

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019
AND INDEPENDENT AUDITOR'S REPORT

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

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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 2019, 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 2019;
- the statement of financial position as at that date;
- 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 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.



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 management 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

Sahar M. Hashem
License Number 439

27 May 2019

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	Year ended March 31,	
		2019	2018
Revenue	5	689,867,428	271,922,093
Cost of revenue	6	(723,845,118)	(314,517,279)
Gross loss		(33,977,690)	(42,595,186)
General and administrative expenses	7	(14,788,986)	(11,431,753)
Selling and marketing expenses	8	(13,628,891)	(7,223,749)
Other operating income - net	9	18,061,219	4,032,980
Operating loss		(44,334,348)	(57,217,708)
Financial costs	10	(28,018,003)	(17,497,194)
Loss before zakat and income tax		(72,352,351)	(74,714,902)
Zakat expense	22	116,829	(1,074,281)
Income tax expense	22	2,935,625	-
Loss for the year		(69,299,897)	(75,789,183)
Other comprehensive (loss) income			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of employee benefit obligations		(1,362,190)	222,770
Total comprehensive loss for the year		(70,662,087)	(75,566,413)

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 2019	As at 31 March 2018	As at 1 April 2017
Assets				
Non-current assets				
Property, plant and equipment	11	253,537,259	256,030,051	282,740,614
Intangible assets	12	331,800	504,720	13,046
Deferred tax asset	22	2,935,625	-	-
Total non-current assets		256,804,684	256,534,771	282,753,660
Current assets				
Inventories	13	196,180,959	56,790,970	88,518,914
Trade and other receivables	14	356,137,767	83,981,973	67,229,642
Zakat and income tax refundable	22	3,168,226	3,051,397	4,125,678
Cash and cash equivalents	15	16,237,420	59,192,202	37,432,004
Total current assets		571,724,372	203,016,542	197,306,238
Total assets		828,529,056	459,551,313	480,059,898
Equity and liabilities				
Equity				
Share capital	16	76,046,875	76,046,875	76,046,875
Statutory reserve	17	-	25,609,186	25,609,186
(Accumulated deficit) retained earnings		(35,144,949)	9,907,952	85,474,365
Total equity		40,901,926	111,564,013	187,130,426
Liabilities				
Non-current liabilities				
Long-term borrowings	18	37,500,000	99,034,230	139,106,590
Long-term loans from shareholders	23	105,882,396	105,882,396	105,882,396
Employee benefit obligations	20	9,217,750	6,531,530	5,271,580
Advance from a customer	21	38,371,501	-	-
Total non-current liabilities		190,971,647	211,448,156	250,260,566
Current liabilities				
Trade and other payables	21	337,928,531	110,250,534	13,567,124
Current portion of long-term borrowings	18	71,603,027	26,288,610	29,101,782
Short term borrowings	19	187,123,925	-	-
Total current liabilities		596,655,483	136,539,144	42,668,906
Total liabilities		787,627,130	347,987,300	292,929,472
Total equity and liabilities		828,529,056	459,551,313	480,059,898

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

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.	Aziz European Pipe Factory	Mohawareen Industrial Services	Total
Share capital					
1 April 2017, 31 March 2018 and 2019	4	38,031,042	34,221,094	3,794,739	76,046,875
Statutory reserve					
1 April 2017 and 31 March 2018		12,807,154	11,524,134	1,277,898	25,609,186
Transfer from retained earnings	17	(12,807,154)	(11,524,134)	(1,277,898)	(25,609,186)
31 March 2019		-	-	-	-
Retained earnings					
1 April 2017		47,775,769	34,073,028	3,625,568	85,474,365
Loss before zakat and income tax		(37,364,922)	(33,621,706)	(3,728,274)	(74,714,902)
Other comprehensive income for the year		111,407	100,247	11,116	222,770
Zakat and income tax expense	22	-	(967,046)	(107,235)	(1,074,281)
31 March 2018		10,522,254	(415,477)	(198,825)	9,907,952
Loss before zakat and income tax		(36,183,411)	(32,558,558)	(3,610,382)	(72,352,351)
Other comprehensive loss for the year		(681,231)	(612,986)	(67,973)	(1,362,190)
Zakat and income tax expense	22	2,935,625	105,167	11,662	3,052,454
Transfer from retained earnings	17	12,807,154	11,524,134	1,277,898	25,609,186
31 March 2019		(10,599,609)	(21,957,720)	(2,587,620)	(35,144,949)
Total equity					
31 March 2019		27,431,433	12,263,374	1,207,119	40,901,926
31 March 2018		61,360,450	45,329,751	4,873,812	111,564,013

