

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

**Consolidated Financial Statements
Together with Report of Independent Auditors
December 31, 2005**

Borusan Mannesmann Boru Sanayi ve Ticaret Anonim Şirketi and its Subsidiaries

TABLE OF CONTENTS

	Page

Report of Independent Auditors	1
Consolidated Balance Sheet	2
Consolidated Income Statement	3
Consolidated Statement of Changes in Equity	4
Consolidated Cash Flow Statement	5
Notes to the Consolidated Financial Statements	6 - 34

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of Borusan Mannesmann Boru Sanayi ve Ticaret Anonim Şirketi and its subsidiaries (the Group), which comprise the consolidated balance sheet as of December 31, 2005 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Group as of December 31, 2005 and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

February 20, 2006
İstanbul, Turkey

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

CONSOLIDATED BALANCE SHEET

As at December 31, 2005

(Currency – in US Dollars)

	Notes	2005	2004
ASSETS			
Current assets			
Cash and cash equivalents	3	17,513,489	13,814,532
Trade receivables, net	4, 25	61,059,265	60,551,287
Inventories, net	5	56,487,380	59,282,194
Other current assets	6	4,572,374	4,585,696
Total current assets		139,632,508	138,233,709
Non-current assets			
Available for sale financial assets	9	15,831,072	15,881,454
Property, plant and equipment, net	7, 21	133,371,951	130,257,910
Intangible assets, net	8	1,073,921	765,513
Deferred tax asset	13	82,386	401,159
Other non-current assets		305,929	781,197
Total non-current assets		150,665,259	148,087,233
Total assets		290,297,767	286,320,942
LIABILITIES, MINORITY INTEREST AND EQUITY			
Current liabilities			
Trade payables, net	10, 25	82,752,059	29,297,236
Short-term bank borrowings	11	10,950,975	51,284,800
Current portion of long-term debt	11	1,790,344	275,054
Due to related parties (other)	25	-	4,191,106
Taxes on income	13	1,209,887	1,556,006
Other current liabilities	12	6,360,012	10,364,398
Total current liabilities		103,063,277	96,968,600
Non-current liabilities			
Long-term debt	11	2,094,266	943,700
Provision for employee termination benefits	14	9,481,055	6,378,359
Deferred tax liability	13	6,266,734	5,565,025
Total non-current liabilities		17,842,055	12,887,084
Equity			
Issued share capital	15	68,996,872	68,996,872
Revaluation reserve, net	7	65,138,665	68,981,054
Legal reserves and retained earnings	16	35,174,106	38,392,424
		169,309,643	176,370,350
Minority interest		82,792	94,908
Total equity		169,392,435	176,465,258
Total liabilities and equity		290,297,767	286,320,942

The accompanying policies and explanatory notes on pages 6 through 34 form an integral part of the consolidated financial statements.

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

CONSOLIDATED INCOME STATEMENT For the year ended December 31, 2005 (Currency – in US Dollars)

	Note	2005	2004
Net sales	17, 25	431,407,168	370,211,017
Cost of sales	18, 20 ,21 ,25	(383,609,452)	(305,825,359)
Gross profit		47,797,716	64,385,658
Selling, marketing, general and administrative expenses	19, 20, 21, 25	(29,499,821)	(25,791,741)
Other operating income / (expense)	21, 25	1,024,066	(840,863)
Financial income	22, 25	2,689,160	2,177,457
Financial expense	22, 25	(7,540,272)	(5,582,576)
Translation gain	2	3,775,178	4,849,194
Profit before tax		18,246,027	39,197,129
Taxation on income	13		
- Current (Statutory)		(2,876,461)	(12,438,911)
- Deferred		(1,020,482)	5,082,580
Total taxation on income		(3,896,943)	(7,356,331)
Profit for the year		14,349,084	31,840,798
Attributable to:			
Equity holders of the parent		14,343,047	31,819,069
Minority interests	2,15	6,037	21,729
		14,349,084	31,840,798
Weighted average number (000's) of shares		2,835,000	2,835,000
Earnings per share in US dollars		0.005	0.0011

The accompanying policies and explanatory notes on pages 6 through 34 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 SHAREHOLDERS' EQUITY

For the year ended December 31, 2005

(Currency – in US Dollars)

	Attributable to equity holders of the parent					Minority Interest	Total Equity
	Share Capital	Revaluation Reserve	Legal Reserve	Retained Earnings	Total		
At January 1, 2004	68,996,872	72,950,999	3,920,968	16,073,640	161,942,479	90,790	162,033,269
Transfers to legal reserves from prior year profit	-	-	2,394,671	(2,394,671)	-	-	-
Dividends paid	-	-	-	(15,773,122)	(15,773,122)	(17,611)	(15,790,733)
Transfer of depreciation of revaluation reserve and its deferred tax into retained earnings (Note 7)	-	(2,351,869)	-	2,351,869	-	-	-
Change in revaluation reserve, net of deferred tax	-	(1,618,076)	-	-	(1,618,076)	-	(1,618,076)
Net profit for the year	-	-	-	31,819,069	31,819,069	21,729	31,840,798
At December 31, 2004	68,996,872	68,981,054	6,315,639	32,076,785	176,370,350	94,908	176,465,258
Transfers to legal reserves from prior year profit	-	-	3,667,461	(3,667,461)	-	-	-
Dividends paid	-	-	-	(21,403,754)	(21,403,754)	(18,153)	(21,421,907)
Transfer of depreciation of revaluation reserve and its deferred tax into retained earnings (Note 7)	-	(3,458,594)	-	3,458,594	-	-	-
Disposal from revaluation fund	-	(383,795)	-	383,795	-	-	-
Net profit for the year	-	-	-	14,343,047	14,343,047	6,037	14,349,084
At December 31, 2005	68,996,872	65,138,665	9,983,100	25,191,006	169,309,643	82,792	169,392,435

The accompanying policies and explanatory notes on pages 6 through 34 form an integral part of the consolidated financial statements.

