342,859)	
	<b>37,352,607</b>		<b>37,553,332</b>	

(\*) As at 31 December 2010, 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.

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**11. TRADE PAYABLES**

	31 December 2010	31 December 2009
Trade payables	207,202,098	169,332,133
Due to related parties (Note 26)	6,442,353	2,649,679
	<b>213,644,451</b>	<b>171,981,812</b>

USD 25,787,714 and EUR 685,518 of trade payables are interest bearing. The average interest rate applied to these trade payables is 2.15% for USD and 2.96% for EUR and the average maturity of the payables is 120 days (2009: USD 27,422,074 and EUR 15,261,829 interest rate applied is respectively 3.32% and 3.47% and the average maturity is 180 days). On the other hand, the average maturity of the trade payables by the amount USD 155,889,569 is between 180-360 days and average 2.33 % interest rate is applied to them (2009: USD 97,384,577, interest rate applied is 3.04%, maturity 180-360 days).

**12. BANK BORROWINGS**

As of 31 December 2010 and 2009, short-term borrowings consist of the following:

	31 December 2010	31 December 2009
Short term borrowings	3,700,344	15,480,572
Current portion of long term borrowings	9,787,471	10,226,588
Capitalized loan expense	(56,026)	-
	<b>13,431,789</b>	<b>25,707,160</b>

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

	Weighted Average Effective Interest Rate (%)	31 December 2010	Weighted Average Effective Interest Rate (%)	31 December 2009
USD denominated borrowings	-	-	2.90	3,000,000
EUR denominated borrowings	1.37-1.85	2,816,373	1.37	1,544,042
TL denominated borrowings	-	883,971	8.00-11.00	10,936,530
		<b>3,700,344</b>		<b>15,480,572</b>

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

As of 31 December 2010 and 2009 long-term borrowings consist of the following:

	31 December 2010	31 December 2009
Long term borrowings	64,299,142	30,513,578
Less : Current portion of long-term borrowings	(9,787,471)	(10,226,588)
	<b>54,511,671</b>	<b>20,286,990</b>

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**12. BANK BORROWINGS (Continued)**

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

	Interest Rate (%)	31 December 2010	Interest Rate (%)	31 December 2009
EUR denominated borrowings	2.59	7,917,023	2.37 - 5.70	12,144,134
USD denominated borrowings	1.86 - 3.76	46,857,144	2.04 - 2.13	8,142,856
Capitalized loan expense		(262,496)		-
		<b>54,511,671</b>		<b>20,286,990</b>

As of 31 December 2010 and 2009, the detail of secured and unsecured long term borrowings of the Group's is as follows:

	31 December 2010	31 December 2009
Secured borrowings	4,718,497	6,485,061
Unsecured borrowings	50,055,670	13,801,929
<b>Total</b>	<b>54,774,167</b>	<b>20,286,990</b>

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

	31 December 2010	31 December 2009
2011	-	8,821,359
2012	8,809,774	5,009,265
2013	7,988,131	2,152,122
2014	7,988,131	2,152,122
2015	15,988,131	2,152,122
2016	14,000,000	-
<b>Total</b>	<b>54,774,167</b>	<b>20,286,990</b>

**Obligations under finance leases**

As of 31 December 2010, The Group has USD 117,545 short term liabilities related to financial leasing agreements (2009: USD 677,650).

As of 31 December 2010, The Group has USD 42,680 long term liabilities related to financial leasing agreements (2009: USD 488,099).

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**13. OTHER PAYABLES AND EXPENSE ACCRUALS**

	31 December 2010	31 December 2009
Advances taken	4,699,751	2,194,587
Accruals for export expenses	4,231,490	4,431,601
Payroll and withholding taxes payable	2,139,378	1,711,847
Income relating to future months	1,563,353	380,887
Due to related parties (Note 26)	1,561,668	22,067,164
Due to personnel	824,003	820,955
Expense accruals	87,470	306,597
Other	417,879	70,812
	<b>15,524,992</b>	<b>31,984,450</b>

**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 2010 is 20% (2009: 20%) for the Group

In Turkey, advance tax returns are filed and accrued on a quarterly basis. Advance corporate income tax rate applied in 2010 is 20%. (2009: 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.

