WELSPUN MIDDLE EAST PIPES COMPANY
(A LIMITED LIABILITY COMPANY)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020
AND INDEPENDENT AUDITOR'S REPORT

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

Independent auditor's report to the shareholders of Welspun Middle East Pipes Company

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Welspun Middle East Pipes Company (the "Company") as at 31 March 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

What we have audited

The Company's financial statements comprise:

- the statement of profit or loss and other comprehensive income for the year ended 31 March 2020;
- the statement of financial position as at 31 March 2020;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's Articles of Association, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. Board of Directors, are responsible for overseeing the Company's financial reporting process.

PricewaterhouseCoopers, License No. 25,
Al Hugayet Tower, P.O. Box 467, Dhahran Airport 31932, Kingdom of Saudi Arabia
T: +966 (13) 849-6311, F: +966 (13) 849-6281, www.pwc.com/middle-east

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Independent auditor's report to the shareholders of Welspun Middle East Pipes Company (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

Ali H. Al Basri
License Number 409

17 June 2020

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Statement of profit or loss and other comprehensive income
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 March 2020	2019
Revenue	4	**1,668,863,844**	707,189,741
Cost of revenue	5	**(1,332,511,587)**	(725,957,826)
Gross profit (loss)		**336,352,257**	(18,768,085)
General and administrative expenses	6	**(12,705,941)**	(14,788,986)
Selling and marketing expenses	7	**(7,657,200)**	(11,516,183)
Expected credit loss allowance	14	**(3,927,679)**	-
Other operating income - net	8	**2,599,042**	738,906
Operating profit (loss)		**314,660,479**	(44,334,348)
Financial costs	9	**(48,110,487)**	(28,018,003)
Profit (loss) before zakat and income tax		**266,549,992**	(72,352,351)
Zakat expense	23	**(4,577,027)**	116,829
Income tax expense	23	**(25,039,146)**	2,935,625
Profit (loss) for the year		**236,933,819**	(69,299,897)
Other comprehensive loss			
Item that will not be reclassified to profit or loss			
Remeasurements of employee benefit obligations	21	**(1,273,370)**	(1,362,190)
Total comprehensive income (loss) for the year		**235,660,449**	(70,662,087)
Earnings (loss) per share:			
Basic and diluted	28	**3.12**	(0.91)

The accompanying notes are an integral part of these financial statements.

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 March 2020	2019
Assets			
Non-current assets			
Property, plant and equipment	10	**229,732,636**	253,537,259
Right-of-use assets	11	**31,285,041**	-
Intangible assets	12	**126,149**	331,800
Deferred tax asset	23	**-**	2,935,625
Total non-current assets		**261,143,826**	256,804,684
Current assets			
Inventories	13	**175,783,794**	196,180,959
Trade and other receivables	14	**642,498,613**	356,137,767
Zakat and income tax refundable	23	**-**	3,168,226
Cash and cash equivalents	15	**69,124,120**	16,237,420
Total current assets		**887,406,527**	571,724,372
Total assets		**1,148,550,353**	828,529,056
Equity and liabilities			
Equity			
Share capital	16	**76,046,875**	76,046,875
Statutory reserve	17	**20,178,886**	-
Retained earnings (accumulated losses)		**180,336,614**	(35,144,949)
Total equity		**276,562,375**	40,901,926
Liabilities			
Non-current liabilities			
Long-term borrowings	18	**-**	37,500,000
Long-term loans from shareholders	24	**105,882,396**	105,882,396
Lease liabilities	20	**25,107,677**	-
Deferred tax liability	23	**738,776**	-
Employee benefit obligations	21	**12,033,140**	9,217,750
Advance from a customer	22	**-**	38,371,501
Total non-current liabilities		**143,761,989**	190,971,647
Current liabilities			
Trade and other payables	22	**191,828,710**	337,928,531
Current portion of long-term borrowings	18	**70,739,125**	71,603,027
Current portion of lease liabilities	20	**6,616,727**	-
Short-term borrowings	19	**436,427,715**	187,123,925
Zakat and income tax payable	23	**22,613,712**	-
Total current liabilities		**728,225,989**	596,655,483
Total liabilities		**871,987,978**	787,627,130
Total equity and liabilities		**1,148,550,353**	828,529,056

These financial statements including accompanying notes were authorized for issue by the Company's Board of Directors on 17 June 2020 and signed on their behalf by:

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Statement of changes in equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Welspun Mauritius Holdings Company Ltd.	Mohawareen Industrial Services	Aziz European Pipe Factory	Vision International Investment Co.	Aziz Company for Contracting & Industrial Investment	Total
Share capital							
1 April 2018 and 31 March 2019		38,031,042	3,794,739	34,221,094	-	-	76,046,875
Change in shareholders	16	-	-	(34,221,094)	12,547,734	21,673,360	-
31 March 2020		38,031,042	3,794,739	-	12,547,734	21,673,360	**76,046,875**
Statutory reserve							
1 April 2018		12,807,154	1,277,898	11,524,134	-	-	25,609,186
Transfer to retained earnings	17	(12,807,154)	(1,277,898)	(11,524,134)	-	-	(25,609,186)
31 March 2019		-	-	-	-	-	-
Transfer from retained earnings	17	10,091,461	1,006,926	-	3,329,516	5,750,983	**20,178,886**
31 March 2020		10,091,461	1,006,926	-	3,329,516	5,750,983	**20,178,886**
Retained earnings (accumulated losses)							
1 April 2018		10,522,254	(198,825)	(415,477)	-	-	9,907,952
Loss before zakat and income tax		(36,183,411)	(3,610,382)	(32,558,558)	-	-	(72,352,351)
Other comprehensive loss for the year		(681,231)	(67,973)	(612,986)	-	-	(1,362,190)
Zakat and income tax expense	23	2,935,625	11,662	105,167	-	-	3,052,454
Transfer from statutory reserve	17	12,807,154	1,277,898	11,524,134	-	-	25,609,186
31 March 2019		(10,599,609)	(2,587,620)	(21,957,720)	-	-	(35,144,949)
Profit before zakat and income tax for the period from 1 April 2019 to 31 October 2019		49,436,395	4,932,766	44,483,858	-	-	**98,853,019**
Zakat and income tax expense for the period from 1 April 2019 to 31 October 2019	23	(9,887,279)	(139,274)	(1,255,975)	-	-	**(11,282,528)**
Other comprehensive income for the period from 1 April 2019 to 31 October 2019		-	-	-	-	-	-
31 October 2019		28,949,507	2,205,872	21,270,163	-	-	**52,425,542**

(continued)

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Statement of changes in equity (continued)
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Welspun Mauritius Holdings Company Ltd.	Mohawareen Industrial Services	Aziz European Pipe Factory	Vision International Investment Co.	Aziz Company for Contracting & Industrial Investment	Total
Retained earnings (accumulated losses) (continued)							
Change in shareholders	16	-	-	(21,270,163)	7,799,060	13,471,103	-
Profit before zakat and income tax for the period from 1 November 2019 to 31 March 2020		83,865,256	8,368,079	-	27,670,001	47,793,637	**167,696,973**
Other comprehensive loss for the period from 1 November 2019 to 31 March 2020	21	(636,812)	(63,541)	-	(210,107)	(362,910)	**(1,273,370)**
Zakat and income tax expense for the period from 1 November 2019 to 31 March 2020	23	(15,151,867)	(317,605)	-	(1,050,197)	(1,813,976)	**(18,333,645)**
Transfer to statutory reserve	17	(10,091,461)	(1,006,926)	-	(3,329,516)	(5,750,983)	**(20,178,886)**
31 March 2020		86,934,623	9,185,879	-	30,879,241	53,336,871	**180,336,614**
Total equity							
31 March 2020		**135,057,126**	**13,987,544**	**-**	**46,756,491**	**80,761,214**	**276,562,375**
31 March 2019		27,431,433	1,207,119	12,263,374	-	-	40,901,926

The accompanying notes are an integral part of these financial statements.

