

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

**MANAGEMENT FINANCIAL STATEMENTS**

**PERIOD COVERING FROM 1<sup>ST</sup> APRIL 2011 TO 31<sup>ST</sup> MARCH 2012**

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

**FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

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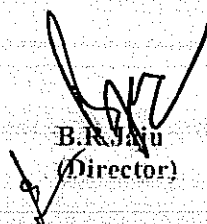
**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
(A LIMITED LIABILITY COMPANY)

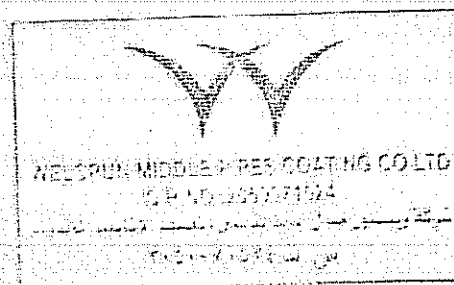
**BALANCE SHEET**  
**AS AT 31 MARCH 2012**  
**Expressed in Saudi Arabian Riyals**

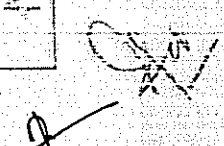
	<u>Note</u>	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	749,773	779,782
Accounts Receivable		14,503,185	-
Due from related	14 (b)	-	1,512,900
Prepayments and other receivables	5	8,606,571	49,443
Inventories	6	18,309,171	1,019,341
<b>Total current assets</b>		<b>42,168,700</b>	<b>3,361,466</b>
<b>Non-current assets:</b>			
Property, plant and equipment	7	131,091,211	131,914,752
<b>Total assets</b>		<b>173,259,911</b>	<b>135,276,218</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Accounts Payable		4,391,846	-
Due to related parties	14 (a)	46,234,469	6,373,509
Accrued expenses and other liabilities	8	11,734,383	1,965,927
<b>Total current liabilities</b>		<b>62,360,699</b>	<b>8,339,436</b>
<b>Non-current liabilities:</b>			
Long-term loan from shareholders	10	97,796,875	98,546,875
Employees' end of service benefits		46,515	67,827
<b>Total non-current liabilities</b>		<b>97,843,390</b>	<b>98,614,702</b>
<b>Total liabilities</b>		<b>160,204,089</b>	<b>106,954,138</b>
<b>Shareholders' equity:</b>			
Share capital	9	33,765,625	33,765,625
Accumulated losses		(20,709,804)	(5,443,545)
<b>Total shareholders' equity</b>		<b>13,055,821</b>	<b>28,322,080</b>
<b>Total liabilities and shareholders' equity</b>		<b>173,259,911</b>	<b>135,276,218</b>

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

For Welspun Middle East Pipes Coating Company

  
B. R. Jaju  
(Director)





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

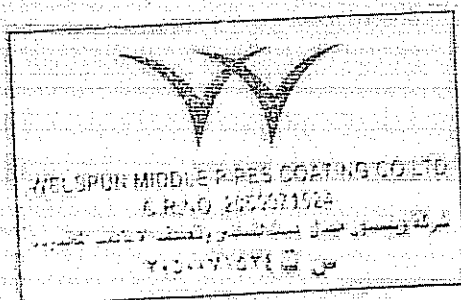
**STATEMENT OF INCOME**  
**FOR THE PERIOD FROM 01 APRIL 2011 TO 31 MARCH 2012**  
**Expressed in Saudi Arabian Riyals**

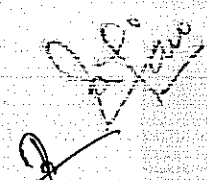
	<u>Note</u>	<u>2012</u>	<u>Period from 05 July to 31 March 2011</u>
Revenue		23,262,720	-
Cost of revenue		<u>(27,771,865)</u>	-
Gross profit / (loss)		(4,509,145)	-
General & administrative expenses	12	<u>(5,597,405)</u>	<u>(3,600,214)</u>
Operating loss		(10,106,550)	(3,600,214)
Finance charges, net	13	(5,173,347)	(1,843,331)
Other income		<u>13,638</u>	-
<b>Net loss for the period</b>		<u><b>(15,266,259)</b></u>	<u><b>(5,443,545)</b></u>

