

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2018
AND INDEPENDENT AUDITOR'S REPORT

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2018

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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 March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

What we have audited

The Company's financial statements comprise:

- the balance sheet as at March 31, 2018;
- the statement of income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in shareholders' equity 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 accounting standards generally accepted in the Kingdom of Saudi Arabia 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 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

Saher M. Hashem
License Number 439
May 14, 2018



WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

		As at March 31,	
	Note	2018	2017
Assets			
Current assets			
Cash and cash equivalents	4	59,192,202	37,432,004
Accounts receivable	5	76,107,515	57,650,075
Inventories	6	56,790,970	88,518,914
Prepayments and other receivable	7	10,925,855	13,705,245
		<u>203,016,542</u>	<u>197,306,238</u>
Non-current assets			
Property, plant and equipment	8	256,534,771	282,753,660
		<u>459,551,313</u>	<u>480,059,898</u>
Total assets			
Liabilities and shareholders' equity			
Liabilities			
Current liabilities			
Current portion of long-term borrowings	11	26,217,360	27,784,360
Accounts payable	9	100,532,125	6,964,709
Accrued and other liabilities	10	9,789,659	7,919,837
		<u>136,539,144</u>	<u>42,668,906</u>
Non-current liabilities			
Long-term loans from shareholders	12	105,882,396	105,882,396
Long-term borrowings	11	99,034,230	139,106,590
Employee termination benefits	13	6,625,373	6,204,174
		<u>211,541,999</u>	<u>251,193,160</u>
		<u>348,081,143</u>	<u>293,862,066</u>
Total liabilities			
Shareholders' equity			
Share capital	14	76,046,875	76,046,875
Statutory reserve	15	25,609,186	25,609,186
Retained earnings		9,814,109	84,541,771
		<u>111,470,170</u>	<u>186,197,832</u>
Total shareholders' equity			
		<u>459,551,313</u>	<u>480,059,898</u>
Total liabilities and shareholders' equity			
Contingencies and commitments			
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The accompanying notes from 1 to 21 form an integral part of these financial statements.

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

		<u>Year ended March 31,</u>	
	Note	2018	2017
Revenues	12	271,922,093	308,919,835
Cost of revenues	12	(314,517,279)	(313,659,162)
Gross loss		(42,595,186)	(4,739,327)
Operating expenses			
Selling and marketing	17	(7,223,749)	(47,212,106)
General and administrative	18	(10,696,592)	(11,549,813)
Loss from operations		(60,515,527)	(63,501,246)
Other (expenses) income			
Financial charges	11,12	(17,170,834)	(16,325,842)
Other, net	19	4,032,980	6,555,654
Net loss for the year		(73,653,381)	(73,271,434)

The accompanying notes from 1 to 21 form 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 March 31,	
		2018	2017
Cash flows from operating activities			
Net loss for the year		(73,653,381)	(73,271,434)
<u>Adjustments for non-cash and other items</u>			
Provision for doubtful debts	5	1,692,571	-
Provision for inventory obsolescence	6	556,349	1,843,014
Depreciation and amortization	8,11	26,851,583	29,987,716
(Gain) loss from disposal of property and equipment		(85,720)	32,826
<u>Changes in working capital</u>			
Accounts receivable		(20,150,011)	211,926,906
Inventories		31,171,595	71,707,505
Prepayments and other receivable		1,705,110	5,688,809
Accounts payable		93,567,416	(92,832,315)
Accrued and other liabilities		1,869,822	(10,820,737)
Employee termination benefits		421,199	701,942
Net cash generated from operating activities		<u>63,946,533</u>	<u>144,964,232</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(323,381)	(6,724,146)
Proceeds from disposal of property and equipment		532,046	-
Net cash generated from (utilized in) investing activities		<u>208,665</u>	<u>(6,724,146)</u>
Cash flows from financing activities			
Short-term borrowings		-	(148,315,455)
Repayment of long-term borrowings	11	(42,395,000)	(26,582,000)
Zakat and income tax payments	16	-	(3,017,476)
Net cash utilized in financing activities		<u>(42,395,000)</u>	<u>(177,914,931)</u>
Net change in cash and cash equivalents		21,760,198	(39,674,845)
Cash and cash equivalents at beginning of year		<u>37,432,004</u>	<u>77,106,849</u>
Cash and cash equivalents at end of year		<u>59,192,202</u>	<u>37,432,004</u>
Supplemental non-cash financial information			
<u>Non-cash financing activity-</u>			
Zakat and income tax provisions charged to shareholders' equity accounts	16	<u>1,074,281</u>	<u>3,242,209</u>

The accompanying notes from 1 to 21 form an integral part of these financial statements.

