

Jindal Saw USA, LLC

Financial Statements

*For the Year Ending
March 31, 2012*

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Certified Public Accountants

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Jindal Saw USA, LLC

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Independent Auditor's Report

To the Board of Directors
Jindal Saw USA LLC
Baytown, Texas

We have audited the accompanying balance sheet of Jindal Saw USA LLC (a single member LLC owned by SV Trading Ltd. A Saint Kitts & Nevis Corporation) as of March 31, 2012, and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Jindal Saw USA LLC as of March 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



May 29, 2012
Jackson Heights, New York

Financial Statements

Jindal Saw USA LLC
Balance Sheet as of March 31, 2012

Assets

Current

Cash and cash equivalents	\$	377,335
Accounts receivables:		
Trade receivables		10,051,567
Intercompany receivables		1,088
Others		34,283
Inventories		2,826,807

Capital advances and deposits		635,274
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Total current assets		<u>13,926,354</u>
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Property, Plant & Equipments net of accumulated depreciation of \$1,852,384		<u>32,821,032</u>
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Total Assets		<u><u>46,747,386</u></u>
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See Notes to Financial Statements

Jindal Saw USA LLC
Balance Sheet as of March 31, 2012

Liabilities and Member's Equity

Current Liabilities

Account payable - trade	\$ 5,118,156
Account payable - intercompany	25,259,012
Account payable - affiliates	2,866
Interest payable - intercompany	3,424,622
Current portion of notes payable - others	420,649
Accrued expenses	214,219
Provision for taxes	350,190
Total Current Liabilities	<u>34,789,713</u>

Long-term debt, net of current portions :

Notes payable	637,773
Total long-term debt	<u>637,773</u>

Total Liabilities

35,427,486

Member's Equity

Stated capital	10,000,000
Retained earnings (deficit)	1,319,899
Total member's equity	<u>11,319,899</u>

Total Liabilities and Member's Equity

46,747,386

See Notes to Financial Statements

Jindal Saw USA LLC

Statement of Income
for the year ended March 31, 2012

Net Sales	\$	41,097,546
Cost of Sales - Materials, Labor and Other Costs		<u>30,543,315</u>
Gross Profit		10,554,231
Selling, General and Administrative Expenses		
Selling, General and Administrative Expenses		1,957,931
Depreciation Expense		300,041
Total Selling, General and Administrative Expenses		<u>2,257,972</u>
Operating Income (Expenses):		<u>8,296,259</u>
Other Income (Expenses):		
Other Income		-
Interest expense		<u>1,353,723</u>
Total Other Income (Expenses), net		<u>1,353,723</u>
Income before income taxes		<u>6,942,536</u>
Income Taxes		
Current income tax expense		<u>350,190</u>
Total Income Taxes		<u>350,190</u>
Net Income (loss)		<u>6,592,346</u>

See Notes to Financial Statements

Jindal Saw USA LLC

Statement of Changes of Member's Equity
for the year ended March 31, 2012

	<u>Member's Stated Capital Account</u>	<u>Retained Earnings</u>	<u>Total Member's Equity</u>
Balance March 31, 2011	\$ 10,000,000	\$ (5,272,447)	\$ 4,727,553
Net income		6,592,346	6,592,346
Balance at March 31, 2012	<u>10,000,000.00</u>	<u>1,319,899.42</u>	<u>11,319,899.42</u>

Jindal Saw USA LLC

Statement of Cash Flows

For the year ended March 31, 2012

Cash Flows From Operating Activities:

Net income	\$	6,592,346
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		1,582,384

Changes in operating assets and liabilities:

Accounts receivables:		
(Increase)/decrease trade receivables		(8,349,157)
(Increase)/decrease intercompany receivables		184,716
(Increase)/decrease other receivables		(9,716)
(Increase)/decrease inventories		(1,738,273)
(Increase)/decrease prepaid expenses and deposits		(122,531)
Increase/(decrease) account payable - trade		3,043,898
Increase/(decrease) account payable-affiliates		2,866
Increase/(decrease) interest payable - intercompany		1,338,067
Increase/(decrease) loans payable - current portion		410,573
Increase/(Decrease) accrued expenses		214,219
Increase/(Decrease) provision for taxes		350,190

Net cash provided (used) by operating activities		<u>3,499,582</u>
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Cash Flows from Investing Activities:

Capital expenditures		<u>(6,162,400)</u>
Net cash used in investing activities:		<u>(6,162,400)</u>

Cash Flows from Financing Activities:

Advances from related parties		2,320,000
Proceeds from financing agreement		637,773
Payments to financing company		<u>-</u>
Net cash used in financing activities:		<u>2,957,773</u>

