

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

**MANAGEMENT FINANCIAL STATEMENTS**

**PERIOD COVERING FROM 05 JULY 2010 TO 31 MARCH 2011**

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

**FINANCIAL STATEMENTS**  
**MARCH 31, 2011**

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

**BALANCE SHEET**  
**AS AT 31 MARCH 2011**

	<u>Note</u>	<u>2011</u>	
		<u>Rupees</u>	<u>Saudi Riyals</u>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	9,273,168	779,782
Prepayments and other receivables	5	18,579,383	1,562,343
Inventories	6	12,122,003	1,019,341
<b>Total current assets</b>		<b>39,974,554</b>	<b>3,361,466</b>
<b>Non-current assets:</b>			
Property, plant and equipment	7	1,568,730,231	131,914,752
<b>Total assets</b>		<b>1,608,704,785</b>	<b>135,276,218</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b>Current liabilities:</b>			
Due to related parties	14	75,793,769	6,373,509
Accrued expenses and other liabilities	8	23,378,804	1,965,927
<b>Total current liabilities</b>		<b>99,172,573</b>	<b>8,339,436</b>
<b>Non-current liabilities:</b>			
Long-term loan from shareholders	10	1,171,919,438	98,546,875
Employees' end of service benefits		806,599	67,827
<b>Total non-current liabilities</b>		<b>1,172,726,037</b>	<b>98,614,702</b>
<b>Total liabilities</b>		<b>1,271,898,610</b>	<b>106,954,138</b>
<b>Shareholders' equity:</b>			
Share capital		401,540,813	33,765,625
Accumulated losses		(64,734,637)	(5,443,545)
<b>Total shareholders' equity</b>		<b>336,806,176</b>	<b>28,322,080</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,608,704,786</b>	<b>135,276,218</b>

The exchange rate used is 1 Saudi Riyal = 11.892 Rupees

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

For Welspun Middle East Pipes Coating Company

S.D/-  
B.R.Jaju  
Director

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

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD FROM 05 JULY 2010 TO 31 MARCH 2011**

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		<b>Period from 05 July to 31 March 2011</b>	
		<b>Rupees</b>	<b>Saudi Riyals</b>
	<b>Note</b>		
General and administrative expenses	12	(42,813,745)	(3,600,214)
<b>Operating loss</b>		<b>(42,813,745)</b>	<b>(3,600,214)</b>
Finance charges, net	13	(21,920,892)	(1,843,331)
<b>Net loss for the period</b>		<b>(64,734,637)</b>	<b>(5,443,545)</b>

**The exchange rate used is 1 Saudi Riyal = 11.892 Rupees**

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

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**S.D/-  
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**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD FROM 05 JULY 2010 TO 31 MARCH 2011**

	Period from 05 July to 31 March 2011	
	Rupees	Saudi Riyals
<b>Cash flows from operating activities:</b>		
<b>Net loss for the period</b>	<b>(64,734,637)</b>	<b>(5,443,545)</b>
<i>Adjustments to reconcile net loss for the period to net cash provided by operating activities:</i>		
Depreciation	4,634,086	389,681
Employees' end of service benefits	806,599	67,827
Finance expenses	21,920,892	1,843,331
	<b>(37,373,060)</b>	<b>(3,142,706)</b>
<b>Changes in operating assets and liabilities:</b>		
Inventories	(12,122,003)	(1,019,341)
Prepayments and other current assets	(18,579,383)	(1,562,343)
Trade and other payables	75,793,769	6,373,509
Accrued expenses and other current liabilities	1,466,807	123,344
Expenses paid	(8,895)	(748)
<b>Net cash generated from operating activities</b>	<b>9,177,235</b>	<b>771,715</b>
<b>Cash flows from investing activities:</b>		
Additions in property, plant & equipment	(1,573,364,37)	(132,304,433)
<b>Net cash used in investing activities</b>	<b>(1,573,364,37)</b>	<b>(132,304,433)</b>
<b>Cash flows from financing activities:</b>		
Share issued	401,540,813	33,765,625
Long-term loan received from shareholders	1,171,919,438	98,546,875
<b>Net cash flows generated from financing activities</b>	<b>1,573,460,250</b>	<b>132,312,500</b>
<b>Net increase in cash flows during the period</b>	<b>9,273,168</b>	<b>779,782</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the end of period</b>	<b>9,273,168</b>	<b>779,782</b>