Following the tax assessment, the Tax Administration Department of the Ministry of Finance and the Company reached an agreement on 5th October 2010 with regards to the total tax charge of TL 2,864,056 and tax loss of TL 4,330,008 fined to the Company on 22 July 2010 by Büyük Mükellefler Tax Office due to the tax assessment performed on the Company's 2007 records. The Company paid a total TL 3.946.898 of tax penalty (including TL 2,273,981 of tax charge, TL 100,000 of tax loss and TL 1,572,917 of default interest) on 5 November 2010 as a result of the tax agreement made by the Tax Administration Department of the Ministry of Finance and the Company. TL 3,577,773 of the related tax charge is recognized under other operating expenses and the remaining amount is presented under other current assets.

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**14. TAXES ON INCOME (Continued)****a) Current Statutory Taxes (Continued)**

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

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

As of 31 December 2010 and 2009, the current statutory tax charges for the Group can be analyzed as follows:

	1 January-31 December 2010	1 January-31 December 2009
Statutory combined profit before taxes as per historical statutory financial statements	731,854	448,961
Permanent non-tax deductible expenses and other additions	128,044	208,738
Permanent non-taxable income and tax loss carried forward utilized during the year	(67,311)	(30,309)
Taxable income per Turkish tax legislation	792,587	627,390
Corporation tax at 20%	158,517	125,478
Italy tax charge	-	-
Provision for current statutory taxes on income	158,517	125,478

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, the companies which have incurred losses for the year ended 31 December 2010 have not been included in combined profit before taxes.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

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**14. TAXES ON INCOME (Continued)**

**a) Current Statutory Taxes (Continued)**

Reconciliation of taxes by applying effective tax rates to profit before tax provision as reflected in the consolidated income statement for the years ended 31 December 2010 and 2009 is as follows:

	1 January-31 December 2010	1 January-31 December 2009
<b>Profit / (loss) for the year before income tax</b>	<b>(10,826,093)</b>	<b>19,310,856</b>
At statutory income tax rate at 20% (2009 – 20%)	(2,165,219)	3,862,171
Effect of :		
Disallowable expenses	876,303	760,725
Tax exempt income	(923,037)	(743,744)
Non tax deductible translation (gain)/loss arising from remeasurement	354,670	904,731
	<b>(1,857,283)</b>	<b>4,783,883</b>
	<b>31 December 2010</b>	<b>31 December 2009</b>
<b>Provision for current taxes as per statements of income</b>		
- Turkey tax charge	158,517	125,478
- Italy tax charge	-	-
<b>Total statutory income tax charge for the year</b>	<b>158,517</b>	<b>125,478</b>
Prepaid taxes	(37,855)	(110,076)
<b>Income tax payable</b>	<b>120,662</b>	<b>15,402</b>

**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 2010	31 December 2009
Deferred tax assets	-	-
Deferred tax liabilities	(22,350,577)	(24,523,107)
<b>Deferred tax liability, net</b>	<b>(22,350,577)</b>	<b>(24,523,107)</b>

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.