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

	Note	Share capital	Statutory reserve	Retained earnings	Total
April 1, 2017		76,046,875	25,609,186	84,541,771	186,197,832
Net loss for the year		-	-	(73,653,381)	(73,653,381)
Zakat and income tax	16	-	-	(1,074,281)	(1,074,281)
March 31, 2018		76,046,875	25,609,186	9,814,109	111,470,170
April 1, 2016		76,046,875	25,609,186	161,055,414	262,711,475
Net loss for the year		-	-	(73,271,434)	(73,271,434)
Zakat and income tax	16	-	-	(3,242,209)	(3,242,209)
March 31, 2017		76,046,875	25,609,186	84,541,771	186,197,832

The accompanying notes from 1 to 21 form 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 March 31, 2018

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Welspun Middle East Pipes Company (the "Company") is engaged in manufacturing and sales 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 1431 H (July 4, 2010) operating under Commercial Registration number 2050071522 issued in Dammam on 22 Rajab 1431 H (July 4, 2010). The registered address of the Company is P.O. Box 12943, Dammam 31483, Kingdom of Saudi Arabia.

The accompanying financial statements were approved by the Company's management on May 14, 2018.

2 Summary of significant accounting policies

Effective April 1, 2018, the Company's financial statements will be prepared under International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization of Certified Public Accountants (SOCPA). Upon adoption of IFRS, the Company will be required to comply with the requirements of IFRS 1 - First time Adoption of International Financial Reporting Standards for the reporting periods commencing April 1, 2018. In preparing the opening financial statements under IFRS, the Company will analyze impacts and incorporate certain adjustments due to the first time adoption of IFRS. Accordingly, the accompanying financial statements are the last set of financial statements in compliance with accounting standards promulgated by SOCPA.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented.

2.1 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by the SOCPA.

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting standards requires the use of certain critical estimates and assumptions 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 revenues 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 assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

2.3 Foreign currency translations

(a) Reporting currency

These financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

(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, if any, resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year-end exchange rates are recognized in the statement of income. Net amount of such gains or losses for 2018 and 2017 were not significant.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date.

WELSPUN MIDDLE EAST PIPES COMPANY

(A limited liability company)

Notes to the financial statements for the year ended March 31, 2018

(All amounts in Saudi Riyals unless otherwise stated)

2.5 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts, if any. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all doubtful debts according to the original terms of the receivables. Such provisions are charged to the statement of income and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written off are credited to "General and administrative expenses" in the statement of income.

2.6 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Provision for slow-moving and obsolete inventory is made considering various factors including age of the inventory items, historic usage, expected utilization in future and evaluation from the internal technical teams.

2.7 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation, except construction-in-progress which is carried at cost. Depreciation is charged to the statement of income, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impaired assets are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

2.8 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

2.9 Borrowings

Borrowings are recognized at the proceeds received net of transaction cost incurred, if any. Borrowings are subsequently carried at amortized cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period using effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets until such time as the assets are ready for their intended use. Other borrowing costs are charged to the statement of income.

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

2.10 Zakat and taxes

In accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"), the Company is subject to zakat and income tax. Provisions for zakat and income tax are charged to the equity accounts of the Saudi and the foreign shareholders, respectively. Additional amounts payable, if any, at the finalization of assessments are accounted for when such amounts are determined.

Deferred income taxes on all major temporary differences between financial income and taxable income are recognized during the period in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income tax assets on carry-forward tax losses, if any, are recognized to the extent that it is probable that future taxable income will be available against such carry-forward tax losses. Deferred income taxes are determined using tax rates which have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

2.11 Employee termination benefits

Employee termination benefits required by the Saudi Labor and Workman Law are accrued by the Company and charged to the statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

2.12 Revenues

Revenue from sale of goods is recognized on transfer of significant risks and rewards of ownership to the customers.

2.13 Selling, marketing and general and administrative expenses

Selling, marketing, general and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under generally accepted accounting standards. Allocations between selling and marketing, general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

2.14 Operating leases

Rental expense under operating leases is charged to the statement of income over the period of the respective lease.

3 Financial instruments and risk management

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts and other receivables, borrowings, loans from shareholders, accounts payable and accrued and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is 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 asset and liability simultaneously. Risk management is carried out by senior management.

3.1 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 principally in Saudi Riyals, Euros and United States dollars and management believes that currency risk to the Company is not significant.

WELSPUN MIDDLE EAST PIPES COMPANY**(A limited liability company)****Notes to the financial statements for the year ended March 31, 2018**

(All amounts in Saudi Riyals unless otherwise stated)

3.2 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company's interest rate risk arises mainly from its borrowings and loans from shareholder which carry interest at prevailing market rates. Management believes that fair value and cash flow interest rate risks to the Company are not significant.

3.3 Price risk

Price risk is 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.

3.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. At March 31, 2018, 90.0% of accounts receivable were due from two customers (2017: 99.7% from two customers). Management believes that this concentration of credit risk is mitigated as such receivables are supported by agreements with the customers having an established track record of regular payments. Cash is placed with bank with sound credit rating.

3.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any future commitments.