The exchange rate used is 1 Saudi Riyal = 11.892 Rupees

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

**Welspun Middle East Pipes Coating Company**

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<b>Saudi Riyals</b>	<b>Share capital</b>	<b>Accumulated losses</b>	<b>Total</b>
<b>Share capital issued</b>	<b>33,765,625</b>	<b>-</b>	<b>33,765,625</b>
<b>Loss for the period</b>	<b>-</b>	<b>(5,443,545)</b>	<b>(5,443,545)</b>
<b>Balance at March 31, 2011</b>	<b>33,765,625</b>	<b>(5,443,545)</b>	<b>28,322,080</b>

<b>Rupees</b>	<b>Share capital</b>	<b>Accumulated losses</b>	<b>Total</b>
<b>Share capital issued</b>	<b>401,540,813</b>	<b>-</b>	<b>401,540,813</b>
<b>Loss for the period</b>	<b>-</b>	<b>(64,734,637)</b>	<b>(64,734,637)</b>
<b>Balance at March 31, 2011</b>	<b>401,540,813</b>	<b>(64,734,637)</b>	<b>336,806,176</b>

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM 05 JULY 2010 TO 31 MARCH 2011**

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**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 the CR date 05 July 2010 to 31 March 2011 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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 05 JULY 2010 TO 31 MARCH 2011

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**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:

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

NOTES TO THE FINANCIAL STATEMENTS  
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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 2011 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 2011, as 12 months have not been lapsed from date of commercial registration.

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:

	2011	
	Rupees	Saudi Riyals
Cash on hand	356,035	29,939
Cash at bank - current accounts	8,917,133	749,843
	<u>9,273,168</u>	<u>779,782</u>

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM 05 JULY 2010 TO 31 MARCH 2011**

**5. PREPAYMENTS AND OTHER CURRENT ASSETS**

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

	2011	
	<u>Rupees</u>	<u>Saudi Riyals</u>
Receivable from related party (note 14)	17,991,407	1,512,900
Prepaid expense	365,679	30,750
Employee loans	222,297	18,693
	<u>18,579,383</u>	<u>1,562,343</u>

**6. INVENTORIES**

Inventories as March 31 comprise of the following:

	2011	
	<u>Rupees</u>	<u>Saudi Riyal</u>
Raw materials	112,225	9,437
Parts and consumables	12,009,778	1,009,904
	<u>12,122,003</u>	<u>1,019,341</u>

**7. PROPERTY, PLANT & EQUIPMENT**

	<u>Motor vehicles</u>	<u>Furniture, fixtures and office equipments</u>	<u>Capital work in progress</u>	<u>Total</u>
<b><u>Cost: (Saudi Riyals)</u></b>				
Additions	2,110,170	10,406	130,183,857	132,304,433
As at March 31, 2011	<u>2,110,170</u>	<u>10,406</u>	<u>130,183,857</u>	<u>132,304,433</u>
<b><u>Accumulated depreciation:</u></b>				
Charge for the period	386,865	2,816	--	389,681
As at March 31, 2011	<u>386,865</u>	<u>2,816</u>	<u>--</u>	<u>389,681</u>
<b>Net book value:</b>				
As at March 31, 2011	<u>1,723,305</u>	<u>7,590</u>	<u>130,183,857</u>	<u>131,914,752</u>