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**14. TAXES ON INCOME (Continued)**

**b) Deferred Taxes (Continued)**

The breakdown of deferred tax assets / (liabilities) provided at 31 December 2010 and 2009 using the current tax rates are as follows:

	Deferred tax base		Deferred tax asset / (liability)	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Net difference between the tax base and the				
-carrying value of tangible and intangible assets	(247,576,816)	(267,180,763)	(27,928,545)	(30,026,079)
-carrying value of financial assets	(20,183,132)	(20,183,132)	(1,009,157)	(1,009,157)
-carrying value of inventories	(3,091,039)	2,290,966	(618,208)	458,193
Provision for employee benefits obligation	10,302,412	9,240,880	2,060,482	1,848,176
Tax losses carried forward	23,784,522	17,132,758	4,756,904	3,426,552
Other provisions and accruals	967,718	2,223,515	193,544	588,215
Other temporary differences	972,010	954,957	194,403	190,993
<b>Deferred tax liability, net</b>	<b>(234,824,325)</b>	<b>(255,520,819)</b>	<b>(22,350,577)</b>	<b>(24,523,107)</b>

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

	31 December 2010	31 December 2009
Will be expired in 2013	16,686,154	17,132,758
Will be expired in 2015	7,098,368	-
	<b>23,784,522</b>	<b>17,132,758</b>

Movements in deferred taxes are analyzed as follows:

	1 January-31 December 2010	1 January-31 December 2009
1 January	(24,523,107)	(811,127)
Tax charge recognized in the statement of income	2,015,800	(4,658,405)
Tax charge recognized in the equity	-	(19,053,688)
Currency translation reserve	156,730	113
<b>31 December</b>	<b>(22,350,577)</b>	<b>(24,523,107)</b>

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**14. TAXES ON INCOME (Continued)**

**c) 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 2010		31 December 2009	
	Deferred Tax		Deferred Tax	
	Asset	Liability	Asset	Liability
Borusan Mannesmann Boru San ve Tic A.Ş.	-	20,208,682	-	22,196,563
Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş.	-	261,744	-	269,316
Borusan Mannesmann Vobarno Tubi SPA	-	1,880,151	-	2,057,228
	-	22,350,577	-	24,523,107

**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 2010 of TL 2,517.01 (USD 1,628.08) (2009: TL 2,365.16, USD 1,570.80).

The maximum payment for retirement payment liability per year of employment is increased to TL 2,623,23 (USD 1,696.79) 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 2010 and 2009, the following actuarial assumptions were used in the calculation of the liability:

	31 December 2010	31 December 2009
Discount rate	4.66%	4.80%
Turnover rate to estimate the probability of retirement	98%	98%

Movements of the provision for employee benefits obligation during the years ended 31 December 2010 and 2009 are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
1 January	10,967,633	10,629,532
Translation gain/loss	(131,580)	(20,435)
Actuarial gain/loss	764,096	224,614
Interest expense	430,625	505,870
Current service cost	1,138,871	981,862
Payments	(1,443,836)	(1,353,810)
<b>31 December</b>	<b>11,725,809</b>	<b>10,967,633</b>



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#### 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:

	2010		2009	
	TL	Share %	TL	Share %
Borusan Mannesmann Boru Yatırım Holding A.Ş.	20,831,453	73.48	20,831,453	73.48
Publicly traded	4,555,045	16.07	4,555,045	16.07
Lumbro Nominees Jersey Ltd.	1,890,000	6.67	1,890,000	6.67
Other	1,073,502	3.78	1,073,502	3.78
	28,350,000	100.00	28,350,000	100.00
USD Equilavent	68,996,872		68,996,872	

As of 31 December 2010 Group's share capital consists of A Group (10% of total shares) and B Group (90% of total shares) shares (2009: A Group 10%, B Group 90%). There are 100 units of redeemed shares which does not have any voting rights (2009: 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 investment revaluation reserve was as follows;

	1 January - 31 December 2010	1 January - 31 December 2009
Opening	19,173,976	-
Current year revaluation of financial investment	-	20,183,132
Deferred tax effect of revaluation of financial investment	-	(1,009,156)
	19,173,976	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.