Net Increase/(decrease) in cash and cash equivalents		294,955
Cash and cash equivalents at the beginning of year		<u>82,380</u>

Cash and cash equivalents at the end of year		<u><u>377,335</u></u>
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Supplemental Cash Flow Information

Federal income taxes paid		<u>-</u>
Interest paid		<u>-</u>

See Notes to Financial Statements

Jindal Saw USA, LLC
Notes to Financial Statement
March 31, 2012

Note 1 – Organization

Organization and Operations

Jindal Saw USA, LLC (the Company) is a Texas Limited Liability Company, which was incorporated in year 2007. The Company is a single member LLC which is 100% owned by SV Trading Company, which is indirectly owned by Jindal Saw Ltd., India. The operations consist of steel pipe double jointing and pipe coating facilities for steel up to 48 inches in diameter in Baytown Texas. The pipe processed is not owned by the Company but is processed for the customer based on specification required.

The Company engages in business activities which involve various risks, and future success is dependent upon a number of factors which include, among others, generating sufficient revenues, the market demand and price for the company's products, the price of raw materials and obtaining the necessary funds.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles (GAAP) used in the United States of America. The following notes describe the significant accounting policies.

Revenue Recognition

Revenue is recognized generally when the pipe double jointing or coating processes has been completed and accepted by the customer. The revenue is recognized when the following has been satisfied:

1. the Company has completed the processes and the customer has inspected and accepted the pipe;
2. the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
3. the amount of revenue can be measured reliably;
4. it is probable that the economic benefits associated with the transaction will flow to the Company; and
5. The costs incurred, or to be incurred in respect of the transaction, can be measured reliably.

Jindal Saw USA, LLC
Notes to Financial Statement
March 31, 2012

Note 2 – Summary of Significant Accounting Policies

Allowance for Doubtful Accounts

Bad debts are provided by using the allowance method based upon historical experience and management's evaluation of outstanding accounts receivable at the balance sheet date for receivables that may not be fully collectible. Management's evaluation also includes potential non-payment due to product claims by customers. The Company's receivables are mainly receivables from trade receivables. Management has determined not to provide for allowance and believes the receivables are fully collected and no allowance for doubtful accounts is need to be provided as of March 31, 2012.

Inventories

Inventories consist of raw material consumables, such as coating powder and paint used in the operations and are valued at the lower of cost or market using the first in first out cost method.

Property, Plant and Equipment

Property, Plant and Equipment are stated at cost. Depreciation is calculated over the estimated useful lives of the assets using the straight-line method. The Company uses straight-line depreciation method for machinery and equipment in manufacturing and processing operations and for certain other manufacturing equipment. Expenditures for renewals and improvements are capitalized; repairs and maintenance are charged to expense as incurred.

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be fully recoverable. Based on periodic assessments of the realizability of its long-term assets and the analysis of undiscounted future cash flows for its long-term assets, no impairment of long-term assets need to be recognized by the company.

Federal Income Taxes

The Company has elected to be taxed as a corporation under the Federal tax laws. The company records Income taxes pursuant to the liability method. Deferred tax assets and liabilities are recorded based upon differences between the financial statement and tax bases of assets and liabilities and the available tax carry forwards. A deferred tax valuation allowance is recorded to state deferred tax assets at the estimated net realizable value.

Jindal Saw USA, LLC
Notes to Financial Statement
March 31, 2012

Note 2 – Summary of Significant Accounting Policies

Fair Value of Financial Instruments

The Company considers the fair value of all financial instruments to be not materially different from their carrying values, at March 31, 2012 based on management's estimate of the Company's ability to borrow funds under the terms and conditions similar to those applicable to the Company's existing debt.

Advertising Costs

Advertising costs are expensed when incurred.

Use of Estimates

The preparation of financial statements, in conformity with the Generally Accepted Accounting Principles (GAAP) used in the United States of America, requires management to make estimates and assumptions that affects the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant estimates include estimated future life in determining current depreciation rates under the depreciation method, estimated amounts for uncollectible accounts receivables and the estimated present value of the Company's note payable to seller. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of cash and accounts receivable. The Company maintains cash balances at financial institutions which may at times be in excess of federally insured levels. The Company has not incurred losses related to these balances to date.

Other than related party revenue, The Company has three customers which represent 23.68%, 12.83% and 12.80% of the Company's total revenue. As of March 31, 2012 these three customers had balances representing 17.62%, 4.11% and 14.94% of the outstanding trade receivables.