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 March 2020	2019
Cash flows from operating activities			
Profit (loss) before zakat and income tax		**266,549,992**	(72,352,351)
Adjustments for:			
Depreciation	10, 11	**33,593,894**	25,955,411
Amortization	12	**215,651**	212,449
Gain from sale of property and equipment		**(36,451)**	(64,145)
Gain on early termination of lease liabilities		**(116,619)**	-
Provision (reversal) for inventory obsolescence	13	**3,731,391**	(331,655)
Expected credit loss allowance	14	**3,927,679**	-
Financial costs	9	**48,110,487**	28,018,003
Provision for employee benefit obligations	21	**1,631,150**	1,169,360
Changes in operating assets and liabilities:			
Decrease (increase) in inventories		**16,665,774**	(139,058,334)
Increase in trade and other receivables		**(290,288,525)**	(272,155,794)
(Decrease) increase in trade and other payables		**(184,827,371)**	262,007,576
Cash used in operations		**(100,842,948)**	(166,599,480)
Financial costs paid		**(46,850,691)**	(21,123,514)
Employee benefit obligations paid	21	**(470,880)**	(167,710)
Zakat and income tax paid	23	**(159,834)**	-
Net cash outflow from operating activities		**(148,324,353)**	(187,890,704)
Cash flows from investing activities			
Payments for purchases of property, plant and equipment	10	**(2,919,489)**	(23,467,979)
Payments for purchases of intangible assets	12	**(10,000)**	(39,529)
Proceeds from sale of property and equipment		**36,451**	69,505
Net cash outflow from investing activities		**(2,893,038)**	(23,438,003)
Cash flows from financing activities			
Changes in short-term borrowings		**247,917,891**	187,123,925
Repayments of long-term borrowings		**(37,500,000)**	(18,750,000)
Repayments of lease liabilities		**(6,313,800)**	-
Net cash inflow from financing activities		**204,104,091**	168,373,925
Net change in cash and cash equivalents		**52,886,700**	(42,954,782)
Cash and cash equivalents at beginning of year		**16,237,420**	59,192,202
Cash and cash equivalents at end of year	15	**69,124,120**	16,237,420

Non-cash investing and financing activities:
Recognition of right-of-use assets and corresponding lease liabilities (See Notes 2.1.3, 11 and 20)

The accompanying notes are an integral part of these financial statements.

1 General information

Welspun Middle East Pipes Company (the "Company") is engaged in manufacturing and sale of spiral steel pipes.

The Company is a limited liability company licensed under foreign investment license number 121031118992 issued by the Ministry of Investment (previously the 'Saudi Arabian General Investment Authority') on 22 Rajab 1431H (4 July 2010) operating under commercial registration number 2050071522 issued in Dammam on 22 Rajab 1431H (4 July 2010). The registered address of the Company is P.O. Box 12943, Dammam 31483, Kingdom of Saudi Arabia.

During 2019, the Board of Directors ("BoDs") of the Company recommended to initiate legal formalities to file the Company's Initial Public Offering ("IPO") with the relevant regulatory authorities in the Kingdom of Saudi Arabia. As of 31 March 2020, the IPO was subject to various approvals including approval from the shareholders of the Company.

During 2019, the BoDs of the Company recommended to merge the Company with Welspun Middle East Pipes Coating Company ("WMEPC"), a limited liability company registered in the Kingdom of Saudi Arabia owned by the Company's shareholders in the same shareholding proportion ("common control").

Subsequent to 31 March 2020 and based on the BoDs recommendation, the Company's shareholders signed an agreement on 14 May 2020, whereby it was agreed to merge WMEPC's operations and all its assets, rights, liabilities and obligations with WMEP. Under the terms of the above-mentioned agreements and as both the Company and WMEPC are under common control, there is no consideration to be paid and the carrying values of assets and liabilities of the WMEPC will be transferred to WMEP on the effective date of merger. The legal formalities relating to the merger activities were in process as of the date of the approval of these financial statements.

In response to the spread of the Covid-19 pandemic in the GCC and other territories where the Company operates and its consequential disruption to the social and economic activities in those markets, the Company's management has proactively assessed its impacts on its operations and has taken a series of proactive and preventative measures, including activation of the crisis management team and associated processes to:

- ensure the health and safety of its employees and contractors as well as the wider community where it is operating.
- minimizing the impact of the pandemic on its operations and product supply to the market.

Notwithstanding these challenges, the Company was successful in maintaining stable operations while maneuvering limited demand interruptions to maintain product flow to the market. The Company's management believes that the Covid-19 pandemic, by itself, has had limited direct material effects on Company's reported results for the year ended 31 March 2020. The Company's management continues to monitor the situation closely.

2 Summary of significant accounting policies

The principal accounting policies applied for the preparation of financial statements of the Company are set out below. The accounting policies have been consistently applied to all the years presented, except for the policy on leases which was changed due to the adoption of new accounting standard IFRS 16 'Leases' ("IFRS 16") as explained in 2.1.3.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation

2.1.1 Statement of compliance

These financial statements of the Company have been prepared in compliance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia ("IFRS"), and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

2.1.2 Historical cost convention

These financial statements are prepared under the historical cost convention except where IFRS requires other measurement basis as disclosed in the relevant accounting policies.

2.1.3 New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their reporting periods commencing on or after 1 April 2019.

Amendment to IFRS 9, 'Financial instruments', on modification of financial liabilities

This amendment applies when a financial liability, measured at amortised cost, is modified without this resulting in a de-recognition, a gain or loss should be recognised immediately in the profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. No material impact was identified.

Annual improvements to IFRS Standards 2015 - 2017

These amendments include minor changes to IAS 23 - Borrowing costs - a company treats as part of general borrowings any long-term borrowing originally made to develop a qualified asset when the asset is ready for its intended use or sale. No material impact was identified.

Amendments to IAS 19 - Employee benefits on plan amendment, curtailment or settlement

These amendments require an entity to:

- use updated assumptions to determine the current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement and
- recognise in profit or loss as part of past service cost, a gain or a loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

No material impact was identified.

International Financial Reporting Interpretations Committee ("IFRIC") 23 - Uncertainty over income tax treatments

This IFRIC clarifies how the recognition and measurement requirements of IAS 12 - Income taxes, are to apply where there is uncertainty over income tax treatments. The IFRIC had clarified previously that IAS 12, not "IAS 37 - Provisions, contingent liabilities and contingent assets", applies to accounting for uncertain income tax treatments.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.3 New and amended standards adopted by the Company (continued)

International Financial Reporting Interpretations Committee ("IFRIC") 23 - Uncertainty over income tax treatments (continued)

IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The Company has also assessed the impact of the application of the interpretation related to uncertainty over income tax treatments and has incorporated the relevant adjustments in the financial statements. No material impact was identified.