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

For Welspun Middle East Pipes Coating Company

  
**B. K. Anju**  
**(Director)**



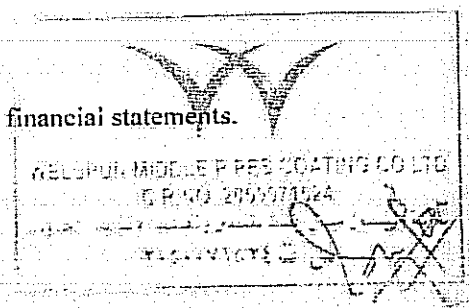


**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
(A LIMITED LIABILITY COMPANY)

**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
<b>Cash flows from operating activities:</b>		
Net loss for the period	(15,266,259)	(5,443,545)
<i>Adjustments to reconcile net loss for the period to net cash provided by operating activities:</i>		
Depreciation	6,973,111	389,681
Employees' end of service benefits	(21,312)	67,827
Finance expenses	5,173,347	1,843,331
	<u>(3,141,113)</u>	<u>(3,142,706)</u>
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(14,503,185)	-
Due from related parties	1,512,900	(1,512,900)
Inventories	(17,289,830)	(1,019,341)
Prepayments and other current assets	(8,557,128)	(49,443)
Accounts payable	4,391,846	-
Due to related parties	39,822,244	6,373,509
Accrued expenses and other current liabilities	4,633,826	123,344
Expenses paid	-	(748)
	<u>6,869,560</u>	<u>771,715</u>
<b>Net cash generated from operating activities</b>		
<b>Cash flows from investing activities:</b>		
Additions in property, plant & equipment	(6,149,570)	(132,304,433)
	<u>(6,149,570)</u>	<u>(132,304,433)</u>
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities:</b>		
Share issued	-	33,765,625
Long-term loan received from shareholders	(750,000)	98,546,875
	<u>(750,000)</u>	<u>132,312,500</u>
<b>Net cash flows generated from financing activities</b>		
<b>Net increase in cash flows during the period</b>	<u>(30,010)</u>	<u>779,782</u>
Cash and cash equivalents at beginning of the period	779,782	-
Cash and cash equivalents at the end of period	<u>749,772</u>	<u>779,782</u>

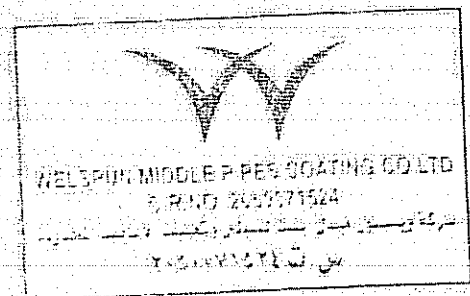
The accompanying notes 1 through 15 form an integral part of these financial statements.



**WELSPUN MIDDLE EAST PIPES COATING 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
Share capital issued	33,765,625	-	33,765,625
Loss for the period	-	(5,443,545)	(5,443,545)
Balance at April 01, 2011	33,765,625	(5,443,545)	28,322,080
Loss for the period	-	(15,266,259)	(15,266,259)
Balance as at March 31, 2012	33,765,625	(20,709,804)	13,055,821



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

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

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

**1. LEGAL STATUS AND OPERATIONS**

Welspun Middle East Pipes Company Company ("the Company") is a limited liability company formed under the Regulations for Companies in the Kingdom of Saudi Arabia under Commercial Registration No. 2050071524 dated 22/7/1431H, corresponding to July 5, 2010. The Company was originally named as Al Tanmiah for Pipe Coating Company, as per the first draft of Articles of Association (AoA) which was changed to Welspun Middle East Pipes Coating Company, as per the revised AoA. The CR was obtained with the new name of the Company.

The principal activities of the Company are Spiral Pipes Coating. The Company operates in Saudi Arabia under the license of Saudi Arabian General Investment Authority (SAGIA) No. 121031119001 dated 16/11/1431H, corresponding to October 24, 2010.

The Company's registered office is located at, 2<sup>nd</sup> 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 December 2011. These financial statements cover the period from 30 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 COATING COMPANY**  
(A LIMITED LIABILITY COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM 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 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) **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 and comparative periods are as follow:

Furniture, fixtures & office equipments	Years
Vehicles	3-5
	5

(c) **Impairment of assets**

Property, plant & equipments 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.

(d) **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.

(e) **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.



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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM 01 APRIL 2011 TO 31 MARCH 2012**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Expenses**

General and administrative expenses include various expenses as required under generally accepted accounting principles. Finance expenses comprise bank charges and interest payable on bank debts.

**(g) 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.

**(h) 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.

**(i) 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.

**4. CASH AND CASH EQUIVALENTS**

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

	<u>2012</u>	<u>2011</u>
Cash on hand	-	29,939
Cash at bank - current accounts	749,773	749,843
	<u>749,773</u>	<u>779,782</u>

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**5. PREPAYMENTS AND OTHER CURRENT ASSETS**

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

	2012	2011
Prepaid expense	404,005	30,750
Down payments	8,181,566	-
Employee loans & advances	21,000	18,693
	<u>8,606,571</u>	<u>49,443</u>

**6. INVENTORIES**

Inventories as March 31 comprise of the following:

	2012	2011
Raw materials	8,778,578	9,437
Finished goods	7,121,345	-
Work In Process	268,897	-
Parts and consumables	2,140,352	1,009,904
	<u>18,309,171</u>	<u>1,019,341</u>

