

**WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)**

MANAGEMENT FINANCIAL STATEMENTS

PERIOD COVERING FROM 01 APRIL 2011 TO 31 MARCH 2012

WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

FINANCIAL STATEMENTS
MARCH 31, 2012

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WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

BALANCE SHEET

AS AT 31 MARCH 2012

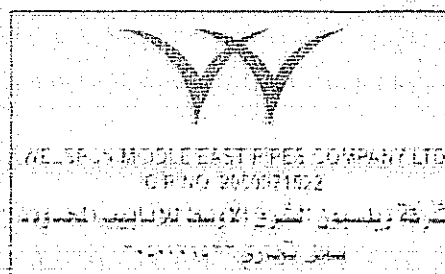
Expressed in Saudi Arabian Riyals

	Note	2012	2011
ASSETS			
Current assets:			
Cash and cash equivalents	4	20,012,976	946,696
Accounts receivables		118,592,027	-
Due from related parties	14	42,606,266	161,894,347
Prepayments and other receivables	5	17,717,620	1,953,982
Inventories	6	23,018,670	41,106,546
Total current assets		221,947,559	205,901,571
Non-current assets:			
Property, plant and equipment	7	360,171,251	298,493,330
Total assets		582,118,810	504,394,901
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		20,841,488	-
Due to related parties	14	97,433,343	192,100,483
Accrued expenses and other liabilities	8	98,854,433	10,388,330
Total current liabilities		217,129,265	202,488,813
Non-current liabilities:			
Long-term loan from shareholders	10	299,640,625	225,390,625
Employees' end of service benefits		1,639,568	1,274,037
Total non-current liabilities		301,280,193	226,664,662
Total liabilities		518,409,457	429,153,475
Shareholders' equity:			
Share capital	9	76,046,875	76,046,875
Retained earnings		(12,337,521)	(805,449)
Total shareholders' equity		63,709,354	75,241,426
Total liabilities and shareholders' equity		582,118,810	504,394,901

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

For Welspun Middle East Pipes Company


B.R. Jais
(Director)







WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

STATEMENT OF INCOME
FOR THE PERIOD FROM 01 APRIL 2011 TO 31 MARCH 2012
Expressed in Saudi Arabian Riyals

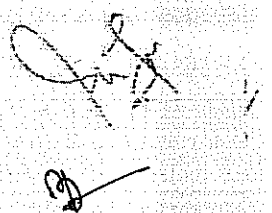
	<u>Note</u>	<u>2012</u>	<u>Period from 05 July to 31 March 2011</u>
Revenue		440,737,553	163,170,578
Cost of revenue		(416,011,138)	(135,003,027)
Gross profit		24,726,415	28,167,551
General and administrative expenses	12	(25,115,240)	(25,529,755)
Operating profit/(loss)		(388,824)	2,637,796
Finance charges, net	13	(17,554,138)	(5,014,363)
Other income		6,410,890	1,571,118
Net loss for the period		(11,532,072)	(805,449)

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

For Welspun Middle East Pipes Company


B. Raju
(Director)



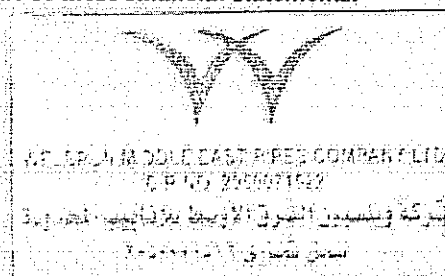


WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 01 APRIL 2011 TO 31 MARCH 2012
Expressed in Saudi Arabian Riyals

	2012	Period from 05 July to 31 March 2011
Cash flows from operating activities:		
Net loss for the period	(11,532,072)	(805,449)
<i>Adjustments to reconcile net loss for the period to net cash provided by operating activities:</i>		
Depreciation	21,822,301	8,145,065
Employees' end of service benefits	365,531	1,274,037
Finance income, net	17,554,138	5,014,363
	<u>28,209,897</u>	<u>13,628,016</u>
Changes in operating assets and liabilities:		
Accounts receivables	(118,592,027)	-
Due from related parties	119,288,081	(161,894,347)
Prepayments and other current assets	(15,763,638)	(1,953,982)
Inventories	18,087,876	(41,106,546)
Accounts payable	20,841,488	-
Due to related parties	(94,667,140)	192,100,483
Accrued expenses and other liabilities	75,927,950	6,175,942
Expenses paid	(5,015,985)	(799,974)
Net cash generated from operating activities	<u>28,316,503</u>	<u>6,147,592</u>
Cash flows from investing activities:		
Additions in property, plant & equipment	(83,500,222)	(306,638,396)
Net cash used in investing activities	<u>(83,500,222)</u>	<u>(306,638,396)</u>
Cash flows from financing activities:		
Shares issued	-	76,046,875
Long-term loan received from shareholders	74,250,000	225,390,625
Net cash flows generating from financing activities	<u>74,250,000</u>	<u>301,437,500</u>
Net increase in cash flows during the period	19,066,281	946,696
Cash and cash equivalents at beginning of the period	946,696	-
Cash and cash equivalents at the end of period	<u>20,012,976</u>	<u>946,696</u>