Adoption of IFRS 16

a) Transition approach and impact

The Company has adopted IFRS 16 from 1 April 2019, using the modified retrospective method, and has not restated comparatives for the 31 March 2019 reporting period, as permitted under the specific transitional provisions in IFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the statement of financial position on 1 April 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 April 2019. The equal and opposite side of the lease liability calculated, is the right-of-use asset. Therefore, there is no adjustment against opening accumulated deficit as at the transition date i.e. 1 April 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.50%.

The adoption of IFRS 16 has resulted in recognition of right-of-use assets and lease liabilities of Saudi Riyals 38.6 million as of 1 April 2019. In applying IFRS 16 for the first time, the Company has not used any practical expedient permitted by the standard.

b) Reconciliation of operating lease commitments disclosed as at 31 March 2019 and lease liabilities recognized as at 1 April 2019:

	Saudi Riyals
Operating lease commitments disclosed as at 31 March 2019	17,198,172
Adjustment as a result of assessment of lease contracts under IFRS 16	27,305,764
Less: Impact of discounting using the Company's incremental borrowing rate at the date of initial application	(5,919,952)
Lease liabilities recognized as at 1 April 2019	38,583,984
Of which are:	
Current portion of lease liabilities	6,505,800
Non-current portion of lease liabilities	32,078,185
	38,583,984

2.1.4 Standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2020 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies (continued)

2.2 Revenue

Revenue is measured at the fair value of the consideration received or receivable net of returns, allowances and trade discounts for the sale of goods in the ordinary course of the Company's activities. The Company recognizes revenue when control of the goods has transferred, being when the products are delivered to the customer, the customer has full discretion over the use or sale of such goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been acknowledged by the customer through third party inspection documents and material release notes, the risks of obsolescence and loss have been transferred to the customer, the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered or acknowledged by the customer as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Company does not have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

2.3 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in "Saudi Riyals", which is the Company's presentation as well as functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

2.4 Zakat and taxes

In accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"), the Company is subject to zakat attributable to Saudi shareholding and to income tax attributable to the foreign shareholding in the Company. Provisions for zakat and income tax are charged to profit or loss for the year. Additional amounts, if any, are accounted for when determined to be required for payment. Further, the amounts for zakat and income tax expense for the year are presented in the statement of changes in equity in accordance with the guidance issued by SOCPA for companies with mixed ownership in line with the terms of the agreement between the shareholders of the Company.

Income tax based on the applicable income tax rate is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Deferred income tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 Summary of significant accounting policies (continued)

2.4 Zakat and taxes (continued)

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company withholds tax on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, including dividends payment to the foreign shareholder, as required under the Saudi Arabian Income Tax Law.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated on property, plant and equipment so as to allocate its cost, less estimated residual value, on a straight-line basis over the estimated useful lives of the assets. The depreciation expense is recognised in profit or loss in the expense category consistent with the function of the property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each annual reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. Major spare parts qualify for recognition as property, plant and equipment when the Company expects to use them during more than one year. Transfers are made to relevant operating assets category as and when such items are available for use

Assets in the course of construction or development are capitalised in the capital work-in-progress account. The asset under construction or development is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of capital work-in-progress comprises its purchase price, construction / development costs and any other directly attributable costs to the construction or acquisition of an item of capital work-in-progress intended by management. Capital work-in-progress is not depreciated.

2 Summary of significant accounting policies (continued)

2.6 Leases

2.6.1 Accounting policy applied from 1 April 2019

At the inception of the contract the Company assesses whether a contract is or contains a lease. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liabilities

The lease liability is initially measured at the net present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the individual lessee, which does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

Lease liabilities include the net present value of the following lease payments:

- fixed lease payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

2 Summary of significant accounting policies (continued)

2.6 Leases (continued)

2.6.1 Accounting policy applied from 1 April 2019 (continued)

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due); and
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 “Provisions, contingent liabilities and contingent assets”. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the Right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 “Impairment of Assets” to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the profit or loss.

2.6.2 Following lease accounting policy was applied until 31 March 2019

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

2 Summary of significant accounting policies (continued)

2.7 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be finite.

Intangible assets are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and carrying amount of the asset and are recognized in the profit or loss when the asset is derecognised.

2.8 Financial instruments

2.8.1 Financial assets

(a) Classification

The Company classifies its financial assets as measured at amortised cost. See Note 26 for details of each type of financial asset. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

(b) Recognition and derecognition

At initial recognition, the Company measure financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of financial asset. Transactions cost of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The Company derecognizes a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

(c) Measurement

Subsequent measurement of financial assets depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. The Company classifies its financial assets as measured at amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and interest are measure at amortised cost. A gain or loss on a financial instrument that is subsequently measured at amortized cost and is not part of the hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is calculated using the effective interest rate method.

Currently, the Company does not hold any equity instruments, therefore the related accounting policies are not presented.

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

2.8.2 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the profit or loss.

2.8.3 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

2.9 Impairment of financial assets

The Company assesses on a forward looking basis the Expected Credit Loss ("ECL") associated with its financial assets carried at amortized cost. Refer Note 25, which details how the Company determines whether there has been a change in credit risk.

For trade receivables and other financial assets, the Company applies the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables. The amount of the loss is charged to profit or loss.

The loss rates are based on probability of default based on historical trends relating to collections of Company's trade receivables. The loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, significant decrease in credit worthiness of the customer, the failure of the customer to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 720 days past due.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss.

2.10 Impairment of non-financial assets excluding inventories

The Company assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash-Generating Unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

2 Summary of significant accounting policies (continued)

2.10 Impairment of non-financial assets excluding inventories (continued)

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

2.11 Inventories

Raw materials and spares, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Allowance for inventory obsolescence is made considering various factors including age of the inventory items, historic usage and expected utilization in future.

2.12 Trade receivables

Trade receivables are amounts due from customers for products sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less allowance for ECL.

2.13 Cash and cash equivalents

For the purpose of statement of financial position and presentation in the statement of cash flows, cash and cash equivalents include cash in hand, cash at banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.14 Share capital

Ordinary shares are classified as equity.

2.15 Trade payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are initially recognised at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, long-term borrowings are measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

2 Summary of significant accounting policies (continued)

2.16 Borrowings (continued)

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as "other operating income - net" or "financial costs".

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

2.17 Employee benefit obligations

The Company operates a single post-employment benefit scheme of defined benefit plan driven by the labor laws of the Kingdom of Saudi Arabia which is based on most recent salary and number of service years.

The post-employment benefits plan is not funded. Accordingly, valuations of the obligations under the plan are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognised immediately in profit or loss while unwinding of the liability at discount rates used are recorded in profit or loss. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in the other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in other comprehensive income and transferred to retained earnings in the statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor laws of the Kingdom of Saudi Arabia.

2.18 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, and which are reviewed by the Chief Operating Decision Maker of the Company.

The BoDs of the Company assesses the financial performance and position of the Company, and makes strategic decisions. The BoDs has been identified as being the Chief Operating Decision Maker.

The financial statements are prepared on the basis of a single reporting segment consistent with the information reviewed by the Chief Operating Decision Maker of the Company. The business activities of the Company are concentrated in the Kingdom of Saudi Arabia. All operating assets of the Company are located in the Kingdom of Saudi Arabia.