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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	Motor vehicles	Furniture, fixtures and office equipments	Capital work in progress	Total
<b>Cost: (In Rupees)</b>				
Additions	25,094,142	123,748	1,548,146,427	1,573,364,317
As at March 31, 2011	25,094,142	123,748	1,548,146,427	1,573,364,317
<b>Accumulated depreciation:</b>				
Charge for the period	4,600,599	33,488	--	4,634,087
As at March 31, 2011	4,600,599	33,488	--	4,634,087
<b>Net book value:</b>				
As at March 31, 2011	20,493,543	90,260	1,548,146,427	1,568,730,231

**9. ACCRUED EXPENSES AND OTHER LIABILITIES**

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

	2011	
	Rupees	Saudi Riyals
Accrued interest	21,912,009	1,842,584
Accrued salaries	662,813	55,736
Others	803,982	67,607
	23,378,804	1,965,927

**10. 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 %	Saudi Riyals	Rupes
Welspun Mauritius Holding Company	16,886,189	50.01	16,886,189	200,810,560
Arabian Pipeline Projects Company	15,194,531	45.00	15,194,531	180,693,363
Mohawareen	1,684,905	4.99	1,684,905	20,036,890
	33,765,625	100	33,765,625	401,540,813

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

Long term debts at March 31 comprise of the following:

	2011	
	Rupees	Saudi Riyals
Welspun Mauritius Holding Company	584,473,225	49,148,438
Arabian Pipeline Projects Company	587,446,213	49,398,437
	1,171,919,438	98,546,875

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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.

**12. 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.

**13. GENERAL AND ADMINISTRATIVE EXPENSES**

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

	<b>2011</b>	
	<b>Rupees</b>	<b>Saudi Riyals</b>
Employee related costs	<b>32,713,857</b>	<b>2,750,913</b>
Repair & maintenance	<b>2,054,212</b>	<b>172,739</b>
Depreciation	<b>4,634,086</b>	<b>389,681</b>
Utilities	<b>967,581</b>	<b>81,364</b>
Others	<b>2,444,008</b>	<b>205,517</b>
	<b>42,813,745</b>	<b>3,600,214</b>

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
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**14. FINANCE CHARGES, NET**

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

	2011	
	<u>Rupees</u>	<u>Saudi Riyals</u>
Interest on long-term loan	21,911,997	1,842,583
Bank charges	8,895	748
	<u>21,920,892</u>	<u>1,843,331</u>

**15. 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, 2011, the Company had the following significant transactions with its related parties:

<u>Related party</u>	<u>Nature of transactions</u>	<u>2011 Rupees</u>	<u>2011 Saudi Riyals</u>
Arabian Pipeline Projects Company (Shareholder)	Advances to vendors	17,991,407	1,512,900
	Loan from related party	587,446,225	49,398,438
Welspun Martitius Holding Company (Shareholder)	Loan from related party	584,473,225	49,148,438
Aziz European Pipe Factory (Affiliate)	Expenses paid by related party	69,692,626	5,860,463
Welspun Middle East Pipes LLC (Affiliate)	Expenses paid by related party	6,101,143	513,046

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM 05 JULY 2010 TO 31 MARCH 2011**

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

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

**a) Due to related parties**

	2011	
	Rupees	Saudi Riyals
Aziz European Pipe Factory	69,692,626	5,860,463
Welspun Middle East Pipes LLC	6,101,143	513,046
	<u>75,793,769</u>	<u>6,373,509</u>

**b) Due from related party**

	2011	
	Rupees	Saudi Riyals
Arabian Pipeline projects Company	17,991,407	1,512,900

**c) Long-term loan payable**

	2011	
	Rupees	Saudi Riyals
Welspun Maritius Holding Company	584,473,225	49,148,438
Arabian Pipeline Projects Company	587,446,213	49,398,437
	<u>1,171,919,438</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.

**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.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**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**

**S.D/-**  
**B.R.Jaju**  
**Director**