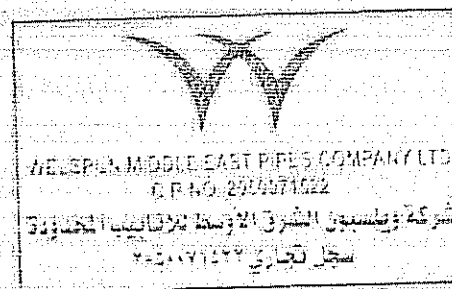
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WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 01 APRIL 2011 TO 31 MARCH 2012
Expressed in Saudi Arabian Riyals

	Share capital	Accumulated losses	Total
Shares capital issued	76,046,875	-	76,046,875
Loss for the period	-	(805,449)	(805,449)
Balance at 01 April 2011	76,046,875	(805,449)	75,241,426
Loss for the period	-	(11,532,072)	(11,532,072)
Balance at 31 March 2012	76,046,875	(12,337,521)	63,709,354



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

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WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 01 APRIL 2011 TO 31 MARCH 2012

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. 121031118992 dated 15/11/1431H, corresponding to October 25, 2010.

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

2. BASIS OF PREPARATION

The first accounting period of the Company, as dictated by the Articles of Association of the Company is from the CR date 05 July 2010 to 31 March 2011. These financial statements cover the period from the CR date 01 April 2011 to 31 March 2012 for the purpose of management.

(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.

WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 APRIL 2011 TO 31 MARCH 2012
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.

WELSPUN MIDDLE EAST PIPES COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 APRIL 2011 TO 31 MARCH 2012
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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. No provision for income tax was established for the period ended 31 March 2012 in view of the losses incurred by the Company in the said period as adjusted for the tax purposes.
- No provision for Zakat is booked as of 31 March 2012.
- 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.

WELSPUN MIDDLE EAST PIPES COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
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4. CASH AND CASH EQUIVALENTS

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

	<u>2012</u>	<u>2011</u>
Cash on hand	39,160	196,828
Cash at bank - current accounts	18,145,169	749,868
Cash margin	1,828,646	-
	<u>20,012,976</u>	<u>946,696</u>

5. PREPAYMENTS AND OTHER RECEIVABLES

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

	<u>2012</u>	<u>2011</u>
Prepaid rent	1,465,001	156,971
Prepaid expense	883,579	1,456,023
Down payments	14,453,667	-
Employee loans and other advances	915,373	340,988
	<u>17,717,620</u>	<u>1,953,982</u>

6. INVENTORIES

Inventories as at March 31 comprise of the following:

	<u>2012</u>	<u>2011</u>
Raw materials	13,723,577	19,522,362
Finished goods	3,489,714	20,703,150
Work in process	1,132,155	-
Parts and consumables	4,673,225	881,034
	<u>23,018,670</u>	<u>41,106,546</u>

WELSPUN MIDDLE EAST PIPES COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
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7. PROPERTY, PLANT & EQUIPMENT

	Buildings	Plant, machinery and equipment	Motor vehicles	Furniture, fixtures and office equipments	Capital work in progress	Total
Cost:						
April 1, 2011	18,986,312	280,212,329	808,707	1,425,511	5,205,536	306,638,396
Additions	16,431,091	57,700,792	357,700	686,706	75,515,285	150,688,575
Transfers	-	-	-	-	(67,188,354)	(67,188,354)
As at March 31, 2012	35,417,403	337,913,122	1,166,407	2,112,217	13,529,468	390,138,617
Accumulated depreciation:						
April 1, 2011	1,055,407	6,272,963	293,167	523,528	-	8,145,065
Charge for the period	1,313,479	19,601,623	346,143	561,056	-	21,822,301
Adjustments	-	-	-	-	-	-
As at March 31, 2012	2,368,886	25,874,587	639,310	1,084,584	-	29,967,366
Net book value:						
As at March 31, 2012	33,048,518	312,038,535	527,097	1,027,633	13,529,468	360,171,251
As at March 31, 2011	17,930,905	273,939,366	515,540	901,983	5,205,536	298,493,330