2 Summary of significant accounting policies (continued)

2.19 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. However, as explained in Note 1, Management, through the crisis management team, has proactively assessed the potential of the Covid-19 pandemic for any further regulatory and government restrictions both locally and in the market in which the Company operates that could adversely affect our supply chain and our production capabilities, demand of our products, as well as our sales distribution network that could cause a negative impact on our financial performance. Management has concluded that our critical accounting judgements, estimates and assumptions remain appropriate under the current circumstances.

The estimates that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve month period are discussed below:

Useful lives of property, plant and equipment

The Company’s management determines the estimated useful lives of property, plant and equipment for computing depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Residual value and useful lives are reviewed annually and future depreciation charges are adjusted where the useful lives differ from previous estimates. See Note 10 for the estimated useful lives of the property, plant and equipment. At 31 March 2020, if the useful lives varied by 10% against the current useful lives with all other variables held constant, the impact on profit for the year would have been Saudi Riyals 2.7 million.

(All amounts in Saudi Riyals unless otherwise stated)

3 Critical accounting estimates and judgments (continued)

Right-of-use assets and lease liabilities

Extension and termination options are included in a number of leases of the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. Extension options (or periods after termination options) are included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of parcels of land and buildings, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate);
- if any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate); and
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

4 Revenue

	2020	**2019**
Revenue - point in time	**1,668,863,844**	707,189,741

Revenue includes scrap sales of Saudi Riyals 25.7 million which represent sale of off-spec pipes and certain other ancillary products. For better presentation, management has classified such scrap sales as revenue for the year ended 31 March 2020 in the statement of profit or loss and other comprehensive income and has reclassified the 2019 comparative amount for such scarp sales of Saudi Riyals 17.3 million accordingly which was presented under 'Other operating income - net' in the statement of profit or loss and other comprehensive income to conform with current year's presentation.

5 Cost of revenue

	Note	**2020**	**2019**
Cost of materials		**1,206,407,345**	629,968,144
Salaries and benefits		**48,006,831**	34,197,526
Depreciation	10, 11	**33,288,915**	25,447,155
Sub-contractors costs		**20,431,303**	14,289,840
Provision (reversal) for inventory obsolescence	13	**3,731,391**	(331,655)
Packing material		**3,512,023**	2,112,708
Amortization	12	**172,521**	205,955
Other		**16,961,258**	20,068,153
		1,332,511,587	725,957,826

(All amounts in Saudi Riyals unless otherwise stated)

6 General and administrative expenses

	Note	2020	2019
Salaries and benefits		**9,150,288**	10,798,494
Professional fee		**776,399**	1,232,298
Utilities		**504,917**	584,683
Repair		**295,462**	142,343
Rent		**269,949**	242,798
Depreciation	10	**221,976**	201,642
Travel		**104,302**	154,348
Amortization	12	**43,130**	6,493
Other		**1,339,518**	1,425,887
		12,705,941	14,788,986

7 Selling and marketing expenses

	Note	2020	2019
Rent		**4,999,526**	5,940,481
Salaries and benefits		**1,645,885**	4,349,508
Depreciation	10	**83,003**	306,614
Other		**928,786**	919,580
		7,657,200	11,516,183

8 Other operating income - net

	Note	2020	2019
Other operating income - net	4	**2,599,042**	738,906
		2,599,042	738,906

9 Financial costs

	Note	2020	2019
Financial costs on long-term borrowings	18	**2,330,924**	5,189,002
Financial costs on short-term borrowings	19	**25,821,712**	7,970,448
Financial costs on loans from shareholders	24	**5,574,055**	5,558,826
Financial costs on lease liabilities	20	**1,482,128**	-
Unwinding of Saudi Industrial Development Fund (“SIDF”) commitment fees	18	**440,770**	755,640
Accretion of employee termination obligations	21	**381,750**	322,380
Letter of credit facilities charges		**10,352,430**	8,221,707
Other		**1,726,718**	-
		48,110,487	28,018,003

(All amounts in Saudi Riyals unless otherwise stated)

10 Property, plant and equipment

	1 April 2019	Additions	Disposals/ transfer	31 March 2020
2020				
Cost				
Buildings and leasehold improvements	46,327,776	-	-	**46,327,776**
Plant and machinery	424,030,406	135,841	-	**424,166,247**
Furniture, fixtures and office equipment	2,977,032	228,659	-	**3,205,691**
Vehicles	1,504,922	90,464	(247,000)	**1,348,386**
Capital work-in-progress	564,875	2,464,525	-	**3,029,400**
	475,405,011	2,919,489	(247,000)	**478,077,500**
Accumulated depreciation				
Buildings and leasehold improvements	(19,365,185)	(2,568,075)	-	**(21,933,260)**
Plant and machinery	(198,411,388)	(23,904,905)	-	**(222,316,293)**
Furniture, fixtures and office equipment	(2,727,915)	(155,636)	-	**(2,883,551)**
Vehicles	(1,363,264)	(95,496)	247,000	**(1,211,760)**
	(221,867,752)	(26,724,112)	247,000	**(248,344,864)**
	253,537,259			**229,732,636**

	1 April 2018	Additions	Disposals/ Transfer	31 March 2019
2019				
Cost				
Buildings and leasehold improvements	45,036,269	-	1,291,507	46,327,776
Plant and machinery	402,376,453	3,175,767	18,478,186	424,030,406
Furniture, fixtures and office equipment	2,934,081	108,890	(65,939)	2,977,032
Vehicles	1,736,592	-	(231,670)	1,504,922
Capital work-in-progress	216,408	20,183,322	(19,834,855)	564,875
	452,299,803	23,467,979	(362,771)	475,405,011
Accumulated depreciation				
Buildings and leasehold improvements	(16,860,794)	(2,504,391)	-	(19,365,185)
Plant and machinery	(175,253,482)	(23,157,906)	-	(198,411,388)
Furniture, fixtures and office equipment	(2,685,684)	(167,972)	125,741	(2,727,915)
Vehicles	(1,469,792)	(125,142)	231,670	(1,363,264)
	(196,269,752)	(25,955,411)	357,411	(221,867,752)
	256,030,051			253,537,259

(All amounts in Saudi Riyals unless otherwise stated)

10 Property, plant and equipment (continued)

Depreciation is calculated on straight-line basis over the following estimated useful lives of the assets:

	Number of years
• Buildings and leasehold improvements	10 - 20
• Plant and machinery	2 - 20
• Furniture, fixtures and office equipment	2 - 5
• Vehicles	3 - 5

11 Right-of-use assets

	Land	Building	Total
Cost			
IFRS 16 adjustment:			
Initial recognition of right-of-use assets upon adoption of IFRS 16	35,642,206	2,941,778	**38,583,984**
Additions during the year	-	-	-
Terminations during the year	-	(528,198)	**(528,198)**
31 March 2020	35,642,206	2,413,580	**38,055,786**
Accumulated depreciation			
1 April 2019	-	-	-
Depreciation	(6,167,350)	(702,432)	**(6,869,782)**
Terminations during the year	-	99,037	**99,037**
31 March 2020	(6,167,350)	(603,395)	**(6,770,745)**
Net book value			
31 March 2020	29,474,856	1,810,185	**31,285,041**

The Company has leases in respect of various parcels of land and building. Rental contracts are typically made for fixed periods of 3 to 16 years and considered an extension option where the Company's management is reasonably certain to exercise.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets are not be used as security for borrowing purposes

During 2020 and 2019, the Company does not have any short-term or low value leases.

