

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

**MANAGEMENT FINANCIAL STATEMENTS**

**PERIOD COVERING FROM 01<sup>st</sup> APRIL 2014 TO 31<sup>st</sup> MARCH 2015**

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

**FINANCIAL STATEMENTS**  
**31<sup>st</sup> MARCH, 2015**

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


**BALANCE SHEET**  
**AS AT 31<sup>st</sup> MARCH 2015**  
**Expressed in Saudi Arabian Riyals**

	Note	2015	2014
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	25,578,985	44,890,016
Accounts receivable		226,538,582	47,508,383
Due from related parties	14	5,080,549	4,402,824
Prepayments and other receivables	5	10,574,739	7,554,552
Inventories	6	235,448,182	37,362,007
<b>Total current assets</b>		<b>503,221,037</b>	<b>141,717,783</b>
<b>Non-current assets:</b>			
Property, plant and equipment	7	331,742,499	354,768,491
<b>Total assets</b>		<b>834,963,536</b>	<b>496,486,274</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable		37,954,929	8,008,689
Short term loan		-	-
Due to related parties	14	174,389,935	20,433,703
Accrued expenses and other current liabilities	8	38,782,577	11,092,782
Current portion SIDF	10	7,000,000	-
Zakat and Income tax Payable		17,116,437	6,302,929
<b>Total current liabilities</b>		<b>275,243,878</b>	<b>45,838,102</b>
<b>Non-current liabilities:</b>			
SIDF Loan	10	27,381,000	-
Long-term loan from shareholders	11	257,394,403	346,887,463
Employees' end of service benefits	12	4,587,732	2,879,584
<b>Total non-current liabilities</b>		<b>289,363,135</b>	<b>349,767,047</b>
<b>Total liabilities</b>		<b>564,607,013</b>	<b>395,605,149</b>
<b>Shareholders' equity:</b>			
Share capital	9	76,046,875	76,046,875
Statutory Reserve 10% of Profits		24,584,764	5,820,905
Accumulated Profit/(loss)		169,724,883	19,013,344
<b>Total shareholders' equity</b>		<b>270,356,522</b>	<b>100,881,124</b>
<b>Total liabilities and shareholders' equity</b>		<b>834,963,536</b>	<b>496,486,273</b>

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

For Welspun Middle East Pipes Company

  
**Ramzi Alabdullah**  
(General Manger –F & A)

  
**James Stuart Annal**  
(Chief Operating Officer)

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31<sup>st</sup> MARCH 2015**  
**Expressed in Saudi Arabian Riyals**

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	<u>Note</u>	<u>2015</u>	<u>2014</u>
Revenue		1,845,342,562	530,978,908
Cost of revenue		(1,627,022,289)	(489,018,883)
<b>Gross profit</b>		<b>218,320,273</b>	<b>41,960,025</b>
General and administrative expenses	12	(27,036,838)	(20,240,302)
<b>Operating income</b>		<b>191,283,434</b>	<b>21,719,722</b>
Finance charges	13	(21,699,836)	(25,303,493)
Other income		17,332,133	19,618,605
<b>Net Profit/ (loss) Before Tax</b>		<b>186,915,731</b>	<b>16,034,834</b>

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

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(A LIMITED LIABILITY COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS**  
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	2015	2014
<b>Cash flows from operating activities:</b>		
<b>Net Profit/(loss) before tax for the period</b>	<b>186,915,731</b>	<b>16,034,834</b>
<i>Adjustments to reconcile net loss for the period to net cash used in operating activities:</i>		
Depreciation	29,412,281	29,297,737
Provision for Zakat & taxation	-	-
Employees' end of service benefits	1,860,428	968,981
Finance charges	21,699,836	25,303,493
	<b>239,888,276</b>	<b>71,605,044</b>
<b>Changes in operating assets and liabilities:</b>		
Accounts receivables	(179,030,200)	208,551,448
Due from related parties	(677,725)	924,931
Prepayments and other current assets	(3,020,187)	6,212,053
Inventories	(198,086,175)	104,098,828
Accounts payable	29,946,240	(96,971,643)
Due to related parties	153,956,232	(46,818,405)
Accrued expenses and other current liabilities	23,766,750	(16,421,671)
Employees end of services paid	(152,280)	(329,069)
Zakat and tax paid	(6,626,825)	-
<b>Net cash provided by operating activities</b>	<b>59,964,107</b>	<b>230,851,516</b>
<b>Cash flows from investing activities:</b>		
Purchase property, plant & equipment	(6,386,289)	(10,832,380)
	<b>(6,386,289)</b>	<b>(10,832,380)</b>
<b>Cash flows from financing activities:</b>		
Loans received during the period-Long term	(89,493,059)	-
Loans received during the period-Short term/(Repaid)	34,381,000	(131,644,787)
Dividend Payment	-	(18,063,034)
Finance Charges Paid	(17,776,791)	(39,125,866)
<b>Net cash flows provided from financing activities</b>	<b>(72,888,850)</b>	<b>(188,833,688)</b>
	(19,311,032)	31,185,448
<b>Net increase in cash and cash equivalents</b>		
Cash and cash equivalents at beginning of the period	44,890,016	13,704,568
<b>Cash and cash equivalents at the end of period</b>	<b>25,578,985</b>	<b>44,890,016</b>