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

	2012	2011
Cost of sales	19,601,623	6,234,120
General and administrative expenses	2,220,678	1,910,945
	21,822,301	8,145,065

8. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	2012	2011
Accrued interest	16,026,560	4,214,388
Accrued salaries	1,534,259	927,980
Accrued vacation	654,731	703,757
Provision for import duties	-	4,047,172
Other accrued expenses	8,719,439	-
Short term loan – Banks	68,260,605	-
Others	3,658,840	495,033
	98,854,433	10,388,330

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
	76,046,875	100.00	76,046,875

WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 APRIL 2011 TO 31 MARCH 2012
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10. LONG-TERM LOAN FROM SHAREHOLDERS

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

	<u>2012</u>	<u>2011</u>
Welspun Mauritius Holdings Limited	149,820,313	112,570,312
Aziz European Pipe Factory	149,820,312	112,820,313
	<u>299,640,625</u>	<u>225,390,625</u>

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:

	<u>2012</u>	<u>2011</u>
Employee related costs	11,557,722	18,847,669
Repair & maintenance	29,800	1,593,110
Depreciation	2,220,678	1,910,945
Rent expense	4,931,975	945,474
Travelling expense	897,157	1,080,423
Utilities	448,845	671,179
Other expenses	5,029,063	480,955
	<u>25,115,240</u>	<u>25,529,755</u>

13. FINANCE CHARGES, NET

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

	<u>2012</u>	<u>2011</u>
Interest on long-term loan	12,538,153	4,214,388
Bank guarantee charges	4,125,544	686,199
Bank charges	890,441	117,844
Exchange gain	-	(4,068)
	<u>17,554,138</u>	<u>5,014,363</u>

WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
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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 2012, the Company had the following significant transactions with its related parties:

<u>Related party</u>	<u>Nature of transactions</u>	<u>2012</u>	<u>2011</u>
Aziz European Pipe Factory (Shareholder)	Sales to related party	-	(161,380,282)
	Purchases from related party	-	164,614,282
	Expenses by related party	-	24,799,379
	Loan from related party	37,500,000	112,820,313
	Loan adjustment of related party	(500,000)	-
	Inventory taken over from related party	(5,047,934)	-
ACWA Power Development (Affiliate)	Expenses by related party	29,925,956	725,708
Aziz Contracting Co. (Affiliate)	Expenses on behalf of related party	-	(1,019)
Welspun Mauritius Holdings Limited (Shareholder)	Loan from related party	37,500,000	112,570,312
	Loan adjustment of related party	(250,000)	-
Welspun Middle East Pipes Coating (Affiliate)	Expenses on behalf of related party	28,749,258	(513,046)
	Coating Services by related party	(6,057,772)	-
Al-Haitam Company (Affiliate)	Expenses by related party	575,527	1,961,114
Welspun Corp Ltd. (Affiliate)	Expenses by related party	12,399,706	-
	Purchases from related party	41,563,129	-

WELSPUN MIDDLE EAST PIPES COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 APRIL 2011 TO 31 MARCH 2012
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	2011
Aziz European Pipe Factory	-	189,413,661
ACWA Power Development	13,279,356	725,708
Al-Haitam Company	199,184	1,961,114
Welspun Maritius Holdings Limited	250,000	-
Aziz Contracting Company	29,741,967	-
Welspun Corp Ltd.	53,962,836	-
	97,433,343	192,100,48

b) Due from related parties

	2012	2011
Aziz European Pipe Factory	852,278	161,380,682
Welspun Middle East Pipes Coating LLC	41,753,988	513,046
Aziz Contracting Company	-	1,019
	42,606,266	161,894,747

c) Long-term loan payable

	2012	2011
Welspun Maritius Holdings Limited	149,820,313	112,570,312
Aziz European Pipe Factory LLC	149,820,312	112,820,313
	299,640,625	225,390,625

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.

**WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 APRIL 2011 TO 31 MARCH 2012
Expressed in Saudi Arabian Riyals**

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


B.R. Jilin
(Director)