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	Year ended 31 March	
		2019	2018
Cash flows from operating activities			
Loss before zakat and income tax		(72,352,351)	(74,714,902)
<u>Adjustments for:</u>			
Depreciation and amortisation	11,12	26,167,860	26,095,944
Gain from sale of property, plant and equipment	11,12	(64,145)	(85,720)
(Reversal) provision for inventory obsolescence	13	(331,655)	556,349
Expected credit loss ("ECL") allowance on trade receivables		-	1,692,571
Financial costs	10	28,018,003	17,497,194
Employee benefit obligations	20	1,169,360	1,171,730
<u>Changes in operating assets and liabilities:</u>			
(Increase) decrease in inventories		(139,058,334)	31,171,595
Increase in trade and other receivables		(272,155,794)	(18,444,902)
Increase in trade and other payables		223,636,075	95,854,519
Increase in advance from a customer		38,371,501	-
Cash (used in) generated from operations		(166,599,480)	80,794,378
Finance costs paid		(21,123,514)	(16,832,475)
Employee benefit obligations paid	20	(167,710)	(15,370)
Net cash (outflow) inflow from operating activities		(187,890,704)	63,946,533
Cash flows from investing activities			
Payments for property, plant and equipment	11	(23,467,979)	(323,381)
Payment for intangible assets	12	(39,529)	(599,944)
Proceeds from sale of property, plant and equipment		69,505	1,131,990
Net cash (outflow) inflow from investing activities		(23,438,003)	208,665
Cash flows from financing activities			
Short-term borrowings		187,123,925	-
Repayments of long-term borrowings		(18,750,000)	(42,395,000)
Net cash inflow (outflow) from financing activities		168,373,925	(42,395,000)
Net change in cash and cash equivalents		(42,954,782)	21,760,198
Cash and cash equivalents at beginning of year		59,192,202	37,432,004
Cash and cash equivalents at end of year	15	16,237,420	59,192,202

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

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Notes to the financial statements for the year ended 31 March 2019
(All amounts in Saudi Riyals unless otherwise stated)

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 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.

The Company has incurred a net loss of Saudi Riyals 70.6 million for the year ended 31 March 2019 and has accumulated deficit of Saudi Riyals 35.1 million as of that date. Also, the Company's current liabilities exceeded its current assets by Saudi Riyals 24.9 million as of 31 March 2019. These conditions indicate that the Company's ability to meet its obligation as they become due and to continue as a going concern depends upon its ability to generate positive operating cash flows and to obtain adequate financial support from the shareholders.

The two years' business plan prepared by management of the Company, shows improvement in the financial performance of the Company over the coming years resulting from increase in production and increase in revenues. The two years' business plan has also factored in sales backlog of Saudi Riyals 1.8 billion as at 31 March 2019 which is expected to be delivered during the years from 2020 through 2021. Accordingly, the accompanying financial statements have been prepared under going concern basis.

The accompanying financial statements were approved by the Company's management on 27 May 2019.

2 Summary of significant accounting policies

The principal accounting policies applied for the preparation of financial statements of the Company are set out below.

2.1 Basis of preparation

(a) 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").

For all periods up to and including the year ended 31 March 2018, the Company prepared its financial statements in accordance with local generally accepted accounting principles as issued by SOCPA ("previous GAAP"). These are the first annual financial statements for the year ended 31 March 2019 in accordance with IFRS and other standards and pronouncements issued by SOCPA. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 1 April 2017 which is the Company's date of transition to IFRS, in compliance with IFRS 1 "First time adoption of International Financial Reporting Standards" ("IFRS 1") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

Explanations of how the transition to IFRS has affected the reported amounts of statement of financial position, statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Company are provided in note 4.

(b) Historical cost convention

These financial statements are prepared under the historical cost convention except for the measurement of employee benefit obligations as explained in the relevant accounting policies.

(c) Standards issued but not yet effective

Certain new standards and amendments to existing standards have been published that are mandatory for the Company's accounting periods beginning 1 January 2019 or later period, but have not been early adopted by the Company. The Company is currently evaluating the impact that these new accounting standards, amendments and interpretations may have on its financial statements.

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)

Notes to the financial statements for the year ended 31 March 2019
(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) Standards issued but not yet effective (continued)

IFRS 16 - "Leases"

IFRS 16 replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease', SIC-15 'Operating Leases - Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

The Company will recognise new assets and liabilities for its operating leases of various types of contracts including office rent, vehicles etc. The nature of expenses related to those leases will now change because the Company will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

In accordance with the transitional provisions in IFRS 16, the Company plans to apply IFRS 16 initially on 1 April 2019, using the modified retrospective transitional method, taking into consideration the exemption allowing it not to restate comparative information or prior periods. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings as at 1 April 2019. As at the reporting date, the Company has operating lease commitments of Saudi Riyals 16.0 million, see note 26.

There are no other relevant IFRS or IFRS Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements.

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.

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Notes to the financial statements for the year ended 31 March 2019
(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

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 Operating leases

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 profit or loss on a straight-line basis over the period of the lease.

2.5 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.

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.

2.6 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.

WELSPUN MIDDLE EAST PIPES COMPANY

(A limited liability company)

Notes to the financial statements for the year ended 31 March 2019

(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.6 Property, plant and equipment (continued)

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.

2.7 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 25 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.

WELSPUN MIDDLE EAST PIPES COMPANY

(A limited liability company)

Notes to the financial statements for the year ended 31 March 2019

(All amounts in Saudi Riyals unless otherwise stated)

2.8 Financial instruments (continued)

2.8.1 Financial assets (continued)

(c) Recognition and derecognition (continued)

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.

(d) 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 measured 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.

2.8.2 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.

2.9 Impairment of financial assets

The Company assesses on a forward looking basis the Expected Credit Losses ("ECL") associated with its financial assets carried at amortized cost. Refer note 14, 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.