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2005

(Currency – in US Dollars)

	Notes	2005	2004
Cash flows provided from operating activities:			
Profit before taxation on income		18,246,027	39,197,129
Adjustments to reconcile profit before taxation on income to net cash provided by operating activities:			
Depreciation and amortization	7,8,21	7,158,063	6,457,851
Interest expense	22	7,540,272	5,582,576
Interest income	22	(2,689,160)	(2,177,457)
Provision for employee termination benefits	14,20	4,468,143	2,475,151
Gain on sale of property, plant and equipment and intangible assets	7,8	(552,972)	(386,375)
Operating profit before working capital changes		34,170,373	51,148,875
Taxes paid	13	(3,222,580)	(11,461,137)
Trade receivables	4,25	(507,978)	(2,164,557)
Inventories	5	2,794,814	(8,092,739)
Other current assets and liabilities, net	6,12	(3,991,064)	4,396,260
Trade payables	10,25	53,454,823	9,701,160
Other non-current assets		475,268	51,485
Employee termination benefits paid	14	(1,365,447)	(2,294,969)
Net cash provided by operating activities		81,808,209	41,284,378
Investing activities			
Purchase of property, plant equipment and intangible assets	7,8	(11,687,431)	(11,348,271)
Proceeds from sale of property, plant and equipment	7,8	1,659,891	1,141,175
Net change in available for sale financial assets	9	50,382	110,035
Interest received	22	2,689,160	2,177,458
Net cash used in investing activities		(7,287,998)	(7,919,603)
Financing activities			
Payments of borrowings	11	(86,591,390)	(49,828,705)
Proceeds from borrowings	11	45,273,857	49,386,100
Interest paid	22	(8,081,814)	(5,383,384)
Dividends paid	17	(21,421,907)	(15,790,733)
Net cash used in financing activities		(70,821,254)	(21,616,722)
Net increase in cash and cash equivalents	3	3,698,957	11,748,053
Cash and cash equivalents at the beginning of the year	3	13,814,532	2,066,479
Cash and cash equivalents at the end of the year	3	17,513,489	13,814,532

The accompanying policies and explanatory notes on pages 6 through 34 form an integral part of the consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

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: 103
Fındıklı - İstanbul

In the extraordinary General Assembly meeting of Borusan Birleşik Boru Fabrikaları A.Ş. (Borusan Boru) held on November 25, 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 take over 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 as December 13, 2004.

The consolidated financial statements have been prepared as if Borusan Boru and Mannesmann Boru were one single entity at January 1, 2004.

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

Borusan Mannesmann Boru has the following subsidiaries. Business segments, the location and the Company's ultimate effective shareholding in such subsidiaries' equity are as follows:

Business Segment	Subsidiary	% of ownership	Location
Steel Pipe Trade	Kartal Boru Sanayi ve Ticaret A.Ş.	96.3	Istanbul - Turkey
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 February 20, 2006 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 of the Company

The Company is involved in the manufacturing and sale of longitudinally and spirally welded steel pipes and plastic pipes.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

Borusan Mannesmann Boru and its subsidiaries (“the Group”) maintain its books of account and prepare its statutory financial statements in New Turkish Lira (YTL) 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 January 1, 1994, the Uniform Chart of Accounts issued by Ministry of Finance.

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 7) 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 shareholders’ 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 shareholders’ share in the net assets of the consolidated subsidiaries is separately classified in the consolidated financial statements as minority interest.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in Accounting Policies

Effective January 1, 2005, the following represent the revised International Accounting Standards and other new standards in the IFRS series:

- IAS 1 “Presentation of Financial Statements,”
- IAS 2 “Inventories,”
- IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors,”
- IAS 10 “Events after the Balance Sheet Date,”
- IAS 16 “Property, Plant and Equipment,”
- IAS 17 “Leases,”
- IAS 21 “The Effects of Changes in Foreign Exchange Rates,”
- IAS 24 “Related Party Disclosures,”
- IAS 27 “Consolidated and Separate Financial Statements,”
- IAS 28 “Investments in Associates,”
- IAS 31 “Interests in Joint Ventures,”
- IAS 32 “Financial Instruments: Disclosures and Presentations”
- IAS 33 “Earnings per Share,” and
- IAS 39 “Financial Instruments: Recognition and Measurement”
- IAS 40 “Investment Property.”
- IFRS 2 “Share-based payment”
- IFRS 4 “Insurance Contracts”
- IFRS 5 “Non-Current Assets Held For Sale and Discontinued Operations”

There was no impact on opening retained earnings of the Group at January 1, 2005 from the adoption of any of the above mentioned standards.

2.3 Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities within the next financial year. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date that has a significant risk of causing a material adjustment to the carrying amounts of liabilities within the next financial year is discussed below:

Employee termination benefits:

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations are reviewed regularly.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Functional and Presentation Currency

Foreign Currency Translation

The consolidated financial statements are presented in U.S. Dollars, which is the Company'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 Group and reflects the economic substance of the underlying events and circumstances relevant to the Group. Therefore, all the Group companies uses the US dollar (US\$) as functional currency. All currencies other than the currency selected for measuring items in the financial statements are treated as foreign currencies.

Based on the economic substance of the underlying events and circumstances relevant to the Group, the functional currency of all subsidiaries of the Group has been determined to be US dollars as defined by IAS 21, due to the fact that the purchase and sales prices of the Group companies and the main services and products are mainly quoted in US\$.