12 Intangible assets

	2020	2019
Cost		
1 April	**2,115,397**	2,075,868
Additions	**10,000**	39,529
31 March	**2,125,397**	2,115,397
Accumulated amortization		
1 April	**(1,783,597)**	(1,571,148)
Amortization for the year	**(215,651)**	(212,449)
31 March	**(1,999,248)**	(1,783,597)
Net book value	**126,149**	331,800

Intangible assets represents software and is amortized on a straight-line basis over their estimated useful life which is 3 years.

(All amounts in Saudi Riyals unless otherwise stated)

13 Inventories

	31 March 2020	31 March 2019
Raw materials	**81,127,481**	76,546,038
Work-in-progress	**3,730,327**	4,512,281
Finished products	**54,390,617**	105,366,299
Spare parts and supplies, not held for sale	**15,151,509**	11,824,049
Goods-in-transit	**27,182,959**	-
	181,582,893	198,248,667
Less: provision for inventory obsolescence	**(5,799,099)**	(2,067,708)
	175,783,794	196,180,959

Movement in provision for inventory obsolescence is as follows:

	2020	2019
1 April	**2,067,708**	2,399,363
Addition (reversal)	**3,731,391**	(331,655)
31 March	**5,799,099**	2,067,708

14 Trade and other receivables

	Note	31 March 2020	31 March 2019
Trade receivable		**548,759,150**	263,810,727
Less: ECL allowance		**(3,927,679)**	-
		544,831,471	263,810,727
Related parties	24	**89,828,620**	27,492,305
Advances to suppliers		**4,953,177**	1,886,425
Prepaid expenses		**2,408,751**	58,069,498
Other		**476,594**	4,878,812
		642,498,613	356,137,767

(a) Movement in ECL allowance is as follows:

	2020	2019
1 April	**-**	-
ECL allowance	**3,927,679**	-
31 March	**3,927,679**	-

	2020	2019
General ECL allowance	**2,927,679**	-
Specific ECL allowance	**1,000,000**	-
	3,927,679	-

(b) The Company applies the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables and other financial assets. To measure the ECL allowance, trade receivables have been computed based on shared credit risk characteristics and the days past due.

14 Trade and other receivables (continued)

(c) The ageing analysis of the trade receivables and the expected loss rates are as follows:

	Days past due				
31 March 2020	**Current up to 90 days**	**91 - 180 days past due**	**181 - 365 days past due**	**More than 730 days**	**Total**
Expected loss rate	0.01% - 0.16%	0.02% - 0.25%	0.12% - 0.63%	100%	
Gross carrying amount - trade receivables	347,406,437	111,886,688	89,140,515	325,510	**548,759,150**
ECL allowance	711,810	702,903	1,187,456	325,510	**2,927,679**

	Days past due				
31 March 2019	**Current up to 90 days**	**91 - 180 days past due**	**181 - 365 days past due**	**More than 730 days**	**Total**
Expected loss rate	0.14%	-	1.88%	100%	
Gross carrying amount - trade receivables	263,482,376	-	328,351	-	263,810,727
ECL allowance	-	-	-	-	-

The expected loss rates are based on the payment profiles of sales over a period of 48 months before 31 March 2020 and 31 March 2019 respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP and inflation rate of the country in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

(d) The carrying amounts of the Company's trade and other receivables are denominated in Saudi Riyals.

(e) The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to the credit risk at the reporting date is the carrying amount of each class of receivable mentioned above.

(f) The Company does not hold any collateral as security.

15 Cash and cash equivalents

	31 March 2020	**31 March 2019**
Cash in hand	**33,393**	8,051
Cash at bank	**69,090,727**	16,229,369
	69,124,120	16,237,420

(All amounts in Saudi Riyals unless otherwise stated)

16 Share capital

The share capital of the Company as of 31 March 2020 and 2019 comprised of 76,046,875 shares stated at Saudi Riyals 1 per share owned as follows:

	Country of incorporation	Shareholding percentage 2020	2019
Welspun Mauritius Holdings Company Ltd.	Mauritius	**50.01**	50.01
Aziz Company for Contracting & Industrial Investment	Saudi Arabia	**28.50**	-
Vision International Investment Co.	Saudi Arabia	**16.50**	-
Mohawareen Industrial Services	Saudi Arabia	**4.99**	4.99
Aziz European Pipe Factory	Saudi Arabia	**-**	45.00
		100.00	100.00

On 1 November 2019, the shareholding of the Company was changed and, accordingly, the Company amended its Articles of Association and foreign investment license issued by The Ministry of Investment to reflect the change in its shareholders.

17 Statutory reserve

In accordance with the Company's Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of the profit for the year to a statutory reserve, after adjusting accumulated losses, until such reserve equals at least 30% of its share capital. This reserve currently is not available for distribution to the shareholders of the Company.

During the year ended 31 March 2019, the shareholders of the Company resolved to absorb the accumulated losses through transfer of Saudi Riyals 25.6 million from a statutory reserve to retained earnings in proportion to their existing shareholding percentages.

18 Long-term borrowings

	Note	31 March 2020	31 March 2019
SIDF	18.1	**32,698,000**	32,698,000
Commercial bank loan	18.2	**37,500,000**	75,000,000
		70,198,000	107,698,000
Less: unamortized transaction costs		**-**	(440,770)
Add: accrued financial costs		**541,125**	1,845,797
		70,739,125	109,103,027
Long-term borrowings are presented as follows:			
Current portion under current liabilities		**70,739,125**	71,603,027
Long-term portion under non-current liabilities		**-**	37,500,000

18 Long-term borrowings (continued)

18.1 SIDF loan

This represents loan obtained by the Company from SIDF of Saudi Riyals 125.2 million to finance the construction of the Company's plant facilities. The loan is denominated in Saudi Riyals. Up-front and annual administrative fees are charged by SIDF under the loan arrangement.

During 2018, the Company rescheduled the loan and as per the rescheduling agreement, the loan is payable in two un-equal semi-annual installments which are due in 2020. The covenants of the loan agreement require the Company to maintain certain level of financial conditions, place limitations on dividend distributions and on annual capital and rental expenditures and certain other matters. As at 31 March 2020, the Company was not in compliance with loan covenants related to annual rental expenditures of Saudi Riyals 7.5 million and to maintain the leverage ratio of not more than 3.1 as per the agreement with SIDF. The loan is secured by corporate guarantees provided by the shareholders. There was no implication on the Company for breach of covenants.

	31 March 2020	31 March 2019
Principal amount	**32,698,000**	32,698,000
less: unamortized transaction costs	**-**	(440,770)
	32,698,000	32,257,230
Long-term borrowings are presented as follows:		
Current portion under current liabilities	**32,698,000**	32,257,230
Long-term portion under non-current liabilities	**-**	-
	32,698,000	32,257,230

Movement in unamortized transaction costs is as follows:

	2020	2019
1 April	**440,770**	1,196,410
Less: amortization	**(440,770)**	(755,640)
31 March	**-**	440,770
Related to:		
Current portion presented under current liabilities	**-**	440,770
Non-current portion presented under non-current liabilities	**-**	-
	-	440,770

Maturity profile of SIDF

The total amount of such outstanding loan was due for repayment in two un-equal semi-annual installments during the year ending 31 March 2020. However, during the year-ended 31 March 2020, the Company has not paid the installments in accordance with the payment terms.