WELSPUN MIDDLE EAST PIPES COMPANY

(A limited liability company)

Notes to the financial statements for the year ended 31 March 2019

(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

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.

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

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories comprise all costs of purchase plus other charges incurred thereon. Costs are assigned to individual items of inventory on the basis of weighted average costs. 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.

Provision for inventory obsolescence is made considering various factors including age of the inventory items, historic sale trends and expected turnover 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. Subsequent recoveries of amount previously written-off are credited to profit or loss against "General and administrative expenses".

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. Transaction costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

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.

WELSPUN MIDDLE EAST PIPES COMPANY

(A limited liability company)

Notes to the financial statements for the year ended 31 March 2019

(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

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 method.

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 income" or "finance 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 labour laws and workman 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 labour law of Kingdom of Saudi Arabia.

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. 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 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. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates. At year-end, if the useful life increased / decreased by 10% against the current useful life with all other variables held constant, loss for the year would have been Saudi Riyals 1.2 million lower or Saudi Riyals 0.9 million higher.

WELSPUN MIDDLE EAST PIPES COMPANY

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4 First time adoption of IFRS

As stated in note 2.1, the accompanying financial statements have been prepared in compliance with IFRS and IFRS 1 and other standards and pronouncements as endorsed by SOCPA in the Kingdom of Saudi Arabia. The last financial statements under the previous GAAP were for the year ended 31 March 2018 and the date of transition to IFRS is 1 April 2017. In preparing the Company's first IFRS financial statements, the Company's opening statement of financial position was prepared as at 1 April 2017. Note 4.5, further explains the principal adjustments made by the Company, as a result of the transition to IFRS, in statements of financial position as at 1 April 2017 and 31 March 2018 and the related statement profit or loss and other comprehensive income for the year ended 31 March 2018. The Company has not availed any voluntary exemptions given in IFRS 1. Mandatory exemptions given in IFRS 1 were not applicable.

WELSPUN MIDDLE EAST PIPES COMPANY
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4 First time adoption of IFRS (continued)

4.1 Impact of IFRS transition on the statement of financial position as at 1 April 2017 (date of transition)

Note	Balances as per previous GAAP as at 1 April 2017	Impact of transition to IFRS	Balances as per IFRS as at 1 April 2017
Assets			
Non-current assets			
Property, plant and equipment	282,740,614	-	282,740,614
Intangible assets	13,046	-	13,046
Total non-current assets	282,753,660	-	282,753,660
Current assets			
Inventories	88,518,914	-	88,518,914
Trade and other receivables	67,229,642	-	67,229,642
Zakat and income tax refundable	4,125,678	-	4,125,678
Cash and cash equivalents	37,432,004	-	37,432,004
Total current assets	197,306,238	-	197,306,238
Total assets	480,059,898	-	480,059,898
Equity and liabilities			
Equity			
Share capital	76,046,875	-	76,046,875
Statutory reserve	25,609,186	-	25,609,186
Retained earnings	84,541,771	932,594	85,474,365
Total equity	186,197,832	932,594	187,130,426
Liabilities			
Non-current liabilities			
Long-term borrowings	139,106,590	-	139,106,590
Long-term loans from shareholders	105,882,396	-	105,882,396
Employee benefit obligations	6,204,174	(932,594)	5,271,580
Total non-current liabilities	251,193,160	(932,594)	250,260,566
Current liabilities			
Trade and other payables	13,567,124	-	13,567,124
Current portion of long-term borrowings	29,101,782	-	29,101,782
Total current liabilities	42,668,906	-	42,668,906
Total liabilities	293,862,066	(932,594)	292,929,472
Total equity and liabilities	480,059,898	-	480,059,898

WELSPUN MIDDLE EAST PIPES COMPANY
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Notes to the financial statements for the year ended 31 March 2019
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4 First time adoption of IFRS (continued)

4.2 Impact of IFRS transition on the statement of profit or loss and other comprehensive income for the year ended 31 March 2018

	Note	Amounts as per previous GAAP for the year ended 31 March 2018	Impact of transition to IFRS	Amounts as per IFRS for the year ended 31 March 2018
Revenue		271,922,093	-	271,922,093
Cost of revenue		(314,517,279)	-	(314,517,279)
Gross loss		(42,595,186)	-	(42,595,186)
General and administrative expenses	4.5.1	(10,696,592)	(735,161)	(11,431,753)
Selling and marketing expenses		(7,223,749)	-	(7,223,749)
Other operating income – net		4,032,980	-	4,032,980
Operating loss		(56,482,547)	(735,161)	(57,217,708)
Finance costs	4.5.1	(17,170,834)	(326,360)	(17,497,194)
Loss for the year before zakat and income tax		(73,653,381)	(1,061,521)	(74,714,902)
Zakat expense	4.5.2	-	(1,074,281)	(1,074,281)
		(73,653,381)	(2,135,802)	(75,789,183)
Other comprehensive income				
<i>Items that will not be reclassified to profit or loss</i>				
Remeasurements of employee benefit obligations	4.5.1	-	222,770	222,770
Total comprehensive loss for the year		(73,653,381)	(1,913,032)	(75,566,413)

WELSPUN MIDDLE EAST PIPES COMPANY
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4 First time adoption of IFRS (continued)