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**17. RETAINED EARNINGS AND LEGAL RESERVES**

**Legal Reserves (Continued)**

As of 31 December 2010 and 2009, reserves and retained earnings/accumulated deficit (as per the statutory financial statements of the Company) in TL are as follows:

	31 December 2010	31 December 2009
Legal reserves	6,310,143	20,960,303
Special reserves	2,778	2,778
	<b>6,312,921</b>	<b>20,963,081</b>

**Dividends**

Dividend distributed from the distributable profit during the years 2010 and 2009 are as follows:

	2010	2009
Dividends to common stock holders	4,207,315	-
	<b>4,207,315</b>	<b>-</b>

**18. NET SALES**

	1 January-31 December 2010			1 January-31 December 2009		
	Domestic Sales	Export	Total	Domestic Sales	Export	Total
Steel	364,063,918	285,652,751	649,716,669	220,717,415	270,320,854	491,038,269
Engineering Services	4,206,377	-	4,206,377	4,068,002	1,557,758	5,625,760
	<b>368,270,295</b>	<b>285,652,751</b>	<b>653,923,046</b>	<b>224,785,417</b>	<b>271,878,612</b>	<b>496,664,029</b>

**19. COST OF GOODS SOLD AND SERVICES PROVIDED**

	1 January - 31 December 2010	1 January - 31 December 2009
Raw material	521,329,560	345,875,355
Direct labor	37,305,289	30,489,029
Depreciation and amortization	10,451,635	8,833,896
Repair, maintenance and other production expenses	36,960,124	25,584,433
Net change in finished goods	(10,985,262)	17,848,543
Net change in work-in-process	(1,051,894)	3,804,939
Cost of trade goods sold	14,069,218	3,546,149
Cost of other sales	7,995,540	4,530,422
	<b>616,074,210</b>	<b>440,512,766</b>

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**20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	1 January - 31 December 2010	1 January - 31 December 2009
Personnel expenses	17,738,971	14,221,784
Sales and distribution expenses	5,241,507	3,509,598
Consultancy expenses	4,430,760	4,346,714
Depreciation expenses	3,746,236	1,757,713
Transportation and travel expenses	2,449,447	1,972,050
Information technology expenses	1,652,535	1,377,406
Donations sponsorship	1,195,323	1,093,721
Utility expenses	1,123,789	1,564,563
Rent expenses	1,022,597	687,093
Tax expenses	1,008,373	549,987
Outsourced services	867,976	744,531
Insurance expenses	609,990	736,893
Maintenance expenses	558,299	500,768
Provision for bad debt receivables	220,231	1,016,844
Other	4,650,339	3,667,601
	<b>46,516,373</b>	<b>37,747,266</b>

**21. OTHER OPERATING INCOME, net**

	1 January - 31 December 2010	1 January - 31 December 2009
Impairment on financial assets held for sale	(221,180)	(285,332)
Gain on sale of scrap	242,544	142,416
Gain on sale of property, plant and equipment	864,998	153,094
Tax penalty	(1,336,303)	-
Other, net	826,052	666,896
	<b>376,111</b>	<b>677,074</b>

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**22. FINANCIAL INCOME / (EXPENSE)**

	1 January - 31 December 2010	1 January - 31 December 2009
<b>Financial income</b>		
Interest income	3,018,450	6,374,423
Dividend income	1,852,330	2,171,947
Translation gain	4,986,337	4,119,948
Hedging income	227,672	361,856
<b>Total financial income</b>	<b>10,084,789</b>	<b>13,028,174</b>
<b>Financial expense</b>		
Interest expense	(7,782,917)	(9,422,087)
Hedging expenses	(1,025,098)	(46,842)
Factoring expenses	(957,858)	(925,521)
Discount expense	(189,659)	(635,705)
Other financial expenses	(1,561,070)	(1,695,599)
<b>Total financial expense</b>	<b>(11,516,602)</b>	<b>(12,725,754)</b>

**23. DISCONTINUED OPERATIONS**

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

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

	31 December 2010
Trade receivables, net	1,231,486
Inventories	1,055,658
Property, plant and equipment, net	1,095,133
Other receivables and assets	965,938
<b>Asset held for sale</b>	<b>4,348,215</b>
Obligations under finance leases	367,918
<b>Liabilities related with asset held for sale</b>	<b>367,918</b>