18 Long-term borrowings (continued)

18.2 Commercial bank loan

During 2016, the Company obtained a loan facility from a local commercial bank. The loan is denominated in Saudi Riyals and bear financial charges based on prevailing market rates which are based on Saudi Inter-Bank Offer Rates ("SIBOR").

As at 31 March 2020, the Company was not in compliance with loan covenants related to maintaining the leverage ratio of not more than 1.8 and debt service cover ratio of not less than 1.5 as per the agreement with commercial bank. The aggregate maturity of the loan outstanding at 31 March 2020, based on its respective repayment schedule, is repayable in 2021. There was no implication on the Company for breach of covenants. The loan is secured by corporate guarantees provided by the shareholders.

Maturity profile of commercial bank loan

	2020	2019
Years ending 31 March:		
2020	-	37,500,000
2021	**37,500,000**	37,500,000
	37,500,000	75,000,000

19 Short-term borrowings

	31 March 2020	31 March 2019
Short term borrowings	**435,041,816**	173,690,007
Accrued financial costs	**1,385,899**	-
Overdraft	-	13,433,918
	436,427,715	187,123,925

These represent short-term bank borrowings and overdraft facilities obtained from various local commercial banks and bear financial charges at prevailing market rates which are based on SIBOR. These facilities are secured against corporate guarantees from shareholders of the Company. The carrying value of the short-term borrowings are denominated in Saudi Riyals.

20 Lease liabilities

The Company has entered into certain agreements which entitled the Company to right-of-use asset and obligations relating to parcels of land and building.

	31 March 2020	1 April 2019
Future minimum lease payments	**43,932,936**	44,503,936
Less: repayment of minimum lease payments	**(7,795,928)**	-
	36,137,008	44,503,936
Less: future financial costs not yet due	**(4,412,604)**	(5,919,952)
Net present value of minimum lease payment	**31,724,404**	38,583,984
Less: current portion presented under current liabilities	**6,616,727**	6,505,800
Non-current portion of lease liabilities	**25,107,677**	32,078,184

(All amounts in Saudi Riyals unless otherwise stated)

20 Lease liabilities (continued)

Movement in lease liabilities is as follows:

	31 March 2020	1 April 2019
IFRS 16 adjustment:		
Initial recognition of lease liabilities upon adoption of IFRS 16	**38,583,984**	38,583,984
Accretion of financial costs during the year	**1,482,128**	-
Lease terminated during the year	**(545,780)**	-
Payments made during the year	**(7,795,928)**	-
	31,724,404	38,583,984

21 Employee benefit obligations

21.1 General description of the plan

The Company operates a defined benefit plan in line with the labor laws requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the labor laws of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plans are unfunded plans and the benefit payment obligation are met when they fall due upon termination of employment. An independent actuary carried out latest valuation of employee benefit obligations under the projected unit credit method as at 31 March 2020.

	2020	2019
1 April	**9,217,750**	6,531,530
Current service cost	**1,631,150**	1,169,360
Interest expense	**381,750**	322,380
Payments	**(470,880)**	(167,710)
Remeasurements	**1,273,370**	1,362,190
31 March	**12,033,140**	9,217,750

21.2 Amounts recognised in the statement of profit or loss and other comprehensive income

The amounts recognised in the statement of profit or loss and other comprehensive income related to employee benefit obligations are as follows:

	2020	2019
Current service cost	**1,631,150**	1,169,360
Interest expense	**381,750**	322,380
Total amount recognised in profit or loss	**2,012,900**	1,491,740
Remeasurements		
Loss from change in financial assumptions	**1,123,150**	878,380
Experience losses	**150,220**	483,810
Total amount recognised in other comprehensive income	**1,273,370**	1,362,190

(All amounts in Saudi Riyals unless otherwise stated)

21 Employee benefit obligations (continued)

21.3 Key actuarial assumptions

	2020	2019
Discount rate	**3.5%**	4.3%
Salary growth rate	**3.0%**	3.0%

21.4 Sensitivity analysis for actuarial assumptions

	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	1%	(1,465,310)	1,749,160
Salary growth rate	1%	1%	1,758,120	(1,485,100)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the employee benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

22 Trade and other payables

	Note	31 March 2020	31 March 2019
Advances from customers	22.1	**38,739,558**	96,653,714
Less: non-current advances from customers		**-**	(38,371,501)
		38,739,558	58,282,213
Trade payables		**108,298,712**	263,419,250
Value added tax payable		**22,960,471**	-
Accrued expenses		**13,920,611**	6,005,991
Salaries and benefits		**7,909,358**	3,719,566
Related parties	24	**-**	5,130,842
Other		**-**	1,370,669
		191,828,710	337,928,531

22.1 Advances from customers

Advances received from customers include an amount of Saudi Riyals 35.5 million received from a customer for the execution of the contract and is adjusted against the billings to the customer over the period of the contract and have been classified under current and non-current portion based on expected future billings in the accompanying financial statements.

(All amounts in Saudi Riyals unless otherwise stated)

23 Zakat and income tax matters

23.1 Components of approximate zakat base attributable to Saudi shareholders

	2020	2019
Equity at beginning of year	**13,470,493**	55,723,938
Provisions at beginning of year	**5,406,208**	4,261,833
Adjusted profit (loss) for the year	**138,083,359**	(31,506,013)
Borrowings	**147,025,986**	109,564,116
Lease liabilities	**15,859,030**	-
Property, plant and equipment, as adjusted	**(114,906,407)**	(130,117,930)
Right-of-use assets, as adjusted	**(15,639,392)**	-
Other	**(7,574,239)**	(5,910,842)
Approximate zakat base	**181,725,038**	2,015,102

Zakat is payable at 2.578% of the zakat base, excluding adjusted profit (loss) for the year, attributable to the Saudi shareholder. Zakat on adjusted profit for the year is payable at 2.5%.

23.2 Income tax expense

	2020	2019
Current tax	**21,364,745**	-
Deferred tax charge (credit)	**3,674,401**	(2,935,625)
	25,039,146	(2,935,625)

23.3 Zakat and income tax payable (refundable)

	Zakat	Income tax	Total
At 1 April 2019	50,378	(3,218,604)	**(3,168,226)**
Provisions for the year	4,577,027	21,364,745	**25,941,772**
Advance tax paid during the year	-	(159,834)	**(159,834)**
At 31 March 2020	4,627,405	17,986,307	**22,613,712**
At 1 April 2018	1,194,901	(4,246,298)	(3,051,397)
Provisions for the year	50,378	-	50,378
Adjustments related to prior periods	(167,207)	-	(167,207)
Advance tax adjustment	(1,027,694)	1,027,694	-
At 31 March 2019	50,378	(3,218,604)	(3,168,226)

(All amounts in Saudi Riyals unless otherwise stated)

23 Zakat and income tax matters (continued)

23.4 Numerical reconciliation of income tax expense to prima facie tax payable

	2020	2019
Profit (loss) before zakat and income tax	**266,549,992**	(72,352,351)
Income tax rate applicable to the Company	**20%**	20%
ffective shareholding subject to income tax	**50.01%**	50.01%
Income tax on effective shareholding	**26,660,330**	(7,236,682)
Reconciliation:		
Add: tax effect of deferred tax not recorded in prior year	**-**	681,383
Add: tax effect of permanent differences	**(1,621,184)**	3,619,674
	25,039,146	(2,935,625)

23.5 Temporary and permanent differences

	2020	2019
Profit (loss) before zakat and income tax	**266,549,992**	(72,352,351)
Temporary differences:		
- Depreciation	**-**	6,418,854
- Employee termination benefits	**2,012,900**	2,973,012
- ECL allowance	**3,927,679**	-
- Provision for inventory obsolescence	**3,731,391**	-
Permanent difference -		
- Other	**-**	(64,145)
Adjusted net income (loss) for the year for zakat purpose	**276,221,962**	(63,024,630)

23.6 Status of certificates and final assessments

The Company has obtained final assessments from GAZT for the years through 2010. The assessments for the years from 2011 through 2019 are currently under review by GAZT. The Company has obtained zakat and income tax certificates for the years through 2019.