4.3 Impact of IFRS transition on the statement of financial position as at 31 March 2018

	Balances as per previous GAAP as at	Impact of transition to IFRS	Balances as per IFRS as at
Note	31 March 2018	31 March 2018	31 March 2018
Assets			
Non-current assets			
Property, plant and equipment	256,030,051	-	256,030,051
Intangible assets	504,720	-	504,720
Total non-current assets	256,534,771	-	256,534,771
Current assets			
Inventories	56,790,970	-	56,790,970
Trade and other receivables	83,981,973	-	83,981,973
Zakat and income tax refundable	3,051,397	-	3,051,397
Cash and cash equivalents	59,192,202	-	59,192,202
Total current assets	203,016,542	-	203,016,542
Total assets	459,551,313	-	459,551,313
Equity and liabilities			
Equity			
Share capital	76,046,875	-	76,046,875
Statutory reserve	25,609,186	-	25,609,186
Retained earnings	9,814,109	93,843	9,907,952
Total equity	111,470,170	93,843	111,564,013
Liabilities			
Non-current liabilities			
Long-term borrowings	99,034,230	-	99,034,230
Long-term loans from shareholders	105,882,396	-	105,882,396
Employee benefit obligations	6,625,373	(93,843)	6,531,530
Total non-current liabilities	211,541,999	(93,843)	211,448,156
Current liabilities			
Trade and other payables	110,250,534	-	110,250,534
Current portion of long-term borrowings	26,288,610	-	26,288,610
Total current liabilities	136,539,144	-	136,539,144
Total liabilities	348,081,143	(93,843)	347,987,300
Total equity and liabilities	459,551,313	-	459,551,313

WELSPUN MIDDLE EAST PIPES COMPANY
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(All amounts in Saudi Riyals unless otherwise stated)

4 Impact of transition to IFRS (continued)

4.4 Impact of IFRS transition on the statement of cash flows for the year ended 31 March 2018

The transition from SOCPA to IFRS has not had a material impact on the statement of cash flows.

4.5 Explanations of IFRS adjustments

4.5.1 Employee benefit obligations

In accordance with the previous GAAP, the Company recognized liability related to its employee benefit obligations as current value of vested benefits to which the employee is entitled. However, as at the date of transition to IFRS, the Company has re-measured the defined benefit liability in accordance with the projected unit credit method, as required by IAS -19 "Employee benefits".

As at 1 April 2017, the above mentioned adjustment has resulted in a decrease of employee benefit obligations (liability) by Saudi Riyals 0.9 million with corresponding increase in retained earnings.

As at 31 March 2018, the above mentioned adjustment has resulted in a decrease of employee benefit obligations (liability) by Saudi Riyals 0.09 million with corresponding increase in retained earnings of the Company. The above mentioned adjustment has resulted in an increase in general and administrative expenses by Saudi Riyals 0.7 million, increase in finance cost by Saudi Riyals 0.3 million with a corresponding increase in loss for the year ended 31 March 2018 and increase in other comprehensive income of Saudi Riyals 0.2 million for the year then ended.

4.5.2 Zakat and income tax

In accordance with the previous GAAP, zakat and income tax expense was presented in the statement of changes in equity. Due to transition from previous GAAP to IFRS, zakat tax expense amounting to Saudi Riyals 1.0 million, has been presented in the statement of profit or loss and other comprehensive income for the year ended 31 March 2018.

5 Revenue

	2019	2018
Revenue - point in time	689,867,428	271,922,093

6 Cost of revenue

	Note	2019	2018
Cost of materials		629,968,144	219,315,509
Sub-contractors costs		14,289,840	26,085,552
Salaries and benefits		34,197,526	31,031,287
Depreciation	11	25,447,155	25,316,571
(Reversal) provision for inventory obsolescence	13	(331,655)	556,349
Other		20,274,108	12,212,011
		723,845,118	314,517,279

WELSPUN MIDDLE EAST PIPES COMPANY**(A limited liability company)****Notes to the financial statements for the year ended 31 March 2019**

(All amounts in Saudi Riyals unless otherwise stated)

7 General and administrative expenses

	Note	2019	2018
Salaries and benefits		10,798,494	7,075,171
Depreciation	11	201,642	333,810
Professional fee		1,232,298	327,246
Repair		142,343	220,932
Utilities		584,683	267,647
Rent		242,798	236,195
Travel		154,348	113,330
ECL allowance	14	-	1,692,571
Other		1,432,380	1,164,851
		14,788,986	11,431,753

8 Selling and marketing expenses

	Note	2019	2018
Rent		5,940,481	3,845,836
Salaries and benefits		4,349,508	1,023,968
Packing material		2,112,708	574,346
Freight		-	978,663
Depreciation	11	306,614	337,293
Other		919,580	463,643
		13,628,891	7,223,749

9 Other operating income - net

		2019	2018
Scrap sales		17,322,313	3,649,558
Other		738,906	383,422
		18,061,219	4,032,980

10 Financial cost

	Note	2019	2018
Interest expense on long-term borrowings		5,189,002	6,413,591
Interest expense on short-term borrowings		7,970,448	1,606,984
Interest expense on loans from shareholders	23	5,558,826	5,558,826
Unwinding of SIDF commitment fees	18	755,640	755,640
Accretion of employee termination obligations	20	322,380	326,360
Letter of credit facilities charges		8,221,707	2,835,793
		28,018,003	17,497,194