**7. PROPERTY, PLANT & EQUIPMENT**

	Buildings	Machinery and equipment	Motor vehicles	Furniture, fixtures and office equipments	Capital work in progress	Total
<b>Cost:</b>						
April 1, 2011	-	-	2,110,170	10,406	130,183,857	132,304,433
Additions	22,564,444	107,056,194	-	246,903	6,455,160	136,322,701
Deletions/Adjustments	-	-	-	-	130,173,131	130,173,131
As at March 31, 2012	<u>22,564,444</u>	<u>107,056,194</u>	<u>2,110,170</u>	<u>257,309</u>	<u>6,465,886</u>	<u>138,454,003</u>
<b>Accumulated depreciation:</b>						
April 1, 2011	-	-	386,865	2,816	-	389,681
Charge for the period	1,130,545	5,385,275	421,457	35,834	-	6,973,111
Deletions/Adjustments	-	-	-	-	-	-
As at March 31, 2012	<u>1,130,545</u>	<u>5,385,275</u>	<u>808,322</u>	<u>38,650</u>	<u>-</u>	<u>7,362,792</u>
<b>Net book value:</b>						
As at March 31, 2012	<u>21,433,900</u>	<u>101,670,919</u>	<u>1,301,848</u>	<u>218,659</u>	<u>6,465,886</u>	<u>131,091,211</u>
As at March 31, 2011	-	-	1,723,305	7,590	130,183,857	131,914,752

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

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

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

	2012	2011
Cost of sales	5,385,275	-
General and administrative expenses	1,587,836	389,681
	<u>6,973,111</u>	<u>389,681</u>

**8. ACCRUED EXPENSES AND OTHER LIABILITIES**

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

	2012	2011
Accrued interest	6,977,214	1,842,584
Accrued expenses	1,521,410	55,736
Others	3,235,758	67,607
	<u>11,734,383</u>	<u>1,965,927</u>

**9. SHARE CAPITAL**

The Company's capital consists of 33,765,625 shares of SR 1 each fully paid and held as follows:

	Number of Shares	Holding %	Amount (SR)
Welspun Mauritius Holding Company	16,886,189	50.01	16,886,189
Arabian Pipeline Projects Company	15,194,531	45.00	15,194,531
Mohiawareen	1,684,905	4.99	1,684,905
	<u>33,765,625</u>	<u>100.00</u>	<u>33,765,625</u>

**10. LONG-TERM LOAN FROM SHAREHOLDERS**

Long term debts at March 31 comprise of the following:

	2012	2011
Welspun Mauritius Holding Company	48,898,438	49,148,438
Arabian Pipeline Projects Company	48,898,437	49,398,437
	<u>97,796,875</u>	<u>98,546,875</u>

Shareholders' have forwarded 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 transfers have been made in view of net losses of the Company.

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

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

**12. GENERAL AND ADMINISTRATIVE EXPENSES**

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

	2012	2011
Employee related costs	1,780,192	2,750,913
Repair & maintenance	55,003	172,739
Depreciation	1,587,836	389,681
Utilities	182,274	81,364
Others	1,992,101	205,517
	<u>5,597,405</u>	<u>3,609,214</u>

**13. FINANCE CHARGES, NET**

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

	2012	2011
Interest on long-term loan	5,134,630	1,842,583
Bank charges	38,716	748
	<u>5,173,346</u>	<u>1,843,331</u>

**14. RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Company transacts with affiliates. 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 as at March 31, 2012, the Company had the following significant transactions with its related parties:

Related party	Nature of transactions	2012	2011
Arabian Pipeline Projects Company (Shareholder)	Advances to vendors	-	1,512,900
	Loan adjustment of related party	(500,000)	49,398,437
Welspun Martitius Holding Company (Shareholder)	Loan adjustment of related party	(250,000)	49,148,438
Aziz European Pipe Factory (Affiliate)	Expenses paid by related party	-	5,860,463

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM 01 APRIL 2011 TO 31 MARCH 2012**  
**Expressed in Saudi Arabian Riyals**

Welspun Middle

East Pipes LLC (Affiliate)	Expenses paid by related party	28,749,258	513,046
	Sales to related party	(6,057,771)	-
Welspun Corp Ltd. (Affiliate)	Expenses paid by related party	1,308,654	-
	Purchases from related party	2,396,959	-

**14. RELATED PARTY TRANSACTIONS (continued)**

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

**a) Due to related parties**

	<u>2012</u>	<u>2011</u>
Aziz European Pipe Factory	-	5,860,463
Welspun Middle East Pipes LLC	41,753,988	513,046
Welspun Corp Ltd.	3,705,613	
Welspun Maritius Holding Company	250,000	
Arabian Pipeline Projects Company	524,869	
	<u>46,234,469</u>	<u>6,373,509</u>

**b) Due from related party**

	<u>2012</u>	<u>2011</u>
Arabian Pipeline projects Company	-	1,512,900

**c) Long-term loan payable**

	<u>2012</u>	<u>2011</u>
Welspun Maritius Holding Company	48,898,438	49,148,438
Arabian Pipeline Projects Company	48,898,437	49,398,437
	<u>97,796,875</u>	<u>98,546,875</u>

**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 party, however the management has no doubt on recoverability. The Company maintains its cash with high credit rated local banks.

**WELSPUN MIDDLE EAST PIPES COATING COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 01 APRIL 2011 TO 31 MARCH 2012  
Expressed in Saudi Arabian Riyals**

**15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**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.

**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 Coating Company

  
B.R. Jafu  
(Director)