The Turkish countrywide wholesale price index (WPI) published by State Institute of Statistics and YTL exchange rates for the purchases of USD announced by the Central Bank of the Republic of Turkey for the last two years were as follows :

Year	Year End USD/YTL Exchange Rates	Inflation Rates (WPI) %	YTL/USD Annual Devaluation Rates %
2004	1.342100	13.84	(3.85)
2005	1.341800	10.47	(0.02)

2.5 Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and amounts in reverse repurchase agreements having maturities of less than 3 months and checks having a maturity at December 31. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the consolidated balance sheet, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in cash and cash equivalents. The difference between purchase and resale price is treated as interest income and accrued over the life of reverse repurchase agreement.

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 YTL denominated trade receivables is 18% (2004 - 36%) and for USD and EUR denominated trade receivables is around 4.3% (2004 - 3.1%). The average collection period of trade receivables and notes receivables is 55 and 30 days respectively (2004 - 60 and 30 days).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 nominal operating capacity. Net realizable value is the selling price in the ordinary course of business less the estimated costs of completion, marketing and distribution. Provision for slow obsolete 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 is initially recorded at cost. Land, buildings and machinery and equipment are stated at revalued amounts less accumulated depreciation and any impairment in value. The last revaluations were made in July 1999 and in December 2004 by an independent professional valuer. 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 7). 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. 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.

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 – 20 – 40	Straight-line
Furniture and fixtures	5	Straight-line
Motor vehicles	5	Straight-line

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of the PP&E. In this context, the Group has reviewed useful lives of a certain group of land improvements, buildings and machinery and equipment. For certain group of machinery and equipment which have been fully amortized, but were attributed a value by the independent valuers, an additional 20 years have been assigned, thus revising the total to 40 years. For those that were not fully amortized, the useful lives have been attributed according to the remaining portion of 20 years. With the same principle, useful lives of certain group of land and buildings have been revised from 25 years to 50 years. The effect of this change recognized in the current year income statement is a decrease in depreciation change of US\$ 455,296.

Intangible Assets

Intangible assets comprising project development costs and software licences, 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, marketing and general and administrative expenses in the consolidated income statement. Intangible assets excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight line basis over the best estimate of their useful lives. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible asset with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. The Group has no intangible assets with in indefinite life.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment of Assets

The carrying values of assets with the exception of goodwill and intangible assets with indefinite life which are reviewed from impairment at least annually, 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 for items carried at cost and treated as a revaluation decrease for items carried at revalued amount to the extent that impairment loss does not exceed the amount held in the revaluation surplus. The recoverable amount of property, plant and equipment 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the assets no longer exist or has decreased. The reversal is recorded in the income statement or as a revaluation increase.

Investments and Other Financial Assets

Financial assets are classified as either 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 recognised 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 recognised on the trade date i.e. the date that the Company 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.

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 derecognised 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. For investments where there is no quoted market price and where reasonable estimate of the fair value could not be determined since other methods are inappropriate and impractical, they are stated at cost.

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 amortised cost using the effective interest method. Gains and losses are recognised 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. 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. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Related Parties

Parties are considered related to the Group if;

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries);
 - (ii) has an interest in the Group that gives it significant influence over the Group; or
 - (iii) has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Borrowing Costs

Borrowing costs are expensed as incurred.

Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less any directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Gains and losses are recognised in income statement when the liabilities are derecognised as well as through the amortisation process.

Trade Payables

Trade payables which generally have an average repayment period of 30 days (2004 – 30 days) are carried at amortized cost which is the fair value of consideration to be paid in the future for goods and services received, whether or not billed to the Group. Interest rate used for YTL denominated trade payables is 25% (2004 - 42%) and interest rates for USD and EURO denominated trade payables are Libor/Euribor.

Notes payables which are also carried at amortized cost have an average maturity of 90 days and 180 days (2004 - 91 days).

Income Taxes

Tax expense is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized.

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 utilised.

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

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingent Assets and Liabilities

Contingent liabilities are not recognised in the financial statements. They are disclosed only, unless the possibility of an outflow of resources embodying economic benefits is probable. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Long-term Employee Benefits

(a) Defined Benefit Plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Provision is made for the present value of the defined benefit obligation calculated using the Projected Unit Credit Method and based upon estimated factors derived using the Group's experience of personnel terminating their service and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bond. All actuarial gains and losses are recognized in the income statement.

(b) Defined Contribution Plans:

The Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense when they are due.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales, which exclude Value Added Taxes (VAT) and discounts, are recognized when delivery of goods or rendering of the service has taken place and transfer of risks and rewards has been completed.

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.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the 's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the 's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments. As the Group operates in a single business segment and in a single geographic location, there is no basis for segment reporting.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

3. CASH AND CASH EQUIVALENTS

	2005	2004
Cash on hand	963	325
Banks		
-demand deposits	324,691	5,004,547
-time deposits	14,919,346	7,699,087
-repurchase agreements with banks	283,948	289,844
Other	1,984,541	820,729
	17,513,489	13,814,532

Time deposits are denominated in YTL, USD and EUR at December 31, 2005. Effective interest rates of USD and EUR denominated time deposits are 2.35%, 4.30% and 4.50% (2004 - 2.06% and 2.19%) per annum respectively, and they mature in three days (2004 – one day). For YTL denominated time deposits, effective interest rate is 12.90% and 14.25% (2004 - 18.49%) per annum. Maturities of such deposits are three days (2004 - one day).

Average interest rates for YTL, USD and EUR denominated deposits during the year 2005 is 16%, 2.99% and 2.40%, respectively.

Amounts presented under repurchase agreements mature at three days (2004 - three days) and have a net interest rate of 7% (2004 - 11%) per annum. The market values of such securities approximate carrying values, including accrued income at the respective year-end.

Other consists of the post dated checks in collection with maturity before December 31, 2005 and 2004.