WELSPUN MIDDLE EAST PIPES COMPANY
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11 Property, plant and equipment

	1 April 2018	Additions	Disposals/ Transfer	31 March 2019
2019				
Cost				
Buildings and land 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
	<u>452,299,803</u>	<u>23,467,979</u>	<u>(362,771)</u>	<u>475,405,011</u>
Accumulated depreciation				
Buildings and land 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)
	<u>(196,269,752)</u>	<u>(25,955,411)</u>	<u>357,411</u>	<u>(221,867,752)</u>
	<u>256,030,051</u>			<u>253,537,259</u>
	1 April 2017	Additions	Disposals/ Transfer	31 March 2018
2018				
Cost				
Buildings and land improvements	45,038,739	-	(2,470)	45,036,269
Plant and machinery	402,723,494	-	(347,041)	402,376,453
Furniture, fixtures and office equipment	3,268,504	27,300	(361,723)	2,934,081
Vehicles	1,737,381	-	(789)	1,736,592
Capital work-in-progress	856,681	296,081	(936,354)	216,408
	<u>453,624,799</u>	<u>323,381</u>	<u>(1,648,377)</u>	<u>452,299,803</u>
Accumulated depreciation				
Buildings and land improvements	(14,374,025)	(2,487,719)	950	(16,860,794)
Plant and machinery	(152,539,175)	(23,017,499)	303,192	(175,253,482)
Furniture, fixtures and office equipment	(2,685,640)	(297,220)	297,176	(2,685,684)
Vehicles	(1,285,345)	(185,236)	789	(1,469,792)
	<u>(170,884,185)</u>	<u>(25,987,674)</u>	<u>602,107</u>	<u>(196,269,752)</u>
	<u>282,740,614</u>			<u>256,030,051</u>

(a) Buildings and plant and machinery of the Company have been constructed on land parcels leased under various renewable operating lease agreements at annual rent of Saudi Riyals 0.8 million (2018: Saudi Riyals 0.8 million) with terms ranging from one to twelve years.

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

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

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12 Intangible assets

	31 March 2019	31 March 2018	1 April 2017
Cost			
1 April	2,075,868	1,475,924	1,475,924
Additions / transfers	39,529	599,944	-
31 March	2,115,397	2,075,868	1,475,924
Accumulated amortization			
1 April	(1,571,148)	(1,462,878)	(1,457,063)
Amortization for the year	(212,449)	(108,270)	(5,815)
31 March	(1,783,597)	(1,571,148)	(1,462,878)
Net book value	331,800	504,720	13,046

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

13 Inventories

	31 March 2019	31 March 2018	1 April 2017
Raw materials	76,546,038	24,538,093	12,045,811
Finished products	105,366,299	17,580,733	62,426,989
Work-in-progress	4,512,281	1,715,490	233,734
Spare parts and supplies, not held for sale	11,824,049	15,356,017	15,655,394
	198,248,667	59,190,333	90,361,928
Less: provision for inventory obsolescence	(2,067,708)	(2,399,363)	(1,843,014)
	196,180,959	56,790,970	88,518,914

Movement in provision for inventory obsolescence is as follows:

	31 March 2019	31 March 2018
1 April	2,399,363	1,843,014
(Reversal) additions	(331,655)	556,349
31 March	2,067,708	2,399,363

14 Trade and other receivables

	Note	31 March 2019	31 March 2018	1 April 2017
Trade receivable		263,810,727	54,017,994	27,681,529
Related parties	23	27,492,305	22,089,521	29,968,546
		291,303,032	76,107,515	57,650,075
Prepaid expenses		58,069,498	3,483,012	8,611,191
Advances to suppliers		1,886,425	3,380,401	381,472
Advances to employees		590,179	580,991	382,296
VAT receivable		4,088,440	221,861	-
Other		200,193	208,193	204,608
		356,137,767	83,981,973	67,229,642

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14 Trade and other receivables (continued)

(a) Movement in ECL allowance is as follows:

	2019	2018
1 April	-	-
ECL allowance	-	1,692,571
Receivables written-off	-	(1,692,571)
31 March	<u>-</u>	<u>-</u>

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

(b) The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been computed based on shared credit risk characteristics and the days past due.

(c) The expected loss rates are based on the payment profiles of sales over a period of 48 months before 31 March 2019, 31 March 2018 and 1 April 2017 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 countries 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 2019	31 March 2018	1 April 2017
Cash in hand	8,051	27,574	48,303
Cash at bank	16,229,369	59,164,628	37,383,701
	<u>16,237,420</u>	<u>59,192,202</u>	<u>37,432,004</u>

16 Share capital

The share capital of the Company as of 31 March 2018 and 2019 comprised of 76,046,875 shares stated at Saudi Riyals 1 per share owned as follows:

	Country of incorporation	Shareholding percentage	
		2019	2018
Welspun Mauritius Holdings Company Ltd.	Mauritius	50.01	50.01
Aziz European Pipe Factory	Saudi Arabia	45.00	45.00
Mohawareen Industrial Services	Saudi Arabia	4.99	4.99
		<u>100.00</u>	<u>100.00</u>

WELSPUN MIDDLE EAST PIPES COMPANY**(A limited liability company)****Notes to the financial statements for the year ended 31 March 2019**

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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 until such reserve equals at least 30% of its share capital.

