

This document has been prepared for Electrosteel Group internal use only and should not be distributed to third parties.

SUMMARY REVIEW MEMORANDUM

Electrosteel Trading, S.A.
March 31, 2016

This report has been prepared for the sole use of Ernst & Young India. It should not be passed onto any third party, which, for this purpose, includes the management of Electrosteel Casting, without our prior written consent. We have discussed the contents of this report with local management. We shall have no responsibility whatsoever before any third party in respect of the contents of this report.

1. THE COMPANY'S BUSINESS AND AUDIT SCOPE

1.1. The Company's business

The Company was set up at December 13rd, 2011.

Its activity consists of the purchases and sales of ductile iron pipes and fittings for water processing and engineering activities related to formerly mentioned activities.

The Company purchases all pipes and inventories to the Spanish affiliated branch Electrosteel Europe SA. The Company was set up to get new credit insurances and consequently reducing the risk of default in trade receivables.

The Company belongs to Electrosteel Group, whose ultimate parent company is Electrosteel Castings, Ltd. (India).

1.2. Scope of Procedures

As locally requested, we have performed a full audit review of the financial statements of the Company as of March 31, 2016 for its integration into Electrosteel Castings' financial statements in India in accordance with Spanish GAAP (similar to IFRS).

We are not going to issue any audit report for statutory purposes, since the Company does not fulfill requirements determined by local law.

We have not received any specific instructions from E&Y India for this purpose.

This document has been prepared for Electrosteel Group internal use only and should not be distributed to third parties.

1.3. Planning Materiality

The PM, Tolerable Error and SAD amount to 61, 31 and 3 thousand Euros respectively.

2. INTERNAL CONTROL

We have assessed the control environment of the Company as "effective". We did not become aware of any significant internal control weakness or breakdowns in accounting procedures. The Accounting responsible and the CEO review financial information and statements on a reasonably timely basis. Management is not aware of any hint of fraud or significant errors.

3. OVERALL ANALYTICAL REVIEW

Main analytical conclusions are explained in Section 4, with significant accounting and auditing issues all together.

We attach below balance sheet and P&L main figures

Balance Sheet March 31, 2016

	Euros	
	March 31, 2016	March 31, 2015
Assets		
Accounts receivable	1,108,541	2,059,089
Public entities	110,905	174,136
Cash and banks	49,840	141,505
Advanced payments	7,562	5,414
Short term financial investment	117,102	117,102
	<hr/>	<hr/>
	1,393,950	2.962,451
Total assets	1,393,950	2.497,246

Liabilities and Shareholders' equity

This document has been prepared for Electrosteel Group internal use only and should not be distributed to third parties.

Short-term provision	101,000	-
Other payables	71,744	197,212
Suppliers group companies and associates	1,122,560	2,201,946
Shareholders' equity	98,646	98,088
Total liabilities and Shareholders' equity	1,393,950	2,497,246

Income statement March 31, 2016

	Euros			
	March 31, 2016	% of sales	March 31, 2015	% of sales
Sales	3,054,188	100%	2,792,460	100%
Cost of sales	(2,868,891)	(94%)	(2,664,950)	(95%)
Other expenses	(179,647)	(6%)	(83,027)	(5%)
Results from ordinary activities	5,650	0%	44,478	0%
Financial results, net				
Financial expensive	(5,092)	(0%)	(241)	(0%)
Profit (Loss) before taxes	558	(0%)	44,237	0%
Income tax			(13,271)	
Net income/ (Loss) for the year	558	0%	30.966	0%

4. SIGNIFICANT ACCOUNTING AND AUDITING ISSUES

4.1 Trade Receivables

- Trade receivables balance amounts to 1.108 thousand Euros, which involves a decrease 46% compared with prior year. In order to reduce the period of payment, Electrosteel has requested early payment from the customers, so the average period of receivables payment has reduced.

This document has been prepared for Electrosteel Group internal use only and should not be distributed to third parties.

Concerning with our audit procedures related to this caption, we have requested client confirmations from all clients with outstanding balance as of March 31, 2016.

The procedures have been performed without any exception.

Regarding with ageing analysis as of March 31, 2016, we have noted that 120 thousand Euros are overdue more than 180 days.

As of March 31, 2016 the Company has registered a bad debt provision amounting 101 thousand euros. This provision is recorded as a short term provision in current Liabilities. **According to Spanish GAAP it should be recorded netting trade receivables balance, so we have include the Reclassification in SAD template**

We have checked that the provision amounting to 101 K Euros (100 thousand euros in 2014) are related to 4 clients, Hidroductil Canalizaciones SL, Aledan Sur SL, Exito Importadora e Exportadora S.A., Saglas. All the doubtful clients have been included in this provision.

In 2014 bad debt provision amounting 100 thousand euros was booked in Electrosteel Trading, see point 4.8.

Cutoff procedures have been performed and no exception has been noted.

There are not unusual nor significant credit balances according to sub ledger of trade receivables.

Balances in foreign currencies, have been properly converted in to local currency (Euros).

4.2 Public entities

Public entities are related to VAT receivable account. The Company has not netted receivable and payable balances related to VAT. The company has booked receivable balance concerns with VAT amounting to 108 thousand Euros and payable amounting to 72 thousand euros, so net balance payable concerning with VAT is 37 thousand Euros. **We have proposed reclassification amounting to 72 thousand euros netting VAT receivable account.**

The company didn't book this reclassification in 2014, so the net amount was 11 thousand euros in account payables.