Currency breakdown of cash and cash equivalents is as follows:

	Original Currency		USD Equivalents	
	2005	2004	2005	2004
USD	14,654,428	8,008,196	14,654,428	8,008,196
EUR	166,080	1,865,615	196,491	2,539,382

Remaining USD 2,662,570 (2004 - USD 3,266,954) is denominated in YTL.

4. TRADE RECEIVABLES, net

	2005	2004
Trade receivables (Note 26)	46,376,243	38,099,716
Cheques and notes receivable (Note 26)	15,173,716	22,823,186
Less: Provision for doubtful receivables	(490,694)	(371,615)
	61,059,265	60,551,287

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

4. TRADE RECEIVABLES, net (continued)

The movement of the provision for doubtful receivables during the year 2005 and 2004 is as follows:

	2005	2004
At January 1,	371,615	130,176
Arising during the year	221,581	318,977
Recoveries	(102,502)	(77,538)
December 31,	490,694	371,615

Currency breakdown of trade receivables is as follows:

	Original Currency		USD Equivalents	
	2005	2004	2005	2004
USD	14,029,136	20,500,896	14,029,136	20,500,896
EUR	7,638,086	8,046,394	9,036,713	10,952,353
GBP	1,040,923	320,705	1,793,649	615,675

Remaining USD 36,199,767 (2004 - USD 28,482,363) is denominated in YTL.

5. INVENTORIES, net

	2005	2004
Raw materials	22,635,713	20,959,581
Work-in-process	4,224,071	4,897,815
Finished goods	22,169,226	21,317,021
Merchandise stocks	928,513	1,006,377
Goods-in-transit and advances given with respect to inventory purchases	6,529,857	11,259,390
Less: Allowance for net realizable value	-	(157,990)
	56,487,380	59,282,194

The movement of the allowance for net realizable value during the year 2005 and 2004 is as follows:

	2005	2004
At January 1,	157,990	400,000
Arising during the year	-	-
Amounts reversed	(157,990)	(242,010)
December 31,	-	157,990

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

6. OTHER CURRENT ASSETS

	2005	2004
VAT receivables	2,420,511	1,589,585
Prepaid expenses	1,551,991	1,603,735
Prepaid taxes	170,516	54,084
Advances given	6,064	1,141,099
Other	423,292	197,193
	4,572,374	4,585,696

7. PROPERTY, PLANT AND EQUIPMENT, net

The movement of property, plant and equipment and related accumulated depreciation for the year ended December 31, 2005 is as follows:

	January 1, 2005	Additions	Disposals	Transfers	December 31, 2005
Cost					
Land	49,730,900	-	(385,000)	-	49,345,900
Land improvement and leasehold items	2,036,166	-	-	22,670	2,058,836
Building	28,141,541	481,139	-	1,009,541	29,632,221
Machinery and equipment	47,585,146	747,389	(4,626,047)	8,984,398	52,690,886
Motor vehicles	3,739,861	-	(1,074,580)	40,660	2,705,941
Furniture and fixtures	7,087,405	19,512	(2,669)	124,288	7,228,536
Construction in progress (CIP)	2,422,026	10,375,400	-	(10,710,284)	2,087,142
	140,743,045	11,623,440	(6,088,296)	(528,727) (*)	145,749,462
Less: Accumulated depreciation					
Land improvement and leasehold items	1,456,944	20,699	-	-	1,477,643
Buildings	-	1,273,142	-	-	1,273,142
Machinery and equipment	-	5,073,963	(3,920,428)	-	1,153,535
Motor vehicles	2,998,215	217,563	(1,060,681)	-	2,155,097
Furniture and fixtures	6,029,976	307,058	(268)	(18,672)	6,318,094
	10,485,135	6,892,425	(4,981,377)	(18,672) (*)	12,377,511
Net book value	130,257,910				133,371,951

(*) consists of transfers to intangible assets

The Group's production plant in Gemlik is mortgaged at an amount of 12 million EUR, as a guarantee for the long-term loan obtained by BM Vobarno Tubi S.p.A.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

7. PROPERTY, PLANT AND EQUIPMENT, net (continued)

	January 1, 2004	Additions	Disposals	Transfers	Change in revaluation	Netting of accumulated depreciation	December 31, 2004
Cost							
Land	38,579,485	-	(95,645)	1,111,970	10,135,090	-	49,730,900
Land improvement and leasehold items	1,646,503	1,750	(31,476)	419,389	-	-	2,036,166
Building	55,921,289	128,859	(371,120)	665,403	(7,370,671)	(20,832,219)	28,141,541
Machinery and equipment	211,805,980	59,472	(7,352,394)	5,893,664	(9,104,401)	(153,717,175)	47,585,146
Motor vehicles	5,279,751	16,915	(2,333,085)	776,280	-	-	3,739,861
Furniture and fixtures	9,107,873	17,842	(2,450,550)	412,240	-	-	7,087,405
Construction in progress (CIP)	760,943	10,940,029	-	(9,278,946)	-	-	2,422,026
	323,101,824	11,164,867	(12,634,270)	-	(6,339,982)	(174,549,394)	140,743,045
Less: Accumulated depreciation							
Land improvement and leasehold items	1,404,047	84,369	(31,472)	-	-	-	1,456,944
Buildings	19,143,729	1,968,871	(280,381)	-	-	(20,832,219)	-
Machinery and equipment	157,320,856	3,685,021	(7,288,702)	-	-	(153,717,175)	-
Motor vehicles	4,706,558	130,049	(1,838,392)	-	-	-	2,998,215
Furniture and fixtures	8,110,035	360,472	(2,440,531)	-	-	-	6,029,976
	190,685,225	6,228,782	(11,879,478)	-	-	(174,549,394)	10,485,135
Net book value	132,416,599						130,257,910