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 statutory reserve to retained earnings in proportion to their existing shareholding percentages.

18 Long-term borrowings

	Note	31 March 2019	31 March 2018	1 April 2017
Saudi Industrial Development Fund ("SIDF")	18.1	32,698,000	32,698,000	37,593,000
Commercial bank loan	18.2	75,000,000	93,750,000	131,250,000
		107,698,000	126,448,000	168,843,000
Less: unamortized transaction costs		(440,770)	(1,196,410)	(1,952,050)
Add: accrued interest		1,845,797	71,250	1,317,422
		109,103,027	125,322,840	168,208,372

Long-term borrowings are presented as follows:

Current maturity under current liabilities	71,603,027	26,288,610	29,101,782
Long-term portion under non-current liabilities	37,500,000	99,034,230	139,106,590

18.1 SIDF loan

This represents loan obtained by the Company from Saudi Industrial and Development Fund ('SIDF') of Saudi Riyals 125.2 million to finance the construction of the Company's plant facilities. The loan is denominated in Saudi Riyals.

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 2019, the Company was not in compliance with loan covenant related to rental expenditures and other covenants related to maintenance of other financial ratios as per the agreement with SIDF. However, the Company has obtained a waiver from SIDF in respect of such non-compliance before the year-end. The loan is secured by corporate guarantees provided by the shareholders.

	2019	2018
Principal amount	32,698,000	32,698,000
less: unamortized transaction costs	(440,770)	(1,196,410)
	32,257,230	31,501,590

Long-term borrowings are presented as follows:

Current maturity under current liabilities	32,257,230	7,467,360
Long-term portion under non-current liabilities	-	24,034,230
	32,257,230	31,501,590

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18 Long-term borrowings (continued)

Movement in unamortized transaction costs is as follows:

	2019	2018
1 April	1,196,410	1,952,050
Less: amortization	<u>(755,640)</u>	<u>(755,640)</u>
31 March	<u>440,770</u>	<u>1,196,410</u>
Related to:		
Current maturity shown under current liabilities	440,770	755,640
Shown under long-term borrowings	<u>-</u>	<u>440,770</u>
	<u>440,770</u>	<u>1,196,410</u>

Maturity profile of SIDF

The total amount of such outstanding loan is due for repayment in two un-equal semi-annual installements during the year ending 31 March 2020.

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.

As at 31 March 2019, the Company was not in compliance with loan covenants to maintain certain level of financial conditions as per the agreement with commercial bank. However, the Company has obtained a waiver from commercial bank in respect of such non-compliance before the year-end. The aggregate maturity of the loan outstanding at 31 March 2019, based on its respective repayment schedule, is spread from 2019 through 2021. The loan is secured by corporate guarantees provided by the shareholders.

Maturity profile of commercial bank loan

Years ending 31 March:

	2019	2018
2019	-	18,750,000
2020	37,500,000	37,500,000
2021	<u>37,500,000</u>	<u>37,500,000</u>
	<u>75,000,000</u>	<u>93,750,000</u>

19 Short-term borrowings

	2019	2018
Short term borrowing	173,690,007	-
Overdraft	<u>13,433,918</u>	<u>-</u>
	<u>187,123,925</u>	<u>-</u>

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

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20 Employee benefit obligations

20.1 General description of the plan

The Company operates a defined benefit plan in line with the Labour Law 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 Labour 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.

	2019	2018
1 April	6,531,530	5,271,580
Current service cost	1,169,360	1,171,730
Interest expense	322,380	326,360
Payments	(167,710)	(15,370)
Remeasurements	1,362,190	(222,770)
31 March	<u>9,217,750</u>	<u>6,531,530</u>

20.2 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:

	2019	2018
Current service cost	1,169,360	1,171,730
Interest expense	322,380	326,360
Total amount recognised in profit or loss	<u>1,491,740</u>	<u>1,498,090</u>
<u>Remeasurements</u>		
Gain from change in financial assumptions	878,380	953,050
Experience losses (gains)	483,810	(1,175,820)
Total amount recognised in other comprehensive income	<u>1,362,190</u>	<u>(222,770)</u>

20.3 Key actuarial assumptions

	2019	2018
Discount rate	4.25%	5.0%
Salary growth rate	3.0%	3.0%

20.4 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%	(1,145,710)	1,377,340
Salary growth rate	1%	1%	1,381,210	(1,168,800)

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 defined 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.

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21 Trade and other payables

	Note	31 March 2019	31 March 2018	1 April 2017
Trade payables		263,419,250	97,716,149	3,126,002
Related parties	23	5,130,842	2,815,976	3,838,707
		268,550,092	100,532,125	6,964,709
Accrued expenses		6,005,991	3,966,822	1,492,780
Salaries and benefits		3,719,566	3,878,362	3,734,127
Accrued financial charges		1,370,669	1,316,350	683,716
Advances from customers	21.1	96,653,714	556,875	691,792
		376,300,032	110,250,534	13,567,124
Advance from a customer - non-current		(38,371,501)	-	-
		337,928,531	110,250,534	13,567,124

21.1 Advance received from a customers include an amount of Saudi Riyals 96.6 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.