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**23. DISCONTINUED OPERATIONS (Continued)**

	1 January - 31 December 2010	1 January - 31 December 2009
Net sales	5,561,817	5,113,103
Cost of goods sold and services provided	(5,706,246)	(4,987,480)
Selling, general and administrative expenses	(180,424)	(198,258)
Other operating income, net	(777,980)	-
<b>Discontinued operations loss for the year</b>	<b>(1,102,833)</b>	<b>(72,635)</b>

Depreciation expense of the asset held for sale amounted to USD 239,019 (2009: USD 203,840) recorded to cost of goods and services provided.

**24. BUSINESS COMBINATIONS**

None during the current year (2009: None).

**25. COMMITMENTS AND CONTINGENT LIABILITIES**

**(a) Guarantee Letters**

As of 31 December 2010, the Group is contingently liable for guarantee letters given to custom authorities amounting to TL 6,759,477 (2009: TL 6,910,465), given to domestic customers amounting to TL 11,011,600, USD 3,828,066 and EUR 1,650,000 (2009: TL 580,088 and USD 7,666,705) and given to foreign customers USD 10,779,103; EUR 11,086,650 (2009: USD 22,713,545; EUR 8,155,937 and Algerian Dinar 22,090,082 and Kuwait Dinar 400,000).

**(c) Export Commitments**

Export commitments amount to USD 168,399,085 as of 31 December 2010 (31 December 2009: USD 36,093,600)

**(d) Letter of credits**

As of 31 December 2010, The Group has open letter of credit agreements for the future purchases from suppliers amounting to USD 76,956,507 and EUR 24,543,394 (2009: USD 48,149,456 and EUR 174,512).

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**26. RELATED PARTY BALANCES AND TRANSACTIONS**

31 December 2010

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

31 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

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

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**26. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)**

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

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

Compensation of key management personnel:

	1 January - 31 December 2010	1 January - 31 December 2009
Salaries and other short term benefits	3,083,119	1,926,409
	3,083,119	1,926,409

**27. SUBSEQUENT EVENTS**

None.

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

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 28. FOREIGN CURRENCY POSITION

As at 31 December 2010 and 2009, the detail of foreign currency position of the Group is as follows;

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

	EUR (USD Equivalent)	GBP (USD Equivalent)	TL (USD Equivalent)	Total USD
<b>31 December 2009</b>				
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)
	<b>1,284,517</b>	<b>1,321,055</b>	<b>(8,186,551)</b>	<b>(5,580,979)</b>

#### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

##### Capital risk management

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

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

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

The Group's overall strategy remains unchanged from 2010.

##### Significant accounting policies

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



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**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

Categories of financial instruments and fair values

<u>31 December 2010</u>	<u>Loans and receivables</u> <u>(including cash and cash</u> <u>equivalents)</u>	<u>Available for sale</u> <u>investments</u>	<u>Financial liabilities at</u> <u>amortized cost</u>	<u>Fair value through profit</u> <u>and loss (FVTPL)</u>	<u>Total</u>	<u>Note</u>
<b>Financial Assets</b>						
Cash and cash equivalents	10,732,681	-	-	-	10,732,681	3
Trade receivables	82,827,627	-	-	-	82,827,627	4
Other assets	23,625,801	-	-	-	23,625,801	6
Available for sale investments	-	37,352,607	-	-	37,352,607	9
Forward foreign exchange contract income accrual	-	-	-	56,084	56,084	6
	117,186,109	37,352,607	-	56,084	154,594,800	
<b>Financial Liabilities</b>						
Borrowings	-	-	67,943,460	-	67,943,460	11
Finance lease obligations	-	-	160,224	-	160,224	11
Trade payables	-	-	213,644,451	-	213,644,451	10
Other payables	-	-	4,699,751	-	4,699,751	31
	-	-	286,447,886	-	286,447,886	
<b>31 December 2009</b>						
<b>Balance Sheet</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	9,899,002	-	-	-	9,899,002	3
Trade receivables	66,457,861	-	-	-	66,457,861	4
Other assets	3,966,103	-	-	-	3,966,103	6
Available for sale investments	-	37,553,332	-	-	37,553,332	9
Forward foreign exchange contract income accrual	-	-	-	14,617	14,617	6
	80,322,966	37,553,332	-	14,617	117,890,915	
<b>Financial Liabilities</b>						
Borrowings	-	-	45,994,150	-	45,994,150	11
Finance lease obligations	-	-	1,165,749	-	1,165,749	11
Trade payables	-	-	171,981,812	-	171,981,812	10
Other payables	-	-	2,194,587	-	2,194,587	10
	-	-	221,336,298	-	221,336,298	

