
WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

MANAGEMENT FINANCIAL STATEMENTS

PERIOD COVERING FROM 01 APRIL 2012 TO 31 MARCH 2013

WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

FINANCIAL STATEMENTS
MARCH 31, 2013

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WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)


BALANCE SHEET
AS AT 31 MARCH 2013
Expressed in Saudi Arabian Riyals

	<u>Note</u>	<u>2012-13</u>	<u>2011-12</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	4	13,704,568	20,012,976
Accounts receivables		256,059,831	118,592,027
Due from related parties	14	5,327,755	42,606,266
Prepayments and other receivables	5	13,766,605	17,717,620
Inventories	6	141,460,835	23,018,670
Total current assets		430,319,594	221,947,559
Non-current assets:			
Property, plant and equipment	7	373,282,848	360,171,251
Total assets		803,602,442	582,118,810
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Accounts payable		104,980,333	20,841,488
Short term loan		131,644,787	68,260,605
Due to related parties	14	67,252,108	97,433,343
Accrued expenses and other liabilities	8	43,001,753	30,593,828
Total current liabilities		346,878,980	217,129,264
Non-current liabilities:			
Long-term loan from shareholders	10	346,887,463	299,640,625
Employees' end of service benefits		2,239,671	1,639,568
Total non-current liabilities		349,127,134	301,280,193
Total liabilities		696,006,114	518,409,457
Shareholders' equity:			
Share capital	9	76,046,875	76,046,875
Retained Earnings		31,549,453	(12,337,521)
Total shareholders' equity		107,596,328	63,709,354
Total liabilities and shareholders' equity		803,602,443	582,118,811

The accompanying notes 1 through 15 forms an integral part of these financial statements.

For Welspun Middle East Pipes Company


Mohammed Atheruddin Asif
(WME Head Finance)


Akbar Umatiya
(WME CEO)


R.K. Jaju
(WCL CFO & Director)

WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

STATEMENT OF INCOME
FOR THE PERIOD ENDED MARCH 31 2013
Expressed in Saudi Arabian Riyals

	<u>Note</u>	<u>2012-13</u>	<u>2011-12</u>
Revenue		664,447,029	440,737,553
Cost of revenue		(598,948,696)	(416,011,138)
Gross profit		65,498,333	24,726,415
General and administrative expenses	12	(34,789,544)	(25,115,240)
Operating income		30,708,790	(388,825)
Finance charges	13	(21,916,694)	(17,554,138)
Other income		7,642,854	6,410,890
Net Profit/ (loss) Befor Tax		16,434,950	(11,532,073)
Zakat & Taxation		(2,547,976)	-
Net Profit/ (loss) for the Period		13,886,973	(11,532,073)

The accompanying notes 1 through 15 form an integral part of these financial statements.

For Welspun Middle East Pipes Company


Mohammed Atheruddin Asif
(WME Head Finance)


Akbar Umamiya
(WME CEO)


B.R. Jaju
(WCL CFO & Director)

WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED MARCH 31 2013
Expressed in Saudi Arabian Riyals

	2012-13	2011-12
Cash flows from operating activities:		
Net Profit / (loss) for the period	13,886,973	(11,532,073)
<i>Adjustments to reconcile net loss for the period to net cash used in operating activities:</i>		
Depreciation	26,852,994	21,822,301
Employees' end of service benefits	995,185	365,531
Provision for Zakat & taxation	2,547,976	-
Provision for Downgraded.	2,501,608	-
Finance charges	21,916,694	17,554,138
	68,701,431	28,209,897
Changes in operating assets and liabilities:		
Accounts receivables	(137,467,804)	(118,592,027)
Due from related parties	37,278,511	119,288,081
Prepayments and other current assets	3,951,015	(15,763,638)
Inventories	(120,943,773)	18,087,876
Accounts payable	84,138,845	20,841,488
Due to related parties	(30,181,236)	(94,667,140)
Accrued expenses and other current liabilities	(1,933,684)	75,927,950
Employees' end of services paid	(395,080)	(5,015,985)
Net cash provided by operating activities	(96,851,776)	28,316,502
Cash flows from investing activities:		
Purchase property, plant & equipment	(39,964,591)	(83,500,222)
Net cash used in investing activities	(39,964,591)	(83,500,222)
Cash flows from financing activities:		
Share capital issued	-	-
Loans received during the period-Long term	47,246,838	74,250,000
Loans received during the period-Short term	63,384,182	-
Absorption of losses by shareholders	30,000,000	-
Finance Charges Paid	(10,123,061)	-
Net cash flows provided from financing activities	130,507,958	74,250,000
Net increase in cash and cash equivalents	(6,308,408)	19,066,280
Cash and cash equivalents at beginning of the period	20,012,976	946,696
Cash and cash equivalents at the end of period	13,704,568	20,012,976

The accompanying notes 1 through 15 form an integral part of these financial statements.

WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED MARCH 31 2013
Expressed in Saudi Arabian Riyals

	Share capital	Accumulated losses	Total
Share capital issued	76,046,875	-	76,046,875
Net Profit/(loss) for the period	-	(12,337,520)	(12,337,520)
Balance at 31 March 2012	76,046,875	(12,337,520)	63,709,355
Net Profit/(loss) for the period	-	13,886,973	13,886,973
Absorption of losses	-	30,000,000	30,000,000
Balance at 31 March 2013	76,046,875	31,549,453	107,596,328

The accompanying notes 1 through 15 forms an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2013
Expressed in Saudi Arabian Riyals

1. LEGAL STATUS AND OPERATIONS

Welspun Middle East Pipes Company ("the Company") is a limited liability company formed under the Regulations for Companies in the Kingdom of Saudi Arabia under Commercial Registration (CR) No. 2251700502 dated Rajab 22, 1431H, corresponding to July 5, 2010. The Company was originally named as Pipe Development for Pipe Manufacturing Company, as per the first draft of Articles of Association (AoA) which was changed to Welspun Middle East Pipes Company, as per the revised AoA. The CR was obtained with the new name of the Company.

The principal activity of the Company is the manufacture and sale of spiral steel pipes (HSAW). The Company operates in Saudi Arabia under the license of Saudi Arabian General Investment Authority (SAGIA) No. I21031118992 dated 15/11/1431H, corresponding to October 23, 2010.

The Company's registered office is located at 2nd Industrial Estate, Dammam, Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

The financial statements for the latest financial year cover the period from 01 April 2012 to 31 March 2013.

(a) **Statement of compliance**

The accompanying financial statements have been prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

(b) **Accounting convention**

The financial statements are prepared under the historical cost convention using the accrual basis of accounting and the going concern concept.

(c) **Functional and presentation currency**

The accompanying financial statements are prepared in Saudi Arabian Riyals (SR) which is the functional currency of the Company.

(d) **Use of estimate and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2013
Expressed in Saudi Arabian Riyals

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies applied by the Company in the preparation of these special purpose financial statements:

(a) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, cash at banks and other short-term highly liquid investments, if any, with original maturities of three months or less.

(b) Accounts receivable

Accounts receivable are stated at their original invoice amount less provision made for doubtful accounts. An allowance for doubtful accounts is established when there is a significant doubt that the Company will not be able to collect all amounts due according to the original terms of the agreement.

(c) Property, plant & equipment

These are stated at cost less accumulated depreciation and impairment, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the asset. All other expenditure is recognized in the statement of income when incurred.

Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. The estimated useful lives of assets for current period are as follow:

	Years
Buildings	20
Machinery & equipment	5-20
Furniture, fixtures & office equipments	3-5
Vehicles	5

(d) Impairment of assets

Property, plant & equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss, if any, is recognized in the statement of income for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less cost to sell and its value in use.

(e) Provisions

A provision is recognized if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2013
Expressed in Saudi Arabian Riyals

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the Statement of Income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

(g) Revenue and cost of revenue

Revenue is recognized upon delivery of goods to customers and is stated net of returns and trade or quantity discounts.

(h) Expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting principles. Allocations of common expenses between cost of revenue and general and administrative expenses, when required, are made on a consistent basis. Finance expenses comprise bank charges and interest payable on bank debts.

(i) Zakat & Income tax

The Company is subject to the Regulations of Department of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia. Being a foreign owned entity, the Company is subject to Income Tax at the rate of 20%. The tax provision is charged to the statement of income. SR.2,547,976.

Zakat is booked on an accrual basis and is computed on Company's Zakat base and charged to statement of operations. Any difference in estimate is recorded when the final assessment is approved, at which time the provision is cleared. Additional liabilities arising from final assessments are provided for when the assessments are finalized with the DZIT.

(j) Foreign currencies translation

Transactions denominated in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at the balance sheet date. Exchange gains or losses are credited or charged to the statement of income.

