

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

**MANAGEMENT FINANCIAL STATEMENTS**

**PERIOD COVERING FROM 01APRIL 2013 TO 31 MARCH 2014**

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

**FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

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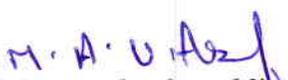
**WELSPUN MIDDLE EAST PIPES COMPANY**  
(A LIMITED LIABILITY COMPANY)

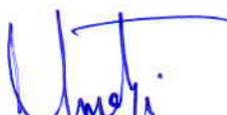
**BALANCE SHEET**  
**AS AT 31 MARCH 2014**  
**Expressed in Saudi Arabian Riyals**

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	44,890,016	13,704,568
Accounts receivables		47,508,383	256,059,831
Due from related parties	14b	4,402,824	5,327,755
Prepayments and other receivables	5	7,554,552	13,766,605
Inventories	6	37,362,007	141,460,835
<b>Total current assets</b>		<b><u>141,717,783</u></b>	<b><u>430,319,594</u></b>
<b>Non-current assets:</b>			
Property, plant and equipment	7	354,768,491	373,282,848
<b>Total assets</b>		<b><u>496,486,274</u></b>	<b><u>803,602,442</u></b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable		8,008,689	104,980,333
Short term loan		-	131,644,787
Due to related parties	14a	20,433,703	67,252,108
Accrued expenses and other liabilities	8	17,395,711	43,001,753
<b>Total current liabilities</b>		<b><u>45,838,102</u></b>	<b><u>346,878,980</u></b>
<b>Non-current liabilities:</b>			
Long-term loan from shareholders	10	346,887,463	346,887,463
Employees' end of service benefits		2,879,584	2,239,671
<b>Total non-current liabilities</b>		<b><u>349,767,047</u></b>	<b><u>349,127,134</u></b>
<b>Total liabilities</b>		<b><u>395,605,149</u></b>	<b><u>696,006,114</u></b>
<b>Shareholders' equity:</b>			
Share capital	9	76,046,875	76,046,875
Statutory Reserves		5,820,905	-
Retained Earnings		19,013,344	31,549,453
<b>Total shareholders' equity</b>		<b><u>100,881,124</u></b>	<b><u>107,596,328</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>496,486,273</u></b>	<b><u>803,602,443</u></b>

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

For Welspun Middle East Pipes Company

  
Mohammed Atheruddin Asif

  
Akbar Umaliya

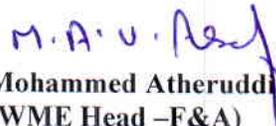
**WELSPUN MIDDLE EAST PIPES COMPANY**  
(A LIMITED LIABILITY COMPANY)

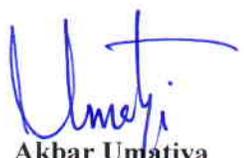
**STATEMENT OF INCOME**  
**FOR THE PERIOD ENDED MARCH 31 2014**  
**Expressed in Saudi Arabian Riyals**

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Revenue		530,978,908	664,447,029
Cost of revenue		(489,018,883)	(598,948,696)
<b>Gross profit</b>		<b>41,960,025</b>	<b>65,498,333</b>
General and administrative expenses	12	(20,240,302)	(34,789,544)
<b>Operating income</b>		<b>21,719,722</b>	<b>30,708,790</b>
Finance charges	13	(25,303,493)	(21,916,694)
Other income		19,618,605	7,642,854
<b>Net Profit/ (loss) Befor Tax</b>		<b>16,034,834</b>	<b>16,434,950</b>
Zakat & Taxation		(3,738,319)	(2,547,976)
<b>Net Profit/ (loss) for the Period</b>		<b>12,296,515</b>	<b>13,886,973</b>