23.7 Deferred tax liability (assets)

The balance comprises temporary differences attributable to:

	31 March 2020	**31 March 2019**
Carry forward losses	**(58,167,969)**	(92,341,408)
Employee benefit obligations	**(6,017,775)**	(4,609,797)
Provision for inventory obsolescence	**(2,900,129)**	(1,034,061)
Property, plant and equipment	**69,591,599**	83,307,135
Other	**1,188,155**	-
Taxable (deductible) temporary differences – net	**3,693,881**	(14,678,131)

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Notes to the financial statements for the year ended 31 March 2020
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23 Zakat and income tax matters (continued)

23.8 Deferred tax (liability) assets movement

Movement in deferred taxes is attributable to:

	Carry forward losses	Employee benefit obligations	Provision for inventory obsolescence	Property, plant and equipment	Other	Total
1 April 2019	18,468,282	921,959	206,812	(16,661,428)	-	**2,935,625**
Credited / (charged) to: Statement of profit or loss and other comprehensive income	(6,834,688)	281,596	373,214	2,743,108	(237,631)	**(3,674,401)**
31 March 2020	11,633,594	1,203,555	580,026	(13,918,320)	(237,631)	**(738,776)**

	Carry forward losses	Employee benefit obligations	Provision for inventory obsolescence	Property, plant and equipment	Total
1 April 2018	-	-	-	-	-
Credited / (charged) to: Statement of profit or loss and other comprehensive income	18,468,282	921,959	206,812	(16,661,428)	2,935,625
31 March 2019	18,468,282	921,959	206,812	(16,661,428)	2,935,625

24 Related party transactions and balances

Related parties comprise the shareholders, directors, associated companies and key management personnel. Related parties also include business entities in which shareholders have an interest ("other related parties").

The shareholders' agreement requires qualified majority voting for all key decisions. Accordingly, the Company is jointly-controlled by the major shareholders i.e. Welspun Mauritius Holdings Company Ltd. (50.01%), Aziz Company for Contracting & Industrial Investment (28.5%) and Vision International Investment Co (16.5%). Welspun Mauritius Holdings Company Ltd. is ultimately controlled by Welspun Corp Limited.

All related transactions were made on normal commercial terms and conditions and at market rates.

(All amounts in Saudi Riyals unless otherwise stated)

24 Related party transactions and balances (continued)

(a) Following are the significant transactions entered into by the Company:

Nature of transactions and relationship	**2020**	**2019**
Sales to an associated company	**2,918,956**	4,415,557
Cost charged by the shareholders	**3,412,978**	114,429
Cost charged to associated companies	**1,434,581**	2,075,076
Cost charged by other related parties	**-**	1,785,753
Cost charged to a shareholder	**-**	5,239
Financial charges charged by the shareholders	**5,574,055**	5,558,826
Purchases and other related services from a shareholder	**3,264,329**	3,267,283
Purchases and other related services from the associated companies	**20,433,477**	14,570,516

(b) Key management personnel compensation:

	2020	**2019**
Salaries and other short-term employee benefits	**3,193,250**	772,931
Post-employment benefits	**162,577**	29,709
	3,355,827	802,640

(c) Loans from shareholders

	31 March 2020	**31 March 2019**
Welspun Mauritius Holdings Company Ltd.	**52,816,198**	52,816,198
Aziz Company for Contracting & Industrial Investment	**35,289,022**	-
Vision International Investment Co.	**17,777,176**	-
Aziz European Pipe Factory	**-**	53,066,198
	105,882,396	105,882,396

These represent funding obtained from shareholders which carry financial charges at prevailing market rates. These loans are due for repayment in 2022. During the year, Aziz European Pipe Factory transferred such loan to the new shareholders of the Company.

(d) Outstanding balances arising from sales / purchases of goods and services

(i) Due from related parties

	31 March 2020	**31 March 2019**
WMEPC	**89,825,250**	27,492,305
Welspun Corp Limited	**3,370**	-
	89,828,620	27,492,305

(All amounts in Saudi Riyals unless otherwise stated)

24 Related party transactions and balances (continued)

(ii) Due to related parties

	31 March 2020	31 March 2019
Aziz Company for Contracting & Industrial Investment	-	3,174,077
Welspun Corp Limited	-	1,195,472
Vision International Investment Company	-	654,742
Mohawareen Industrial Services, a shareholder	-	106,551
	-	5,130,842

25 Financial risk management

25.1 Financial risk factors

The Company’s activities expose it to a variety of financial risks including the effects of changes in market risk (including currency risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by the senior management.

This note presents information about the Company’s exposure to each of the above risks, the Company’s objectives, policies and processes for measuring and managing risk, and the Company’s management of capital. Further quantitative disclosures are included throughout these financial statements.

Senior management has overall responsibility for the establishment and oversight of the Company’s risk management framework and is responsible for developing and monitoring the Company’s risk management policies.

The Company’s risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company’s senior management oversees how management monitors compliance with the Company’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

25 Financial risk management (continued)

25.1 Financial risk factors (continued)

(a) Market risk

(i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are primarily in Saudi Riyals and United States dollars. Since Saudi Riyal is pegged to United States dollars, management of the Company believes that the currency risk for the financial instruments is not significant.

(ii) Fair value and cash flow interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company borrows at interest rates on commercial terms.

Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. During 2020 and 2019, the Company's borrowings were denominated in Saudi Riyals.

The long-term borrowings from commercial banks carry variable rates of interest. The Company analyses its interest rate exposure on a regular basis and reassesses the source of borrowings and renegotiates interest rates at terms favourable to the Company. At 31 March 2020, if the interest rate were to shift by 1%, there would be a maximum increase or decrease in the financial costs by Saudi Riyals 0.38 million (2019: Saudi Riyals 0.75 million).

The loans from shareholders carry variable rates of interest. The Company analyses its interest rate exposure on a regular basis and reassesses the source of borrowings and renegotiates interest rates at terms favourable to the Company. At 31 March 2020, if the interest rate were to shift by 1%, there would be a maximum increase or decrease in the financial costs by Saudi Riyals 1.1 million (2019: Saudi Riyals 1.1 million).

The short-term borrowing interest rates with banks are subject to change upon re-negotiation of the facilities which takes place on at frequent intervals. At 31 March 2020, if the interest rate were to shift by 1%, there would be a maximum increase or decrease in the interest expense by Saudi Riyals 3.0 million (2019: Saudi Riyals 1.8 million).

(iii) Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial assets and liabilities are not exposed to price risk.

(b) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in respect of:

- Payment of trade receivables; and
- Contractual cash flows related to other financial assets carried at amortised costs.