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

	2005	2004
January 1	68,981,054	72,950,999
Depreciation difference (net of deferred tax) between the revalued and original value of assets realized from revaluation reserve into retained earnings	(3,458,594)	(2,351,869)
Disposals from revaluation reserve	(383,795)	-
Change in revaluation	-	(6,339,982)
Deferred tax charge on revaluation reserve (Note 13)	-	4,709,012
Revaluation reserve included in minority interest	-	12,894
December 31	65,138,665	68,981,054

Revaluation of land, building and machinery and equipment is based on the historical cost as of December 31, 2005 and 2004 for which details are as follows :

	2005		2004	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	7,302,830	-	7,304,036	-
Building	20,291,830	(12,389,553)	20,742,351	(2,694,826)
Machinery and equipment	119,340,326	(84,716,948)	110,440,675	(82,962,360)
	146,934,986	(97,106,501)	138,487,062	(85,657,186)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

7. PROPERTY, PLANT AND EQUIPMENT, net (continued)

As of December 31, 2005 and 2004, the gross carrying amount of property and equipment and intangibles, which are fully depreciated, but still in use, is as follows:

	2005	2004
Land improvements	867,790	420,201
Machinery and equipment	141,214	-
Vehicles	268,939	557,689
Furniture and fixtures	4,011,857	3,522,318
Intangibles	227,751	91,317
	5,517,551	4,591,525

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 1,325,247 (2004 – USD 1,312,435) (net book value) relates to the tube finishing line and furnace leased by the Group.

8. INTANGIBLE ASSETS, net

The movement of intangible assets during the years ending December 31, 2005 and 2004 is as follows:

	2005	2004
Cost		
At January 1,	1,304,649	1,125,228
Additions	63,991	183,404
Transfers from CIP	528,727	-
Disposals	-	(3,983)
At December 31,	1,897,367	1,304,649
Less : Accumulated amortization		
At January 1,	539,136	314,042
Charge for the year	265,638	229,069
Transfers from CIP	18,672	-
Disposals	-	(3,975)
At December 31,	823,446	539,136
Net book value at December 31,	1,073,921	765,513

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

9. AVAILABLE FOR SALE FINANCIAL ASSETS

	2005		2004	
		(%)		(%)
Borçelik Çelik Sanayii Ticaret A.Ş. (Borçelik)	15,661,868	10.2	15,661,868	10.2
Borusan Lojistik Dağıtım Depolama Taşımacılık ve Ticaret A.Ş. (Borusan Lojistik)	2,282	3.1	146,921	3.1
Borusan Kültür ve Sanat Hizmetleri Yayıncılık A.Ş. (Kültür)	153,853	16.7	68,212	16.7
Other	13,069	(*)	4,453	(*)
	15,831,072		15,881,454	

(*) Company's shareholding is insignificant.

10. TRADE PAYABLES, net

	2005	2004
Notes payable	23,957,749	12,244,748
Domestic suppliers (Note 26)	58,794,310	17,052,488
	82,752,059	29,297,236

Currency breakdown of trade payables is as follows:

	Original Currency		USD Equivalent	
	2005	2004	2005	2004
USD	76,889,484	24,183,927	76,889,484	24,183,927
EUR	333,251	13,150	394,273	17,899
GBP	24	42	-	-

Remaining USD 1,919,842 (2004 - USD 5,095,410) was denominated in YTL.

11. BANK BORROWINGS (LONG TERM AND SHORT TERM)

As of December 31, 2005 and 2004, short-term borrowings consist of the following:

	2005	2004
Secured borrowings	4,523,109	46,128,780
Unsecured borrowings	6,152,184	4,338,796
Interest accruals	275,682	817,224
	10,950,975	51,284,800

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

11. BANK BORROWINGS (LONG TERM AND SHORT TERM) (continued)

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

	Interest rate per annum (%)	2005	Interest rate per annum (%)	2004
USD denominated borrowings	5.21-5.50	4,500,000	3.17-4.32	44,100,000
EUR denominated borrowings	3.43-3.53	6,152,184	3.70-4.30	4,203,232
YTL denominated borrowings	-	23,109	17-19	2,164,344
Accrued interest		275,682		817,224

Payment terms of the interest are at the maturities of the borrowings.

As of December 31, 2005 and 2004 long-term borrowings consist of the following :

	2005	2004
Secured borrowings	3,000,000	-
Unsecured borrowings	740,515	1,043,245
Leasing liabilities	144,095	175,509
Less : Current portion of long-term debt	(1,664,559)	(191,290)
Less : Current portion of leasing liabilities	(125,785)	(83,764)
	2,094,266	943,700

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

	Interest rate per annum (%)	2005	Interest rate Per annum (%)	2004
EUR denominated debt	4.29	575,957	4.47	851,955
USD denominated debt	6.31	1,500,000	-	-
Leasing liabilities	-	18,309	-	175,509
		2,094,266		943,700

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

	2005	2004
2006	-	281,068
2007	1,682,868	189,323
2008	164,559	189,323
2009	164,559	189,323
2010	82,280	94,663
Total	2,094,266	943,700

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

12. OTHER CURRENT LIABILITIES

	2005	2004
Payroll and withholding taxes payable	2,595,085	1,392,370
Advances taken	1,711,140	4,267,816
Due to personnel	751,165	144
Premium payable	520,942	1,479,025
Other accruals	403,721	622,935
Accruals for export expenses	347,713	2,227,718
Other	30,246	374,390
	6,360,012	10,364,398

13. TAXES ON INCOME

a) Current Statutory Taxes

In Turkey, the corporation tax rate for the fiscal year ended December 31, 2005 is 30% (2004 - 33%). Corporate tax returns are required to be filed until the fifteenth of the fourth month following the balance sheet date and paid in one installment until the end of the fourth month. The tax legislation provides for a temporary tax of 30% (2004 - 33%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