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

For Welspun Middle East Pipes Company

  
**Mohammed Atheruddin Asif**  
(WME Head -F&A)

  
**Akbar Umatiya**  
(WME Unit Head & VP)

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

**STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD ENDED MARCH 31 2014**  
**Expressed in Saudi Arabian Riyals**

	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
<b>Net Profit/(loss) for the period</b>	<b>12,296,515</b>	<b>13,886,973</b>
<i>Adjustments to reconcile net loss for the period to net cash used in operating activities:</i>		
Depreciation	29,297,737	26,852,994
Provision for Zakat & taxation	3,738,319	2,547,976
Provision for Downgraded	-	2,501,608
Employees' end of service benefits	968,981	995,185
Finance charges	25,303,493	21,916,694
	<b>71,605,044</b>	<b>68,701,431</b>
<b>Changes in operating assets and liabilities:</b>		
Accounts receivables	208,551,448	(137,467,804)
Due from related parties	924,931	37,278,511
Prepayments and other current assets	6,212,053	3,951,015
Inventories	104,098,828	(120,943,773)
Accounts payable	(96,971,643)	84,138,845
Due to related parties	(46,818,405)	(30,181,236)
Accrued expenses and other current liabilities	(16,421,671)	(1,933,684)
Employees end of services paid	(329,069)	(395,080)
<b>Net cash provided by operating activities</b>	<b>230,851,516</b>	<b>(96,851,776)</b>
<b>Cash flows from investing activities:</b>		
Purchase property, plant & equipment	(10,832,380)	(39,964,591)
<b>Net cash used in investing activities</b>	<b>(10,832,380)</b>	<b>(39,964,591)</b>
<b>Cash flows from financing activities:</b>		
Loans received during the period-Long term	-	47,246,838
Loans received during the period-Short term/(Repaid)	(131,644,787)	63,384,182
Dividend Payment	(18,063,034)	
Absorbtion of losses by shareholders	-	30,000,000
Finance Charges Paid	(39,125,866)	(10,123,061)
<b>Net cash flows provided from financing activities</b>	<b>(188,833,688)</b>	<b>130,507,958</b>
<b>Net increase in cash and cash equivalents</b>	<b>31,185,448</b>	<b>(6,308,408)</b>
Cash and cash equivalents at beginning of the period	13,704,568	20,012,976
<b>Cash and cash equivalents at the end of period</b>	<b>44,890,016</b>	<b>13,704,568</b>

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

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

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED MARCH 31 2014**

**Expressed in Saudi Arabian Riyals**

	<b>Share capital</b>	<b>Statutory Reserve</b>	<b>Accumulated Profit/(losses)</b>	<b>Total</b>
Share capital issued	76,046,875	-	-	76,046,875
Net Profit / (loss) for the period	-	-	31,549,453	31,549,453
<b>Balance at 31 March 2013</b>	<b>76,046,875</b>	<b>-</b>	<b>31,549,453</b>	<b>107,596,328</b>
Net Profit / (loss) for the period	-	-	<b>12,296,515</b>	<b>12,296,515</b>
Dividend declared	-	-	<b>(19,011,719)</b>	<b>(19,011,719)</b>
Transfer to Statutory Reserves	-	<b>5,820,905</b>	<b>(5,820,905)</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>

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2014**

**Expressed in Saudi Arabian Riyals**

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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 2013 to 31 March 2014

**(a) Statement of compliance**

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

**(b) Accounting convention**

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

**(c) Functional and presentation currency**

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED MARCH 31 2014  
Expressed in Saudi Arabian Riyals

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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  
FOR THE PERIOD ENDED MARCH 31 2014  
Expressed in Saudi Arabian Riyals

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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.. SR 3,38,319.  
  