22 Income tax and zakat matters

22.1 Components of zakat base attributable to Saudi shareholders

	2019	2018
Equity at beginning of year	55,723,938	93,080,296
Provisions at beginning of year	4,261,833	4,022,789
Adjusted net loss for the year	(31,506,013)	(35,368,658)
Borrowings	109,564,116	115,543,879
Property, plant and equipment, as adjusted	(130,117,930)	(135,476,595)
Other	(5,910,842)	6,915,651
Approximate zakat base	2,015,102	48,717,362

Zakat is payable at 2.5% of the higher of the approximate zakat base and adjusted net income.

22.2 Income tax expense

	2019	2018
Current tax	-	-
Deferred tax credit	(2,935,625)	-
	(2,935,625)	-

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22 Income tax and zakat matters (continued)

22.3 Zakat and income tax refundable

	Zakat	Income tax	Total
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	-
31 March 2019	<u>50,378</u>	<u>(3,218,604)</u>	<u>(3,168,226)</u>
1 April 2017	2,351,206	(6,476,884)	(4,125,678)
Provisions for the year	1,194,901	-	1,194,901
Adjustments related to prior periods	(120,620)	-	(120,620)
Advance tax adjustment	(2,230,586)	2,230,586	-
31 March 2018	<u>1,194,901</u>	<u>(4,246,298)</u>	<u>(3,051,397)</u>

22.4 Temporary and permanent differences

	2019	2018
Loss before zakat and tax	(72,352,351)	(74,714,902)
Temporary differences:		
- Depreciation	6,418,854	1,515,968
- Employee termination benefits	2,973,012	1,471,678
Permanent difference -		
- Other	(64,145)	975,790
Adjusted net loss for the year	<u>(63,024,630)</u>	<u>(70,751,466)</u>

22.5 Status of certificates and final assessments

The Company has obtained final assessments from the GAZT for the years through 2010. The assessments for the years from 2011 through 2018 are currently under review by the GAZT. The Company has obtained zakat certificates for the years through 2018.

22.6 Deferred tax assets

The balance comprises deductible temporary differences attributable to:

	31 March 2019
Carry forward losses	18,468,282
Employee benefit obligations	921,959
Provision for inventory obsolescence	206,812
Property, plant and equipment	(16,661,428)
Deductible temporary differences – net	<u>2,935,625</u>

As at 31 March 2018, the Company has not recognized deferred tax assets arising out of temporary differences and carry forward losses considering the uncertainty surrounding the realization of such asset as at that date.

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22 Income tax and zakat matters (continued)

22.7 Deferred tax assets movement

Movement in deferred taxes is attributable to:

	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

23 Related party transactions and balances

The Company is controlled by Welspun Corp Limited (the "Ultimate Parent Company") which indirectly owns 50.01% of the Company's shares.

Related parties comprise the shareholders, the Ultimate Parent Company, affiliated companies in the group which are directly or indirectly controlled by the Ultimate Parent Company ("Associated Companies"), directors and key management personnel. Related parties also include business entities in which shareholders other than the Ultimate Parent Company have an interest ("other related parties").

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

Nature of transactions and relationship	2019	2018
Cost charged by other related parties	1,785,753	876,844
Cost charged by the shareholders	114,429	31,512
Financial charges charged by the shareholders	5,558,826	5,558,826
Purchases and other related services from the Ultimate Parent Company	3,267,283	812,989
Cost charged to the Ultimate Parent Company	5,239	97,262
Purchases and other related services from the associated companies	14,570,516	30,227,999
Cost charged to associated companies	2,075,076	1,973,601
Sales to associated company	4,415,557	4,703,546

(b) Key management personnel compensation:

	2019	2018
Salaries and other short-term employee benefits	772,931	2,403,960
Post employment benefits	29,709	-
	802,640	2,403,960

(c) Loans from shareholders

These represent funding obtained from shareholders which carry financial charges at prevailing market rates. These loans are due for repayment in 2021.

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23 Related party transactions and balances (continued)

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

(i) Due from related parties

	31 March 2019	31 March 2018	1 April 2017
Welspun Middle East Pipes Coating Company	27,492,305	22,089,521	1,540,861
Welspun Trading Limited	-	-	26,274,343
Aziz European Pipe Factory, a shareholder	-	-	2,153,342
	27,492,305	22,089,521	29,968,546

(ii) Due to related parties

	31 March 2019	31 March 2018	1 April 2017
Aziz Company for Contracting & Industrial Investment	3,174,077	2,444,362	2,340,938
Ultimate Parent Company	1,195,472	170,098	199,302
Vision International Investment Company	654,742	122,736	1,251,199
Mohawareen Industrial Services, a shareholder	106,551	78,780	47,268
	5,130,842	2,815,976	3,838,707

24 Financial risk management

24.1 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.

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24 Financial risk management (continued)

24.1 Financial risk factors (continued)

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.

(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 2019 and 2018, 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 2019, if the interest rate were to shift by 1%, there would be a maximum increase or decrease in the interest expense by Saudi Riyals 0.75 million (2018: Saudi Riyals 0.9 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 2019, if the interest rate were to shift by 1%, there would be a maximum increase or decrease in the interest expense by Saudi Riyals 1.8 million (2018: nil).