In 2003 and prior years, corporation tax was computed on the statutory income tax base without any adjustment for inflation accounting. Starting from January 1, 2004, taxable income is derived from the financial statements which are adjusted for inflation accounting. Accumulated earnings arising from the first application of inflation accounting on the December 31, 2003 balance sheet are not subject to corporation tax, and similarly accumulated deficits arising from such application are not deductible for tax purposes. Moreover, accumulated tax loss carry-forwards related to 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years. The Ministry of Finance ceased the inflation accounting in statutory books for tax purposes effective January 1, 2005 onwards.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

Effective from April 24, 2003, investment allowances provide for a deduction from the corporate tax base of 40% of the purchase price of brand-new fixed assets exceeding YTL 10,000 (2004 - YTL 6,000) and directly related with the production of goods and services. Investment allowances that arose prior to April 24, 2003 are taxed at 19.8% (withholding tax) unless they are converted to new type at companies' will. All investment allowances can be carried forward indefinitely with indexed amounts.

A 10% withholding tax applies to dividends distributed by resident corporations to resident physical persons, those who are not liable to income and corporation tax, non-resident physical persons, non-resident corporations (excluding those that acquire dividends through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distributions by resident corporations to resident corporations are not subject to withholding tax. Furthermore, in the event the profit is not distributed or included in equity, no withholding tax shall be applicable.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2005****(Currency – in US Dollars unless otherwise indicated)****13. TAXES ON INCOME (continued)**

As of December 31, 2005 and 2004, the current statutory tax charges for the Group can be analyzed as follows:

	2005	2004
Tax charge at the consolidated income statement		
Taxes on income - Current statutory	2,876,461	12,438,911
Prepaid taxes	(1,666,574)	(10,882,905)
Taxes on income currently payable	1,209,887	1,556,006

A reconciliation of statutory tax expense for the years ended December 31, 2005 and 2004 is as follows :

	2005	2004
Historical income before taxation as per statutory financial statements	14,826,688	42,036,887
Non-deductible expenses	3,020,443	2,462,361
Tax exempt income and prior year losses used in current year	(5,128,309)	(5,044,190)
Investment incentive allowances	(3,130,619)	(1,761,388)
Taxable income as per Turkish Tax Legislation	9,588,203	37,693,670
Corporation tax at 30% (2004- 33%)	2,876,461	12,438,911
Total taxation on income - current statutory	2,876,461	12,438,911

Reconciliation of taxes by applying effective tax rates to profit before tax provision as reflected in the consolidated income statement for the years ended December 31, 2005 and 2004 is as follows:

	2005	2004
Profit before taxation on income	18,246,027	39,197,129
At statutory tax rate at 30% (2004 - 33%)	(5,473,808)	(12,935,053)
Effect of expenditures not allowable for income tax purposes	(467,161)	(135,016)
Effect of income not subject to tax	1,346,821	1,443,322
Investment incentive allowances	375,674	211,367
Effect of tax rate changes	-	81,374
Effect of non-tax deductible translation gain/(loss) arising from re-measurement	321,531	3,977,675
(3,896,943)	(7,356,331)	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

13. TAXES ON INCOME (continued)

b) Deferred Taxes

Deferred taxes reflected in the consolidated balance sheets are summarized as follows:

	2005	2004
- Deferred tax asset	82,386	401,159
- Deferred tax liability	(6,266,734)	(5,565,025)
Deferred tax liability, net	(6,184,348)	(5,163,866)

The breakdown of deferred tax assets/(liabilities) provided at December 31, 2005 and 2004 using the current tax rates are as follows:

	Balance Sheet		Income Statement	
	2005	2004	2005	2004
Net difference between the tax base and the carrying value of				
- property, plant and equipment and intangible assets	(9,760,860)	(9,228,561)	(532,299)	3,801,629
- inventories	247,919	1,555,217	(1,307,298)	1,171,106
Provision for employee termination benefits	2,844,317	2,104,858	739,459	35,579
Obligation under finance leases	27,523	63,122	(35,599)	(12,474)
Other provisions and accruals	456,753	341,498	115,255	86,740
Deferred tax liability, net	(6,184,348)	(5,163,866)	(1,020,482)	5,082,580

Movements in deferred taxes are analyzed as follows:

	2005	2004
Beginning balance	(5,163,866)	(14,955,458)
Tax credit recognized in the statement of income	(1,020,482)	5,082,580
Tax credited to equity (Note 7)	-	4,709,012
	(6,184,348)	(5,163,866)

The Group recognizes deferred tax assets and liabilities 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 revenue and expenses in different reporting periods for IFRS and tax purposes.

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:

	2005		2004	
	Deferred Tax Asset	Liability	Deferred Tax Asset	Liability
Borusan Mühendislik İnşaat ve Sanayi Makinaları İmalat A.Ş.	82,386	-	359,893	-
Kartal Boru Sanayi ve Ticaret A.Ş.	-	-	41,266	-
	82,386	-	401,159	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

14. 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 December 31, 2005 of YTL 1,727 (US\$ 1,287) (December 31, 2004 - YTL 1,575 (US\$ 1,174)).

The maximum payment for retirement payment liability per year of employment is increased to YTL 1,770.62 (US\$ 1,320) as of January 1, 2006.