Jindal Saw USA, LLC
Notes to Financial Statement
March 31, 2012

Note 3 – Property, Plant and Equipment

The Property, Plant and Equipment have been recorded at cost. The Property, Plant and Equipment as of March 31, 2011 and March 31, 2012 are as follows:

	Balance		Adjustment	Balance	Estimated
	March		Retirements	March	Useful
	31, 2011	Additions		31, 2012	Lives
					(Years)
Land	\$ 3,900,000	\$ 1,467,400	\$ -	\$ 5,367,400	
Buildings	7,826,656	2,028,268		9,854,924	40
Machinery and equipment	11,060,449	7,261,400	-	18,321,849	7-30
Autos, Trucks and other vehicles	227,230	1,623,925		1,851,154	5-7
Computers	95,528	5,990		101,518	5
Furniture, fixtures and office equipment	45,301	39,961		85,262	3-10
Construction in progress	7,887,954	1,090,052	7,354,597	1,623,410	
Total property and equipment	31,043,118	13,516,997	7,354,597	37,205,518	
Less Accumulated depreciation	2,802,103	1,582,384		4,384,487	
Net property and equipment	28,241,015	11,934,613	7,354,597	32,821,032	

Depreciation expenses for the period ending March 31, 2012 were \$1,582,384.

Jindal Saw USA, LLC
Notes to Financial Statement
March 31, 2012

Note 4 – Debt:

Debt was composed of forklifts loan through financing companies with monthly payments of \$35,054 per month maturing 2014 and 2015.

The debt will mature as follows:

	<u>Financing Co</u>
Fiscal year ending March 31, 2013	\$ 420,649
Thereafter	637,773
	<u>1,058,422</u>

Note 5 – Intercompany, Related Party and Affiliates Disclosure Information

The Company has transactions with related parties including companies affiliated through common ownership of the member who owns the company. The company has transactions mainly with SV Trading Limited and Jindal Saw Ltd., US Branch. The company receives advances from SV Trading and is charged interest at LIBOR plus 500 Bps on the outstanding amounts.

Intercompany

Intercompany receivables Due From

Jindal Saw Ltd. US branch	89,392
Jindal Saw Ltd.	-
Total Intercompany Receivables	<u>89,392</u>

Intercompany Revenue

Intercompany Revenue with Jindal Saw Ltd.
and JSW Steel USA

-

Jindal Saw USA, LLC
Notes to Financial Statement
March 31, 2012

Note 6 – Intercompany, Related Party and Affiliates Disclosure Information

Intercompany transactions with SV Trading are as follows:

Intercompany Payables

Advances from SV Trading Limited	<u>\$ 25,259,012</u>
Jindal Saw Ltd.	<u>88,303</u>
Interest payable SV Trading Limited	<u>3,424,622</u>

Intercompany transactions with SV Trading Ltd.

Interest expense recorded in for the year	<u>1,343,168</u>
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Intercompany transactions with Jindal Saw Ltd.

Purchase of Machinery	<u>292,432</u>
Sale of Machinery	-

Jindal Saw USA, LLC
Notes to Financial Statement
March 31, 2012

Note 7 – Income Taxes:

The company has elected to file as a Corporation for federal tax purposes. The company's deferred tax liabilities, deferred tax assets and deferred tax asset valuation allowances at March 31, 2012 is as follows

	<u>As of March 31, 2012</u>
Deferred tax assets/benefits related to:	
Net operating loss carry forward	\$ 2,950,397
Allowance for doubtful accounts	-
Interest not currently deductible	456,677
Other	-
	<hr/>
Total Deferred tax assets/benefits	3,407,074
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Deferred tax liability related to:	
Tax depreciation greater than financial	(434,317)
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Total Deferred tax liability	(434,317)
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Less deferred tax valuation allowance	2,972,757
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Net Deferred tax assets/benefits (liability)	-
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The company had approximately \$8.68 million in net operating loss (NOL) carry forwards for federal income tax purposes for the period ending March 31, 2011. The most of the net operating loss carry forwards has been utilized in the current financial year. Provision for taxes of \$350,190 has been made on the income for the year 2011.

Jindal Saw USA, LLC
Notes to Financial Statement
March 31, 2012

Note 8 – Commitments and Contingencies

Operating Leases

Rental expense under operating leases totaled \$45,134 for the period ended March 31, 2011. The company enters into various equipment rental agreements during the year which are operating leases. The rental agreements are short-term and cancellable and are not capital leases.

Contingencies

The company is subject to certain disputes and claims, which has arisen in the ordinary course of business. These actions, when ultimately concluded and determined, will not, in the opinion of management, have a material adverse effect on the financial position or results of operations of the company.