(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.

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24 Financial risk management (continued)

24.1 Financial risk factors (continued)

(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.

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 2019, 92% of trade receivables were due from a single customer (2018: 85% of trade receivables was 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.

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. Accordingly, no ECL allowance was made against other receivables.

Cash at banks:

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.

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. Also see note 1.

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24 Financial risk management (continued)

24.1 Financial risk factors (continued)

(b) Liquidity risk (continued)

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 companyings 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	Total
2019			
Long-term borrowings	37,500,000	37,500,000	75,000,000
Future interest on long-term borrowings	3,070,875	828,875	3,899,750
Long-term loans from shareholders	-	105,882,396	105,882,396
Future interest on long-term loans from shareholders	5,574,055	4,178,003	9,752,059
Short-term borrowings	187,123,925	-	187,123,925
Trade and other payables	279,646,318	-	279,646,318
	<u>512,915,173</u>	<u>148,389,274</u>	<u>661,304,448</u>
2018			
Long-term borrowings	18,750,000	75,000,000	93,750,000
Future interest on long-term borrowings	4,266,797	4,233,281	8,500,078
Long-term loans from shareholders	-	105,882,396	105,882,396
Future interest on long-term loans from shareholders	5,558,826	9,752,059	15,310,884
Trade and other payables	109,693,659	-	109,693,659
	<u>138,269,282</u>	<u>194,867,736</u>	<u>333,137,017</u>

24.2 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 equivalent. 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:

	2019	2018
Total borrowings	402,109,348	231,205,236
Less: cash and cash equivalents	(16,237,420)	(59,192,202)
Net debt	385,871,928	172,013,034
Total equity	40,901,926	111,564,013
Total capital	426,773,854	283,577,047
Gearing ratio	90%	61%

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24 Financial risk management (continued)

24.3 Net debt reconciliation

The net debt of the Company is as follows:

	2019	2018
Cash and cash equivalents	16,237,420	59,192,202
Long-term loans from shareholders	(105,882,396)	(105,882,396)
Short term borrowings	(187,123,925)	-
Long-term borrowings - payable within one year	(71,603,027)	(26,288,610)
Long-term borrowings - payables after one year	(37,500,000)	(99,034,230)
Net debt	(385,871,928)	(172,013,034)

The Company's net debt reconciliation is as follows

	Cash and cash equivalents	Long-term loans from shareholders	Short term borrowings	Long-term borrowings - repayable within one year	Long-term borrowings - repayable after one year	Total
1 April 2017	37,432,004	(105,882,396)	-	(29,101,782)	(139,106,590)	(236,658,764)
Cashflows	21,760,198	-	-	42,395,000	-	64,155,198
Transfer	-	-	-	(40,072,360)	40,072,360	-
Others	-	-	-	490,532	-	490,532
31 March 2018	59,192,202	(105,882,396)	-	(26,288,610)	(99,034,230)	(172,013,034)
Cashflows	(42,954,782)	-	(187,123,925)	18,750,000	-	(211,328,707)
Transfer	-	-	-	(61,534,230)	61,534,230	-
Others	-	-	-	(2,530,187)	-	(2,530,187)
31 March 2019	16,237,420	(105,882,396)	(187,123,925)	(71,603,027)	(37,500,000)	(385,871,928)

25 Categories of financial instruments

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

	Financial assets carried at amortised cost	
<u>31 March</u>	2019	2018
Assets as per statement of financial position		
Trade and other receivables	292,093,404	76,896,699
Cash and cash equivalents	16,237,420	59,192,202
Total	308,330,824	136,088,901

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25 Categories of financial instruments (continued)

31 March	Financial liabilities carried at amortised cost	
	2019	2018
Liabilities as per statement of financial position		
Long-term borrowings	37,500,000	99,034,230
Long-term loans from shareholders	105,882,396	105,882,396
Current portion of long-term borrowings	71,603,027	26,288,610
Trade and other payables	279,646,318	109,693,659
Short-term borrowings	187,123,925	-
Total	681,755,666	340,898,895

For the purpose of the financial instruments disclosure, non-financial assets and non-financial liabilities amounting to Saudi Riyals 64.0 million and Saudi Riyals 58.2 million respectively (2018: Saudi Riyals 7.1 million and Saudi Riyals 0.56 million respectively) have been excluded from trade and other receivables and trade and other payables, respectively.

26 Operating leases

The Company has operating leases for land, office premises and employees' housing which generally have terms ranging from one to twelve years. Rental expense under such leases amounted to Saudi Riyals 5.7 million (2018: Saudi Riyals 5.7 million).

Commitments for minimum lease payments under non-cancelable operating leases as of March 31 are as follows:

	2019	2018
Years ending March 31:		
Within one year	4,709,900	5,263,884
Within two to five years	8,542,820	12,905,140
After five years	3,945,452	4,509,088
	17,198,172	22,678,112

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 2019 and 2018, 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..

28 Contingencies and commitments

As at 31 March 2019, the Company was contingently liable for letters of credits and guarantees in the normal course of business amounting to Saudi Riyals 876.0 million (2018: Saudi Riyals 276.0 million).