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 December 31, 2005 and 2004, the following actuarial assumptions were used in the calculation of the liability:

	2005	2004
Discount rate	5.49%	6%
Turnover rate to estimate the probability of retirement	98%	98%

Movements of the provision for employee benefits obligation during the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
Beginning of the year	6,378,359	6,198,177
Interest expense	764,776	1,050,748
Current service cost	3,961,926	1,731,369
Actuarial gains	(258,559)	(306,966)
Payments	(1,365,447)	(2,294,969)
At the end of the year	9,481,055	6,378,359

15. SHARE CAPITAL

The Company's share capital consists of the 2.835.000.000 number of shares with par value of YTL 1 The composition of shareholders' and their respective shares are as follows:

	2005		2004	
	YTL	Share %	YTL	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
Türkiye Selüloz ve Kağıt Fabrikaları A.Ş.	337,554	1.19	337,554	1.19
Other	735,948	2.59	735,948	2.59
	28,350,000	100.00	28,350,000	100.00

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

16. 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 restated share capital. A second legal reserve is appropriated at the rate of 10% of all distribution in excess of 5% of the Company share capital. Companies whose shares are quoted on the Istanbul Stock Exchange Market perform their dividend appropriation in accordance with Turkish Capital Market Board regulations.

As of December 31, 2005 and 2004, reserves and retained earnings/accumulated deficit and net profit for the year (as per the statutory financial statements of the Company) in YTL are as follows :

	2005	2004
Legal reserve	13,398,319	8,476,219
Extraordinary reserves	5,380,907	2,423,630
Special reserves	2,778	2,778
Retained earnings/accumulated deficit	9,175,358	(2,080,527)
Net profit for the year	19,894,708	39,617,168

Dividends

Dividend distributed from the distributable profit of 2004 and 2003 during the years 2005 and 2004 is as follows:

	2005	2004
Dividends to common stock holders	18,796,964	15,179,790
Dividend per share	0.007	0.005
Dividends to usufructuary	2,606,790	593,332
Dividends to member of board and personnel	1,317,338	856,980

17. NET SALES

	2005			2004		
	Domestic Sales	Export	Total	Domestic Sales	Export	Total
Steel and Plastic Pipe	276,718,662	151,297,778	428,016,440	259,736,920	105,556,607	365,293,527
Engineering Services	3,390,728	-	3,390,728	4,917,490	-	4,917,490
	280,109,390	151,297,778	431,407,168	264,654,410	105,556,607	370,211,017

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2005****(Currency – in US Dollars unless otherwise indicated)****18. COST OF SALES**

	2005	2004
Raw material	332,160,859	249,427,184
Direct labor	30,090,742	23,780,373
Depreciation and amortization	3,320,942	4,872,310
Repair, maintenance and other production expenses	14,736,325	11,105,788
Net change in finished goods	(1,010,195)	(6,106,682)
Net change in work-in-process	673,744	(2,459,748)
Cost of trade goods sold	2,452,222	8,129,752
Cost of other sales	1,184,813	17,076,382
	383,609,452	305,825,359

19. SELLING, MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES

	2005	2004
Personnel expenses	13,068,894	12,613,149
Depreciation expenses	2,351,860	1,146,415
Consultancy expenses	2,586,083	2,750,823
Sales and distribution expenses	944,862	774,464
Service charges	1,227,592	1,075,504
Provision for bad debt receivables	221,581	318,977
Other	9,098,949	7,112,409
	29,499,821	25,791,741

20. PERSONNEL EXPENSES AND NUMBER OF EMPLOYEES

	2005	2004
Wages and salaries	32,787,434	29,602,697
Termination benefits	4,468,143	2,475,151
Other social benefits	5,904,059	4,315,674
	43,159,636	36,393,522
Average number of employees	1,326	1,234

21. DEPRECIATION AND AMORTIZATION EXPENSES

	2005	2004
Cost of production	3,320,942	4,872,310
Selling, marketing, general and administrative expenses	2,351,860	1,146,415
Other	1,485,261	439,126
	7,158,063	6,457,851

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

22. FINANCIAL EXPENSE, net

	2005	2004
Financial Income		
Interest income	5,645	24,156
Due date income	2,321,827	1,888,236
Interest income from marketable securities	361,688	265,065
	2,689,160	2,177,457
Financial Expense		
Interest expense	(4,432,237)	(3,524,260)
Due date expenses	(687,817)	(264,588)
Forward expense	-	(218,333)
Other financial expenses	(2,420,218)	(1,575,395)
	(7,540,272)	(5,582,576)
Financial (expense) – net	(4,851,112)	(3,405,119)

23. FINANCIAL INSTRUMENTS

Interest Rate, Funding, Credit and Currency Risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. This exposure is managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

The ability to fund the Group's existing and prospective debt requirements is managed by maintaining long-term relationships with lenders, by maintaining the availability of adequate committed funding lines from high quality lenders and by managing USD liquidity to match obligations to expected cash flows.

The Group is not exposed to funding risk as no short-term borrowing but equity is used to finance non-current assets.

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by credit ratings and limiting the aggregate risk to any individual counterparty. The Group considers that its maximum exposure is reflected by the amount of trade receivables and other current assets, net of provision for impairment recognized at the balance sheet date plus the amount of guarantees given.

The Group is exposed to the foreign exchange risk through the impact of rate changes at the translation of foreign currency denominated liabilities. These risks are monitored and limited by the analysis of foreign currency position.

Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate a fair value:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

23. FINANCIAL INSTRUMENTS (continued)

Financial assets

For monetary assets, the fair value approximates carrying value. The fair values of certain financial assets carried at cost, including cash and cash equivalents plus the respective accrued interest and other financial assets are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses. The carrying value of trade receivables along with the related allowance for unearned income and uncollectibility are estimated to be their fair values.

Financial liabilities

Monetary liabilities for which fair value approximates carrying value; trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature. The bank borrowings are stated at their amortized cost and transaction costs are included in the initial measurement of loans and bank borrowings. The fair value of loans and bank borrowings are considered to state their respective carrying values since the interest rate applied to bank loans and borrowings are updated periodically by the lender to reflect active market price quotations. The carrying value of trade payables along with the related allowance for unrealized cost is estimated to be their fair values.

24. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Guarantee Letters

As of December 31, 2005 letter of guarantees and collaterals received from customers amount to USD 1,613,579 (2004 – USD 1,233,217) and USD 6,251,878 (2004 – USD 3,964,138) respectively.

As of December 31, 2005, the Group is contingently liable for guarantee letters given to customs authorities amounting to YTL 9,004,052 (2004 - YTL 2,426,415) given to domestic customers amounting to YTL 405,503 and, USD 16,790,929 and given to foreign customers USD 8,899,751 and EUR 11,990,272 (2004 - USD 2,297,358 and EUR 4,666,667).

(b) Guarantee Provided

Borusan Mannesmann Boru has signed the loan agreement as co-obligor for the long-term loan of USD 40 million that is borrowed by Borusan Holding A.Ş from International Finance Corporation (IFC). Within this framework, Borusan Mannesmann Boru provides guarantees for the long-term loan borrowed by Borusan Holding.

(c) Export Commitments

The Company has export incentive certificates, which entitle the Company to a 100% exemption from customs duties on certain materials to be imported. The outstanding amount of the export commitments in connection with such exemptions as of December 31, 2005 was FOB USD 55,222,921 (2004- USD 53,195,504).

(d) Anti-dumping investigations

On July 1, 2004 an anti-dumping duty administrative review commenced in the United States covering imports of certain carbon steel welded pipe and tube entering the United States during the period of May 1, 2003 to April 30, 2004. In relation with this review, the Company has provided responses to questionnaires issued by the United States Department of Commerce (USDC). On December 5, 2005 USDC announced the anti dumping rate that would be applied to the Company as 0.86%. As the Company further appealed to USDC, the rate has been decreased to 0.74% and it has become effective from January 24, 2006.

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2005****(Currency – in US Dollars unless otherwise indicated)****25. RELATED PARTY BALANCES AND TRANSACTIONS**

	2005	2004
Due from related parties (trade receivables)		
Borusan İstikbal Ticaret T.A.Ş. (İstikbal)	15,300,803	14,026,304
İmpa Bursa İnşaat Malzemeleri Pazarlama A.Ş. (İmpa)	6,875,669	5,853,574
Kerim Boru Ticaret ve Pazarlama A.Ş. (Kerim Boru)	4,598,227	2,778,193
Bozoklar İnşaat Malzemeleri Pazarlama ve Ticaret A.Ş.	3,858,280	2,772,097
Borusan Ankara İnşaat Malzemeleri Pazarlama A.Ş. (Borusan Ankara)	3,156,915	1,634,085
Borusan Akdeniz İnşaat Malzemeleri Pazarlama A.Ş. (Borusan Akdeniz)	2,081,416	2,059,526
Gaziantep Boru ve Profil Ticaret A.Ş. (Gaziantep)	593,873	464,885
Samsun Çelik Ticaret A.Ş. (Samsun Çelik)	589,640	495,509
Borçelik	438,552	29,805
Borusan Mannesmann Boru Yatırım Holding A.Ş.	109,162	269,250
Other	256,298	109,558
Less: Allowance for imputed interest	(415,556)	(630,781)
Less: Provision for doubtful receivable	(226,000)	(260,075)
	37,217,279	29,601,930
Due to related parties (trade payable)		
Borusan Lojistik	1,140,630	1,074,873
Borusan Holding	83,232	97,923
Kerim Çelik	26,889	-
Borusan Birlik Danışmanlık	24,980	12,394
Borçelik	-	196,812
Other	93,834	5,985
	1,369,565	1,387,987
Other		
İstikbal	-	4,191,106
	1,369,565	5,579,093

Borusan Mannesmann Boru Sanayi ve Ticaret A.Ş. and its Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2005****(Currency – in US Dollars unless otherwise indicated)****25. RELATED PARTY BALANCES AND TRANSACTIONS (continued)****Transactions with related parties**

The most significant of these transactions are as follows:

	2005	2004
a) Product purchases		
Borçelik	2,229,358	1,209,653
Kerim Çelik	948,176	89,791
	3,177,534	1,299,444
b) Service purchases		
Borusan Lojistik	26,762,160	17,843,300
Borusan Holding	1,434,896	1,534,007
İstikbal	747,449	858,249
Borusan Birlik Danışmanlık	535,966	488,079
Borusan Otomotiv İthalat ve Dağıtım A.Ş. (Borusan Otomotiv)	60,753	245,743
Other	346,852	224,940
	29,888,076	21,194,318
c) Financial income from related parties		
Borusan Mannesmann Boru Yatırım Holding A.Ş.	12,271	32,931
Borusan Teknolojik Yatırımlar Holding A.Ş.	-	23,594
Other	-	32
	12,271	56,557
d) Financial expense charged by related parties		
Borusan Holding	1,093,391	694,543
Other	97,007	23,088
	1,190,398	717,631
e) Product sales		
İstikbal	132,356,161	100,779,296
İmpa	24,553,960	21,812,655
Kerim Boru	19,472,682	18,045,345
Bozoklar	14,555,073	13,638,730
Borusan Ankara	12,113,954	8,766,112
Borusan Akdeniz	7,808,479	7,327,736
Samsun Çelik	4,827,788	4,087,473
Gaziantep	4,469,171	3,593,917
Borçelik	2,806,158	4,179,321
Other	710,067	1,219,695
	223,673,493	183,450,280

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

(Currency – in US Dollars unless otherwise indicated)

26. SUBSEQUENT EVENTS

At the Ordinary General Assembly Meeting held on 21 February 2006, it was resolved that Kartal Boru Sanayi ve Ticaret A.Ş. would be liquidated in accordance with Article 434-paragraph 2 of Turkish Commercial Code.