The management believes that the carrying amount of financial instruments approximates the fair values

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(Amounts expressed in US Dollars unless otherwise stated)

**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

*Financial risk management objectives*

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

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

*Market risk*

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

*Foreign currency risk management*

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

*Foreign currency sensitivity*

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

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

	EUR impact		TL impact	
	1 January- 31 December 2010	1 January- 31 December 2009	1 January- 31 December 2010	1 January- 31 December 2009
Profit and loss	(968,764)	1,294,079	(2,209,705)	923,844

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

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**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

Interest rate risk management

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

Interest rate sensitivity

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

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

Price risk management

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

Credit risk management

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

Liquidity risk management

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

Liquidity risk tables

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

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

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

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Amounts expressed in US Dollars unless otherwise stated)

#### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

##### Fair value of financial instruments

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

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

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

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

  

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

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**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

Fair value of financial instruments (Continued)

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

	<u>Financial assets at FVTPL</u>		<u>Available-for-sale</u>	<u>Total</u>
	<u>Trading securities</u>	<u>Trading derivatives</u>	<u>financial assets</u> <u>Equity investments</u>	
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	<u>-</u>	<u>14,617</u>	<u>35,845,000</u>	<u>35,859,617</u>

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

(Amounts expressed in US Dollars unless otherwise stated)

**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

*Liquidity risk management (Continued)*

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

	31 December 2010						
	1 month - 3 months		1 year - 5 years		More than 5 years		Total
	Less than 1 month	1 month - 3 months	3 months - 12 months	12 months - 5 years	5 years	More than 5 years	
Borrowings	3,740,649	971,286	8,874,870	45,567,446	14,000,000	(5,210,791)	67,943,460
Obligations under finance leases	-	121,273	-	43,008	-	(4,057)	160,224
Trade payables (including related parties)	53,612,220	60,260,819	103,629,356	-	-	(3,857,944)	213,644,451
Other payables	-	6,261,419	-	-	-	-	6,261,419
	<u>57,352,869</u>	<u>67,614,797</u>	<u>112,504,226</u>	<u>45,610,454</u>	<u>14,000,000</u>	<u>(9,072,792)</u>	<u>288,009,554</u>
	31 December 2009						
	1 month - 3 months		1 year - 5 years		More than 5 years		Total
	Less than 1 month	1 month - 3 months	3 months - 12 months	12 months - 5 years	5 years	More than 5 years	
Borrowings	5,825,715	8,446,825	14,155,448	17,834,145	2,930,060	(3,198,043)	45,994,150
Obligations under finance leases	56,219	502,659	236,198	488,099	-	(117,426)	1,165,749
Trade payables (including related parties)	34,499,074	41,751,860	98,992,676	-	-	(3,261,798)	171,981,812
Other payables	-	19,477,907	5,058,926	-	-	(275,082)	24,261,751
	<u>40,381,008</u>	<u>70,179,251</u>	<u>118,443,248</u>	<u>18,322,244</u>	<u>2,930,060</u>	<u>(6,852,349)</u>	<u>243,403,462</u>