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**WELSPUN MIDDLE EAST PIPES COMPANY**  
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**STATEMENTS OF CHANGES IN EQUITY**

	<b>Share capital</b>	<b>Statutory Reserve</b>	<b>Accumulated Profit/(losses)</b>	<b>Total</b>
<b>Balance at 31 March 2014</b>	<b>76,046,875</b>	<b>5,820,905</b>	<b>19,013,344</b>	<b>100,881,124</b>
Net Profit / (loss) for the period	-	-	186,915,731	186,915,731
Dividend declared		-	-	-
Transfer to Statutory Reserves	-	18,763,859	(18,763,859)	-
Zakat & Income Tax Charge			(17,440,333)	(17,440,333)
<b>Balance at 31 March 2015</b>	<b>76,046,875</b>	<b>24,584,764</b>	<b>169,724,883</b>	<b>270,356,522</b>

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



NOTES TO THE FINANCIAL STATEMENTS  
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**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 23, 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 financial statements for the latest financial year cover the period from 01 April 2014 to 31 March 2015 for the purpose of management reporting.

**(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  
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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 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  
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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%.

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**  
(A LIMITED LIABILITY COMPANY)

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**4. CASH AND CASH EQUIVALENTS**

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

	<b>2015</b>	<b>2014</b>
Cash on hand	36,282	8,574
Cash at bank - current accounts	25,542,703	43,249,602
Cash margin	-	1,631,840
	<b><u>25,578,985</u></b>	<b><u>44,890,016</u></b>

**5. PREPAYMENTS AND OTHER RECEIVABLES**

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

	<b>2015</b>	<b>2014</b>
Advance To Suppliers	3,441,604	3,736,668
Prepaid rent	864,020	516,003
Prepaid expense	2,045,192	2,889,454
Employee loans and other advances	528,844	402,427
Others	231,749	-
	<b><u>7,111,409</u></b>	<b><u>7,554,552</u></b>

**6. INVENTORIES**

Inventories as at March 31 comprise of the following:

	<b>2015</b>	<b>2014</b>
Raw materials	148,120,284	9,411,809
Finished goods	63,578,762	17,300,187
Work in process	11,187,436	1,745,840
Parts and consumables	12,561,699	8,904,171
	<b><u>235,448,182</u></b>	<b><u>37,362,007</u></b>

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**7. PROPERTY, PLANT & EQUIPMENT**

	Buildings SR	Machinery and equipment SR	Furniture, fixtures and office equipment SR	Vehicles SR	Capital work-in- progress	Total
Cost						
<b>1<sup>st</sup> April, 2014</b>	43,260,085	389,539,558	4,252,570	1,672,891	1,842,057	440,567,162
Additions/Adjustments	35,500	302,820	197,256	269,900	5,580,813	6,386,289
Transfers	1,158,487	512,616	598,336	-	(2,269,439)	-
Deletions/Adjustments	-	-	-	-	-	-
<b>31<sup>st</sup> March, 2015</b>	<b>44,454,072</b>	<b>390,354,994</b>	<b>5,048,162</b>	<b>1,942,791</b>	<b>5,153,431</b>	<b>446,953,450</b>
Depreciation						
<b>1<sup>st</sup> April, 2014</b>	6,917,851	75,044,543	3,025,760	810,517	-	85,798,671
Charge for the Period	2,472,369	25,564,663	1,080,194	295,055	-	29,412,281
Deletions/Adjustments	-	-	-	-	-	-
<b>31<sup>st</sup> March, 2015</b>	<b>9,390,220</b>	<b>100,609,206</b>	<b>4,105,953</b>	<b>1,105,572</b>	<b>-</b>	<b>115,210,951</b>
Net book value						
<b>31<sup>st</sup> March, 2014</b>	36,342,234	314,495,016	1,226,810	862,374	1,842,057	354,768,491
<b>31<sup>st</sup> March, 2015</b>	<b>35,063,852</b>	<b>289,745,789</b>	<b>942,208</b>	<b>837,219</b>	<b>5,153,431</b>	<b>331,742,499</b>

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

	<u>2015</u>	<u>2014</u>
Cost of sales	28,694,274	28,615,064
General and administrative expenses	718,007	682,673
	<b>29,412,281</b>	<b>29,297,737</b>

**8. ACCRUED EXPENSES AND OTHER LIABILITIES**

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

	<u>2015</u>	<u>2014</u>
Accrued interest	6,111,817	2,881,442
Staff related liabilities	3,865,718	3,645,269
Accrued expenses	5,132,558	2,845,483
Advance received from customers	23,672,484	1,720,588
	<b>38,782,577</b>	<b>11,092,782</b>

**9. SHARE CAPITAL**

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

	<u>Number of Shares</u>	<u>Holding %</u>	<u>Amount (SR)</u>
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
	<b>76,046,875</b>	<b>100.00</b>	<b>76,046,875</b>