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)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2014**

**Expressed in Saudi Arabian Riyals**

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**4. CASH AND CASH EQUIVALENTS**

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

	<b>2014</b>	<b>2013</b>
Cash on hand	8,574	94,037
Cash at bank - current accounts	43,249,602	13,258,036
Cash margin	1,631,840	352,495
	<b>44,890,016</b>	<b>13,704,568</b>

**5. PREPAYMENTS AND OTHER RECEIVABLES**

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

	<b>2014</b>	<b>2013</b>
Advance To Suppliers	3,736,668	8,359,767
Prepaid rent	516,003	405,007
Prepaid expense	2,889,454	3,325,084
Employee loans and other advances	402,427	535,147
Others	-	1,141,601
	<b>7,554,552</b>	<b>13,766,605</b>

**6. INVENTORIES**

Inventories as at March 31 comprise of the following:

	<b>2014</b>	<b>2013</b>
Raw materials	9,411,809	91,005,737
Finished goods	16,625,285	40,999,725
Work in process	1,745,840	3,179,299
Parts and consumables	8,904,171	8,777,682
Provision for Downgraded.	-	(2,501,608)
Scrap	674,902	-
	<b>37,362,007</b>	<b>141,460,835</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2014**  
**Expressed in Saudi Arabian Riyals**

**7. PROPERTY, PLANT & EQUIPMENT**

	Buildings SR	Machinery and equipment SR	Furniture, fixtures and office equipment SR	Vehicles SR	Capital work-in- progress	Total
Cost						
<b>April 1, 2013</b>	40,180,772	357,131,114	3,933,435	1,294,757	27,563,130	430,103,208
Additions/Adjustments	3,079,313	32,408,445	319,135	746,560	5,749,111	42,302,563
Deletions/Adjustments	-	-	-	368,426	31,470,184	31,838,610
<b>March 31, 2014</b>	<b>43,260,085</b>	<b>389,539,558</b>	<b>4,252,570</b>	<b>1,672,891</b>	<b>1,842,057</b>	<b>440,567,162</b>
Depreciation						
<b>April 1, 2013</b>	4,546,767	49,262,041	2,136,335	875,217	-	56,820,360
Charge for the Period	2,371,084	25,782,502	889,425	254,726	-	29,297,737
Deletions/Adjustments	-	-	-	319,427	-	319,427
<b>March 31, 2014</b>	<b>6,917,851</b>	<b>75,044,543</b>	<b>3,025,760</b>	<b>810,517</b>	<b>-</b>	<b>85,798,671</b>
	0					
Net book value						
<b>March 31, 2014</b>	<b>36,342,234</b>	<b>314,495,015</b>	<b>1,226,811</b>	<b>862,374</b>	<b>1,842,057</b>	<b>354,768,491</b>

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

	2014	2013
Cost of sales	28,610,813	26,233,100
General and administrative expenses	682,673	619,894
	<b>29,293,486</b>	<b>26,852,994</b>

**8. ACCRUED EXPENSES AND OTHER LIABILITIES**

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

	2014	2013
Accrued interest	2,881,442	28,095,522
Staff related liabilities	3,645,269	3,965,149
Accrued expenses	2,845,483	6,759,796
Accrued Zakat & Tax Payable	6,302,929	2,547,976
Advance received from customers	1,720,588	1,633,309
	<b>17,395,711</b>	<b>43,001,753</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:

	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
	<b>76,046,875</b>	<b>100.00</b>	<b>76,046,875</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2014**  
**Expressed in Saudi Arabian Riyals**

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

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

	<b>2014</b>	<b>2013</b>
<b>Interest bearing</b>		
Welspun Mauritius Holdings Limited	112,320,313	112,320,313
Aziz European Pipe Factory	112,320,313	112,320,313
<b>Non Interest bearing</b>		
Welspun Mauritius Holdings Limited	60,246,838	60,246,838
Aziz European Pipe Factory	62,000,000	62,000,000
	<b>346,887,463</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.