This document has been prepared for Electrosteel Group internal use only and should not be distributed to third parties.

4.3 Short term financial investment

The Company has an account receivable with Eletrosteel Europe that it has recognized as a current account with partners and administrators amounting to 117 thousand euros. We have proposed reclassification to accounts receivable from group companies and associates.

4.4 Cash & Equivalents

He have verified cash and equivalents account and obtained the corresponding bank confirmations. No exceptions have been noted. The heading has been decreased because the average payment period has been reduced.

4.5 Equity.

The equity amounts to 98 thousand Euros and is referred to the share capital of the company totally subscribed and paid out, reserves and the result for the year ended in March 2016. Result for the prior year has been properly transferred to reserves, and the variation compared 2015 is the result of 2016.

4.6 Trade payables.

Trade payables amount to 1.123 thousand Euros (2.201 thousand Euros in prior year). This balance is practically owed to the affiliated company Electrosteel Europe (Spanish branch).

The decrease of the account is due to the reduction of average payment period.

As mentioned in section one, the company purchases all the stock to the mentioned affiliated company and it is immediately sold to final client. It is important to remark that the Company holds no stock.

The Company has booked payable accounts with Electrosteel Europe as third parties, so we have proposed reclassification to payables to group companies and associates.

Balance and transactions with Electrosteel Europe Spanish branch have been properly reconciled.

4.7 Other payables

The Company doesn't net the balances of VAT, see point 4.2

This document has been prepared for Electrosteel Group internal use only and should not be distributed to third parties.

4.8 Short-term provision

As we comment in point 4.1, the Company has booked bad debt provision in this heading. This heading has increased because last year, the Company booked this provision amounting to 100 thousand euros in the Company Eletrosteel Europe.

4.9 P&L ACCOUNT

Sales for the year ended in March 2016, amount to 3,054 thousand Euros (2,792 thousand Euros in prior year), which involves an increase of 9%. The breakdown is as follows:

The increment in sales (262 Thousand euros in 2016) is mainly due to the commercial effort. The company has signed off new commercial agreement with CELEKS amounting to 250 Thousand euros in 2016.

As we can see below, the margin is in line in 2015 and 2014:

	March 31, 2016	March 31, 2015
Sales	3.054.188	2.792.460
Cost of sales	-2.868.891	-2.664.950
Margin	185.297	127.510
%	6%	5%

Since the Company is a mere trader, the Group decided to distribute total margin between Electrosteel Trading Spanish branch and Electrosteel Trading in an 90% (Margin For Europe)/10% (Margin for Trading), since Trading is a mere intermediary without infrastructure costs.

Other operational expenses have increased because the Company booked bad debt provision amounting to 100 thousand euros in the Company Eletrosteel Europe last year, and this year this provision has been booked in the Company as we comment in point 4.8.

There are no personnel cost in P&L Statement as the Company does not count on own personnel or employees.

This document has been prepared for Electrosteel Group internal use only and should not be distributed to third parties.

4.10 MANAGEMENT FEES & TRANSFER PRICING POLICY

In order to adapt Spanish legislation to European standards, on January 1, 2007 a new law came into effect in Spain regulating transfer prices, which requires Spanish companies to comply with the following rules:

- Valuation of transactions between related persons or entities on the basis of their normal market value.
- Maintenance of a file with all the documents accrediting the agreed-upon transfer prices, and be available to the tax authorities.

It is required that the Company prepares two sets of documentation:

- A "master file" related to the group as a whole.
- A "local file" for each taxpayer containing specific information on the description, analysis and valuation of the controlled transactions.

In case of non-compliance in respect to the documentation accrediting the transfer prices, the new legislation establishes a fine, the amount of which depends on the information omitted. In order to avoid potential fines and corrections of the taxable base for corporate income tax, the Company, together with its headquarters, should take the appropriate measures to satisfy the requirements established by Spanish legislation.

Local management has informed us that a Master and a Local File has been prepared at Group Level, therefore we submit this issue to corporate management.

Although the policy established to share margin on sales between Electrosteel Europe and Electrosteel Trading seems to be reasonable, we have noted that no management fee has been charged, in spite of being taking benefit of the hired offices, and personnel of Electrosteel Europe and other supporting resources.

That is the reason why a formal written contract should be signed between both parts, determining the basis and rationale to calculate the amount to be charged as management fees in order to avoid potential tax contingencies in the even a tax inspection from Authorities occurs.

This document has been prepared for Electrosteel Group internal use only and should not be distributed to third parties.

5. SUMMARY OF AUDIT DIFFERENCES

Reclassifications:

	DR	(CR)
Net balance payable concerning with VAT		
VAT receivable		(72)
VAT payable	72	

Receivable account with Electrosteel Trading		
Current account with partners and administrators		(117)
Receivable from group companies and associates	117	

	DR	(CR)
Reclassification of Bad debt provision		
Other provisions	101	
Debt provision		(101)

Reclassification to suppliers payables from group		
Suppliers receivables from group Companies	1.130	
Suppliers receivables third		(1.130)

6. OUSTANDING MATTERS

- Lawyer confirmation
- Representation letter
- Income tax provision

7. CONCLUSION

See conclusions above mentioned.

This document has been prepared for Electrosteel Group internal use only and should not be distributed to third parties.

8. MATTERS TO BE FOLLOWED

- Transfer prices documentation (see caption 4.9).

9. SIGN-OFF


Prepared by: Ana Belén Pedrosa
Manager


Approved by: Baillio Gomez Salinas
Partner

May 10, 2016
E&Y Madrid, Spain