25 Financial risk management (continued)

25.1 Financial risk factors (continued)

(b) Credit risk (continued)

Trade receivables:

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. At 31 March 2020, 97% of trade receivable balance was due from a single customer (2019: 92% of trade receivables were due from a customer). Management believes that this concentration of credit risk is mitigated as such receivable is from a quasi-government customer having an established track record of timely payments.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivable. The Company has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables.

The Company establishes ECL allowance that represents its estimate of potential losses in respect of trade and other receivables. The main components of this loss are a specific loss component that relates to individual exposures and a collective loss component established for similar assets in respect of any potential losses that may have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry in which customers operate, has less of an influence on credit risk.

Credit risk on related parties is considered minimal as management monitors and reconciles amounts due from related parties on a regular basis and recoverability is not considered to be doubtful. Management does not expect any losses from non-performance by such related parties. At 31 March 2020, the ECL allowance on related party receivables was immaterial.

Other financial assets carried at amortised costs:

Other financial assets at amortised cost include other receivables. The instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Management consider 'low credit risk' for other receivables. At 31 March 2020, the ECL allowance on other financial assets was immaterial.

Cash at bank:

For banks, parties generally with a minimum rating of P-1 are accepted. The stated rating is as per the global bank ratings by Moody's Investors Service. Management does not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

(All amounts in Saudi Riyals unless otherwise stated)

25 Financial risk management (continued)

25.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters. In addition, the Company has access to credit facilities.

Cash flow forecasting is performed by the management which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance and compliance with internal ratio targets.

The table below analyses the Company's financial liabilities into the relevant maturity grouping based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Less than one year	1 to 2 years	2 to 5 years	Over 5 years	Total
2020					
Bank borrowings	523,062,017	-	-	-	523,062,017
Lease liabilities	8,670,927	6,920,928	14,400,464	6,144,689	36,137,008
Long-term loans from shareholders	5,574,055	105,882,396	-	-	111,456,451
Trade and other payables	130,128,681	-	-	-	130,128,681
	667,435,680	112,803,324	14,400,464	6,144,689	800,784,157

	Less than one year	1 to 2 years	Total
2019			
Bank borrowings	227,694,800	38,328,875	266,023,675
Long-term loans from shareholders	5,574,055	110,060,400	115,634,455
Trade and other payables	279,646,318	-	279,646,318
	512,915,173	148,389,275	661,304,448

(All amounts in Saudi Riyals unless otherwise stated)

25 Financial risk management (continued)

25.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the statement of financial position, less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The gearing ratios at 31 March were as follows:

	2020	**2019**
Total borrowings including lease liabilities	**642,846,616**	402,109,348
Less: cash and cash equivalents	**(69,124,120)**	(16,237,420)
Net debt	**573,722,496**	385,871,928
Total equity	**276,562,375**	40,901,926
Total capital	**850,284,871**	426,773,854
Gearing ratio	**67%**	90%

25.3 Net debt reconciliation

The net debt of the Company is as follows:

	2020	**2019**
Cash and cash equivalents	**69,124,120**	16,237,420
Long-term loans from shareholders	**(105,882,396)**	(105,882,396)
Short term borrowings	**(435,041,816)**	(187,123,925)
Lease liabilities	**(31,724,404)**	-
Long-term borrowings	**(70,198,000)**	(107,698,000)
Net debt	**(573,722,496)**	(384,466,901)

(All amounts in Saudi Riyals unless otherwise stated)

25 Financial risk management (continued)

25.3 Net debt reconciliation (continued)

The Company's net debt reconciliation is as follows:

	1 April 2019	Recognised on adoption of IFRS 16	Cash flows	Transfers	Other	31 March 2020
Cash and cash equivalents	16,237,420	-	52,886,700	-	-	**69,124,120**
Long-term loans from shareholders	(105,882,396)	-	-	-	-	**(105,882,396)**
Short-term borrowings	(187,123,925)	-	(247,917,891)	-	-	**(435,041,816)**
Lease liabilities	-	(38,583,984)	6,313,800	-	545,780	**(31,724,404)**
Bank borrowings	(107,698,000)	-	37,500,000	-	-	**(70,198,000)**
Net debt	(384,466,901)	(38,583,984)	(151,217,391)	-	545,780	**(573,722,496)**

	1 April 2018	Cash flows	Transfers	Other	31 March 2019
Cash and cash equivalents	59,192,202	(42,954,782)	-	-	16,237,420
Long-term loans from shareholders	(105,882,396)	-	-	-	(105,882,396)
Short-term borrowings	-	(187,123,925)	-	-	(187,123,925)
Long-term borrowings	(126,448,000)	18,750,000	-	-	(107,698,000)
Net debt	(173,138,194)	(211,328,707)	-	-	(384,466,901)

(All amounts in Saudi Riyals unless otherwise stated)

26 Categories of financial instruments

The following are the measurement categories for the financial instruments held by the Company:

	Financial assets carried at amortised cost	
31 March	**2020**	**2019**
Assets as per statement of financial position		
Trade and other receivables	**634,660,091**	292,093,404
Cash and cash equivalents	**69,124,120**	16,237,420
Total	**703,784,211**	308,330,824

	Financial liabilities carried at amortised cost	
31 March	**2020**	**2019**
Liabilities as per statement of financial position		
Bank borrowings	**507,166,840**	296,226,952
Long-term loans from shareholders	**105,882,396**	105,882,396
Lease liabilities	**31,724,404**	-
Trade and other payables	**130,128,681**	279,646,318
Total	**774,902,321**	681,755,666

For the purpose of the financial instruments disclosure, non-financial assets and non-financial liabilities amounting to Saudi Riyals 7.8 million and Saudi Riyals 60.0 million respectively (2019: Saudi Riyals 64.0 million and Saudi Riyals 61.7 million respectively) have been excluded from trade and other receivables and trade and other payables, respectively.

27 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

The Company has an established control framework with respect to the measurement of fair values. Management has overall responsibility for overseeing all significant fair value measurements. Management regularly reviews significant unobservable inputs and valuation adjustments.

As at 31 March 2020 and 2019, the fair values of the Company's financial instruments are estimated to approximate their carrying values since the financial instruments which do not bear interest are short term in nature and are expected to be realized at their current carrying values within twelve months from the date of statement of financial position, while the financial instruments which bear interest are at variable interest rates, adjusted in line with prevailing market rates.

(All amounts in Saudi Riyals unless otherwise stated)

28 Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the profit (loss) for the year by the weighted average number of ordinary shares in issue during the year. As the Company does not have any dilutive potential shares, the diluted earnings (loss) per share is the same as the basic earnings (loss) per share.

	For the year ended 31 March	
	2020	**2019**
Profit (loss) for the year	**236,933,819**	(69,299,897)
Weighted average number of ordinary shares for basic and diluted earnings (loss) per share	**76,046,875**	76,046,875
Earnings (loss) per share	**3.12**	(0.91)

29 Contingencies and commitments

As at 31 March 2020, the Company was contingently liable for letters of credits and guarantees in the normal course of business amounting to Saudi Riyals 517.4 million (2019: Saudi Riyals 876.0 million).

30 Events after the reporting date

Subsequent to the reporting date, the shareholders of the Company and WMEPC entered into a binding agreement to merge the operations (see Note 1). No other events have arisen subsequent to 31 March 2020 and before the date of signing the independent auditor's audit report, that could have a significant effect on the financial statements as at 31 March 2020.