**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. Transfers have been made in current year SR 5,820,905.

**12. GENERAL AND ADMINISTRATIVE EXPENSES**

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

	<b>2014</b>	<b>2013</b>
Employee related costs	7,462,904	7,314,536
Repair & maintenance	482,279	283,171
Depreciation	682,673	619,894
Rent expense	2,983,068	6,620,436
Travelling expense	222,915	147,447
Utilities	260,155	341,726
Freight charges	7,201,873	15,489,707
Business promotion expenses	56,078	174,780
Provision against advances paid to suppliers	(342,508)	1,818,111
Other expenses	1,230,867	1,979,735
	<b>20,240,302</b>	<b>34,789,544</b>

**13. FINANCE CHARGES, NET**

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

	<b>2014</b>	<b>2013</b>
Interest on long-term loan	11,793,633	11,793,633
Bank charges	8,266,352	1,874,143
Bank guarantee charges	4,689,399	7,814,281
Exchange loss	554,109	434,638
	<b>25,303,493</b>	<b>21,916,694</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2014**

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 2014, the Company had the following significant transactions with its related parties:

<b>Related Party</b>	<b>Nature of Transaction</b>	<b>2014</b>	<b>2013</b>
<b>Aziz European Pipe Factory</b>	Expenses on behalf of related party	23,754	2,978,477
	Loan from related party		-38,000,000
	Share of Losses Absorption		13,500,000
<b>Welspun Tradings Ltd</b>	Purchases from related party		-230,192,616
	Payments to related party	31,786,923	198,405,677
	Expenses on behalf of Co	-350,924	350,940
<b>Welspun Tubular LLc</b>	Purchases from related party	-4,165,678	-20,930,391
	Payments to related party	10,883,558	14,212,510
<b>ACWA Power Development</b>	Expenses by related party	-1,585,054	-497,098
	Payment	1,355,836	10,000,000
<b>Aziz Contracting Co.</b>	Expenses on behalf of related party	-195,314	4,453
	Trf to NIBL		27,500,000
<b>Welspun Mauritius Holdings Limited</b>	Loan from related party		-37,499,838
	Share of Losses Absorption		15,003,000
<b>Welspun Middle East Pipes Coating Co.</b>	Expenses on behalf of related party	27,372,133	-11,385,433
	Coating Services by related party	-23,171,073	-40,357,860
<b>Al-Haitam Co.</b>	Expenses on behalf of related party		182,599
<b>Welspun Corp Ltd.</b>	Expenses paid by related party	953,776	-2,220,040
	Payments	3,935,267	48,898,214
<b>Mohawareen</b>	Share of Losses Absorption		1,497,000
	Dividend Adjustment	-948,685	

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2014**  
**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**

	<b>2014</b>	<b>2013</b>
ACWA Power Development	4,005,672	3,776,455
Al-Haitam Co.	16,585	16,585
Welspun Middle East Pipes Coating Co.	11,866,061	16,066,076
Welspun Mauritius Holdings Ltd.	-	-
Aziz Contracting Co.	2,432,828	2,237,514
Welspun Tubular LLC	-	6,717,880
Welspun Corp Ltd.	2,112,555	7,001,598
Welspun Tradings Ltd	-	31,435,999
	<b>20,433,703</b>	<b>67,252,108</b>

**b) Due from related parties**

	<b>2014</b>	<b>2013</b>
Aziz European Pipe Factory	3,854,509	3,830,755
Welspun Middle East Pipes Coating Co.	-	-
Mohawareen	548,315	1,497,000
	<b>4,402,824</b>	<b>5,327,755</b>

**c) Long-term loan payable**

	<b>2014</b>	<b>2013</b>
Welspun Maritius Holdings Limited	172,567,150	172,567,150
Aziz European Pipe Factory LLC	174,320,313	174,320,313
	<b>346,887,463</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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2014**  
**Expressed in Saudi Arabian Riyals**

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

**Liquidity risk**

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

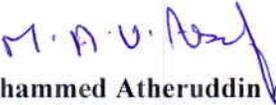
**Interest rate risk**

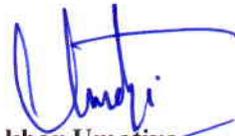
The Company's financial assets and liabilities as at the balance sheet date, except for long-term debts are not exposed to interest rate risk. Interest for long term debts is calculated at 5.25%.

**Fair value**

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

For Welspun Middle East Pipes Company

  
**Mohammed Atheruddin Asif**  
(WME Head -F&A)

  
**Akbar Umatiya**  
(WME Unit Head & VP)