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**10. SIDF LOAN**

<b>SIDF Loan</b>	<b>2015</b>	<b>2014</b>
Current Portion	7,000,000	-
Non-Current portion	27,381,000	-
<b>Total</b>	<b>34,381,000</b>	<b>-</b>

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

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

	<b>2015</b>	<b>2014</b>
<b>Interest bearing</b>		
Welspun Mauritius Holdings Limited	112,320,313	112,320,313
Aziz European Pipe Factory LLC	112,320,313	112,320,313
<b>Non Interest bearing</b>		
Welspun Mauritius Holdings Limited	15,495,885	60,246,838
Aziz European Pipe Factory LLC	17,257,893	62,000,000
	<b>257,394,403</b>	<b>346,887,463</b>

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.

**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. Transfers have been made in current year SR 18,763,859.

**12. GENERAL AND ADMINISTRATIVE EXPENSES**

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

	<b>2015</b>	<b>2014</b>
Employee related costs	10,022,395	7,462,904
Repair & maintenance	772,602	482,279
Depreciation	718,007	682,673
Rent expense	7,984,744	2,983,068
Travelling expense	327,924	222,915
Utilities	247,180	260,155
Freight charges	3,345,350	7,201,873
Business promotion expenses	175,144	56,078
Provision against advances paid to suppliers	-	(342,508)
Other expenses	3,443,491	1,230,867
	<b>27,036,838</b>	<b>20,240,302</b>

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**13. FINANCE CHARGES**

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

	2015	2014
Interest on long-term loan	11,793,526	11,793,633
Bank charges	4,052,959	8,266,352
Other financial charges	6,158,332	4,689,399
Exchange loss	(304,981)	554,109
	<b>21,699,836</b>	<b>25,303,493</b>

**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 2015, the Company had the following significant transactions with its related parties:

Related Party	Nature of Transaction	2015	2014
<b>Aziz European Pipe Factory LLC</b>	Expenses on behalf of related party	-	2,978,477
	Loan from related related party	-	(38,000,000)
	Share of Losses Absorption	-	13500,000
<b>Welspun Tradings Ltd</b>	Purchases from related party	(696,217,132)	(230,192,616)
	Payments to related party	525,536,872	198,405,677
	Expenses on behalf of related party	-	(350,940)
<b>Welspun Tubular LLC</b>	Purchases from related party		(20,930,391)
	Payments to related party		14,212,510
<b>Arabian Company for Water &amp; Power Development</b>	Expenses by related party	(108,305)	(497,098)
	Payment against Debit Notes	2,589,816	-
	Corporate guarantee charges	(633,002)	-
	Payment of corporate guarantee charges	639,612	-
	Transfer to NIBL		



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<b>Aziz Company for Contracting &amp; Industrial Investment</b>		-	4,453
	Expenses on behalf of related party		
	Corporate guarantee charges	(909,721)	-
	Payment of corporate guarantee charges	907,553	-
	Transfer to NIBL		27,500,000
<b>Welspun Middle East Pipes Coating Co.</b>		70,377,448	(11,385,433)
	Expenses on behalf of related party		
	Coating Services by related party	(57,349,891)	(40,357,860)
<b>Al-Haitam for Industries &amp; Economic Development</b>			-
	Expenses by related party		
	Expenses on behalf of related party		182,599
	Payment against Debit Notes	16,585	
<b>Welspun Corp Ltd.</b>		(1,177,885)	(2,220,040)
	Expenses incurred on behalf of the Company		
	Payments	2,903,538	48,898,214
	Purchases from related party	(822,717)	-
	Corporate guarantee charges	(1,139,562)	-
	Payment of Corporate guarantee charges	1,287,206	-
<b>Mohawareen</b>		-	1,497,000
	Share of Losses Absorption		
	Corporate guarantee charges	(28,885)	

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

<b>a) Due to related parties</b>	<b>2015</b>	<b>2014</b>
Arabian Company for Water & Power Development	1,517,552	4,005,672
Al-Haitam for Industries & Economic Development	-	16,585
Welspun Middle East Pipes Coating LLC.	-	11,866,061
Aziz Company for Contracting & Industrial Development	2,434,996	2,432,828
Welspun Corp Ltd.	1,061,976	2,112,555
Welspun Tradings Ltd	169,375,410	-
	<b>174,389,935</b>	<b>20,433,703</b>
<b>b) Due from related Parties</b>	<b>2015</b>	<b>2014</b>
Aziz European Pipe Factory LLC	3,854,509	3,854,509
Welspun Middle East Pipes Coating LLC.	706,610	-
Mohawareen	519,430	548,315
	<b>5,080,549</b>	<b>4,402,824</b>

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c) Long-term loan payable	2015	2014
Welspun Maritius Holding Company	127,816,198	172,567,150
Aziz European Pipe Factory LLC	129,578,206	174,320,313
	<b>257,394,403</b>	<b>346,887,463</b>

**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.

**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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31<sup>st</sup> MARCH 2015**  
Expressed in Saudi Arabian Riyals

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