(k) Leases

Leases are classified as capital leases whenever their terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight line basis over the term of the operating lease.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2013
Expressed in Saudi Arabian Riyals

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at March 31 comprise of the following:

	2012-13	2011-12
Cash on hand	94,037	39,160
Cash at bank - current accounts	13,258,036	18,145,169
Cash margin	352,495	1,828,646
	13,704,568	20,012,976

5. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other current assets as at March 31 comprise of the following:

	2012-13	2011-12
Prepaid rent	8,359,767	14,453,667
Prepaid expense	405,007	1,465,001
Down payments	3,325,084	883,579
Employee loans and other advances	535,147	490,648
Others	1,141,601	424,725
	13,766,605	17,717,620

6. INVENTORIES

Inventories as at March 31 comprise of the following:

	2012-13	2011-12
Raw materials	91,005,737	13,723,577
Finished goods	40,999,725	3,489,714
Work in process	3,179,299	1,132,155
Parts and consumables	8,777,682	4,673,225
Provision for Downgraded	(2,501,608)	-
	141,460,835	23,018,670

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2013
Expressed in Saudi Arabian Riyals

7. PROPERTY, PLANT & EQUIPMENT

	Buildings SR	Machinery and equipment SR	Furniture, fixtures and office equipment SR	Vehicles SR	Capital work-in- progress SR	Total SR
Cost						
<u>April 1, 2012</u>	35,417,403	337,913,122	2,112,217	1,166,407	13,529,468	390,138,617
Additions/Adjustments	4,763,369	19,217,992	1,821,218	128,350	39,767,862	65,698,491
Deletions/Adjustments	-	-	-	-	25,733,900	25,733,900
<u>March 31, 2013</u>	<u>40,180,772</u>	<u>357,131,114</u>	<u>3,933,435</u>	<u>1,294,757</u>	<u>27,563,130</u>	<u>430,103,208</u>
Depreciation						
<u>April 1, 2012</u>	2,368,885	25,874,587	1,084,884	639,310	-	29,967,666
Charge for the Period	2,177,882	23,387,454	1,081,751	235,907	-	26,852,994
Deletions/Adjustments	-	-	-	-	-	-
<u>March 31, 2013</u>	<u>4,546,767</u>	<u>49,262,041</u>	<u>2,136,335</u>	<u>875,217</u>	<u>-</u>	<u>56,820,360</u>
Net book value						
<u>March 31, 2013</u>	<u>35,634,005</u>	<u>307,869,073</u>	<u>1,797,100</u>	<u>419,540</u>	<u>27,563,130</u>	<u>373,282,848</u>

7.1. Depreciation charge for the period ended March 31, has been allocated as follows:

	2012-13	2011-12
Cost of sales	26,233,100	19,601,623
General and administrative expenses	619,894	2,220,678
	<u>26,852,994</u>	<u>21,822,301</u>

8. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other current liabilities as at March 31 comprise of the following:

	2012-13	2011-12
Accrued interest	28,095,522	16,026,560
Staff related liabilities	3,965,149	2,188,990
Accrued expenses	6,759,796	9,262,121
Accrued Zakat & Tax Payable	2,547,976	-
Advance received from customers	1,633,309	3,116,157
	<u>43,001,753</u>	<u>30,593,828</u>

9. SHARE CAPITAL

The Company's share capital consists of 76,046,875 shares of SR 1 each fully paid and held as follows:

	Number of Shares	Holding %	Amount (SR)
Welspun Mauritius Holdings Limited	38,031,042	50.01	38,031,042
Aziz European Pipe Factory LLC	34,221,094	45.00	34,221,094
Mohawareen Industrial Services LLC	3,794,739	4.99	3,794,739
	<u>76,046,875</u>	<u>100.00</u>	<u>76,046,875</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2013
Expressed in Saudi Arabian Riyals

10. LONG-TERM LOAN FROM SHAREHOLDERS

Long term debts as at March 31 comprise of the following:

	2012-13	2011-12
Interest bearing		
Welspun Mauritius Holdings Limited	112,320,313	112,320,313
Aziz European Pipe Factory	112,320,313	112,320,313
Non Interest bearing		
Welspun Mauritius Holdings Limited	60,246,838	37,500,000
Aziz European Pipe Factory	62,000,000	37,500,000
	346,887,463	299,640,625

Shareholders' have provided these amounts as initial financing. These are subject to interest payable @ 5.25% per annum as per the Shareholders' Loan Agreement. These loans and any interest thereon are repayable as decided by the board.

11. STATUTORY RESERVES

In accordance with the Company's Articles of Association and Article 176 of Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income each year to a statutory reserve until such reserve equals 50% of its share capital. This reserve is not available for distributions to the shareholders. No such transfers have been made in current year in view of net losses of the Company.

12. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the period ended March 31 comprise of the following:

	2012-13	2011-12
Employee related costs	7,314,536	11,557,722
Repair & maintenance	283,171	29,800
Depreciation	619,894	2,220,678
Rent expense	6,620,436	4,931,975
Travelling expense	147,417	897,157
Utilities	341,726	448,845
Freight charges	15,489,707	-
Business promotion expenses	174,780	-
Provision against advances paid to suppliers	1,818,111	-
Other expenses	1,979,735	5,029,063
	34,789,544	25,115,240

13. FINANCE CHARGES, NET

Finance charges for the period ended March 31 comprise of the following:

	2012-13	2011-12
Interest on long-term loan	11,793,633	12,538,153
Bank charges	1,874,143	890,441
Bank guarantee charges	7,814,281	4,125,544
Exchange loss	434,638	-
	21,916,694	17,554,138

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2013
Expressed in Saudi Arabian Riyals

14. RELATED PARTY TRANSACTIONS (continued)

Following is a summary of balances with related parties as at March 31:

a) Due to related parties

	2012-13	2011-12
ΔCWA Power Development	3,776,455	13,279,356
Al-Haitam Co.	16,585	199,184
Welspun Middle East Pipes Coating Co.	16,066,076	-
Welspun Mauritius Holdings Ltd.	-	250,000
Aziz Contracting Co.	2,237,514	29,741,967
Welspun Tubular L.Lc	6,717,880	-
Welspun Corp Ltd.	7,001,598	53,962,836
Welspun Tradings Ltd	31,438,999	-
	67,252,108	97,433,343

b) Due from related parties

	2012-13	2011-12
Aziz European Pipe Factory	3,830,755	852,278
Welspun Middle East Pipes Coating Co.	-	41,753,988
Mohawareen	1,497,000	-
	5,327,755	42,606,266

c) Long-term loan payable

	2012-13	2011-12
Welspun Maritius Holdings Limited	172,567,150	149,820,313
Aziz European Pipe Factory LLC	174,320,313	149,820,313
	346,887,463	299,640,625

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash and cash equivalents, contract and other accounts receivable, accounts payable, other liabilities, and long-term debt.

Credit risk

Credit risk is the risk that counterparties do not meet their obligations, so the other party incurs a financial loss. At the balance sheet date the Company is exposed to a concentration of credit risk, as substantial portion of the accounts receivable are due from two related parties, however the management has no doubt on recoverability. The Company maintains its cash with high credit rated local banks.

Currency risk

This relates to the risk of change in the value of financial instruments due to change in foreign currency rates. Management monitors the fluctuations in currency exchange rates and manages its effect on the financial statements accordingly.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2013
Expressed in Saudi Arabian Riyals

14. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company transacts with affiliates including its shareholders and other sister concerns. Such transactions include purchase of materials, hire and maintenance of equipment, provision of support services, and other expenses incurred on behalf of the Company by its affiliates. The terms and conditions of such transactions are approved by the Company's board of directors.

During the period ended as at March 31 2013, the Company had the following significant transactions with its related parties:

Related Party	Nature of Transaction	2012-13	2011-12
Aziz European Pipe Factory	Expenses on behalf of related party	2,978,477	
	Loan from related party	(38,000,000)	37,500,000
	Loan adjustment of related party		(500,000)
	Inventory taken over from related party		(5,047,934)
	Share of Losses Absorption	13,500,000	
Welspun Tradings Ltd	Purchases from related party	(230,192,616)	
	Payments to related party	198,405,677	
	Expenses on behalf of related party	350,940	
Welspun Tubular LLC	Purchases from related party	(20,930,391)	
	Payments to related party	14,212,510	
ACWA Power Development	Expenses by related party	(497,098)	29,925,956
	Trf. to NIBL	10,000,000	
Aziz Contracting Co.	Expenses on behalf of related party	4,453	-
	Trf. to NIBL	27,500,000	
Welspun Mauritius Holdings Limited		(37,499,838)	
	Loan from related party		37,500,000 (250,000)
Welspun Middle East Pipes Coating Co.			
	Share of Losses Absorption	15,003,000	
Welspun Middle East Pipes Coating Co.		(11,385,433)	
	Expenses on behalf of related party		28,749,258
Al-Haitam Co.	Coating Services by related party	(40,357,860)	(6,057,772)
	Expenses by related party		575,527
Al-Haitam Co.	Expenses on behalf of related party	182,599	
Welspun Corp Ltd.	Expenses paid by related party	(2,220,040)	12,399,706
	Payments	48,898,214	
	Purchases		(1,563,129)
Mohawareen	Share of Losses Absorption	1,497,000	

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by systematic monitoring to ensure availability of funds to meet any future liabilities as they become due. The current liabilities primarily comprise of payable to related parties, and hence the Company does not expect liquidity pressures.


Interest rate risk

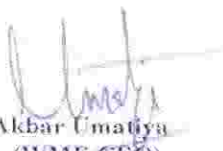
The Company's financial assets and liabilities as at the balance sheet date, except for long-term debts are not exposed to interest rate risk. Interest for long term debts is calculated at 5.25%.


Fair value

Fair value risk is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the accompanying financial statements are prepared under the historical cost convention, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

For Welspun Middle East Pipes Company


Mohammed Atheruddin Asif
(WME Head Finance)


Akbar Umaitya
(WME CEO)


B.R Jaju
(WCL CFO & Director)