3.6 Fair value

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

4 Cash and cash equivalents

	2018	2017
Cash in hand	27,574	48,303
Cash at bank	59,164,628	37,383,701
	<u>59,192,202</u>	<u>37,432,004</u>

5 Accounts receivable

	Note	2018	2017
Trade		54,017,994	27,681,529
Related parties	12	22,089,521	29,968,546
		<u>76,107,515</u>	<u>57,650,075</u>

Movement in provision for doubtful debts is as follows:

	2018	2017
April 1	-	-
Additions	1,692,571	-
Write-off	(1,692,571)	-
March 31	<u>-</u>	<u>-</u>

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

6 Inventories

	2018	2017
Raw materials	24,538,093	12,045,811
Finished goods	17,580,733	62,426,989
Work in process	1,715,490	233,734
Parts and consumables, not held for sale	15,356,017	15,655,394
	59,190,333	90,361,928
Less: provision for inventory obsolescence	(2,399,363)	(1,843,014)
	56,790,970	88,518,914

Movement in provision for inventory obsolescence is as follows:

	2018	2017
April 1	1,843,014	-
Additions	556,349	1,843,014
March 31	2,399,363	1,843,014

Finished products at March 31, 2018 have been written-down by Saudi Riyals 0.5 million (March 31, 2017: Nil) to bring them to their net realizable values which has been charged to "Cost of revenues" in the accompanying statement of income.

7 Prepayments and other receivable

	Note	2018	2017
Prepaid expenses		3,483,012	8,611,191
Advances to suppliers		3,380,401	381,472
Zakat and income tax refundable	16	3,051,397	4,125,678
Advances to employees		580,991	382,296
Other		430,054	204,608
		10,925,855	13,705,245

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

8 Property, plant and equipment

	April 1, 2017	Additions	Disposals / transfer	March 31, 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	4,744,428	27,300	238,221	5,009,949
Vehicles	1,737,381	-	(789)	1,736,592
Construction-in-progress	856,681	296,081	(936,354)	216,408
	<u>455,100,723</u>	<u>323,381</u>	<u>(1,048,433)</u>	<u>454,375,671</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	(4,148,518)	(405,490)	297,176	(4,256,832)
Vehicles	(1,285,345)	(185,236)	789	(1,469,792)
	<u>(172,347,063)</u>	<u>(26,095,944)</u>	<u>602,107</u>	<u>(197,840,900)</u>
	<u>282,753,660</u>			<u>256,534,771</u>
	April 1, 2016	Additions	Disposals / transfer	March 31, 2017
2017				
Cost				
Buildings and land improvements	45,108,739	-	(70,000)	45,038,739
Plant and machinery	396,117,393	1,301,886	5,304,215	402,723,494
Furniture, fixtures and office equipment	4,481,102	137,891	125,435	4,744,428
Vehicles	1,737,381	-	-	1,737,381
Construction-in-progress	1,059,417	5,284,369	(5,487,105)	856,681
	<u>448,504,032</u>	<u>6,724,146</u>	<u>(127,455)</u>	<u>455,100,723</u>
Accumulated depreciation				
Buildings and land improvements	(11,931,436)	(2,489,527)	46,938	(14,374,025)
Plant and machinery	(126,613,627)	(25,925,548)	-	(152,539,175)
Furniture, fixtures and office equipment	(3,667,998)	(528,221)	47,701	(4,148,518)
Vehicles	(996,565)	(288,780)	-	(1,285,345)
	<u>(143,209,626)</u>	<u>(29,232,076)</u>	<u>94,639</u>	<u>(172,347,063)</u>
	<u>305,294,406</u>			<u>282,753,660</u>

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 (2017: Saudi Riyals 0.6 million) with terms ranging from one to twelve years.

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

9 Accounts payable

	Note	2018	2017
Trade		97,716,149	3,126,002
Related parties	12	<u>2,815,976</u>	<u>3,838,707</u>
		<u>100,532,125</u>	<u>6,964,709</u>

10 Accrued and other liabilities

	2018	2017
Accrued expenses	3,966,822	1,492,780
Salaries and benefits	3,878,362	3,734,127
Accrued financial charges	1,387,600	2,001,138
Advances from customers	<u>556,875</u>	<u>691,792</u>
	<u>9,789,659</u>	<u>7,919,837</u>

11 Long-term borrowings

	Note	2018	2017
Saudi Industrial Development Fund ("SIDF") loan	11.1	32,698,000	37,593,000
Commercial bank loan	11.2	<u>93,750,000</u>	<u>131,250,000</u>
		<u>126,448,000</u>	<u>168,843,000</u>
Long-term unamortized transaction costs		(1,196,410)	(1,952,050)
Current maturity shown under current liabilities		<u>(26,217,360)</u>	<u>(27,784,360)</u>
		<u>99,034,230</u>	<u>139,106,590</u>

11.1 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.

During 2018, the Company rescheduled the loan and as per the rescheduling agreement, the loan is payable in three un-equal semi-annual installments which will commence in 2019. 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 March 31, 2018, the Company was not in compliance with loan covenant related to rental expenditures 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.

	2018	2017
Principal amount	32,698,000	37,593,000
less: unamortized transaction costs	<u>(1,196,410)</u>	<u>(1,952,050)</u>
	<u>31,501,590</u>	<u>35,640,950</u>

Long-term borrowings are presented as follows:

Current maturity under current liabilities	7,467,360	9,034,360
Long-term borrowings	<u>24,034,230</u>	<u>26,606,590</u>
	<u>31,501,590</u>	<u>35,640,950</u>

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Movement in unamortized transaction costs is as follows:

	2018	2017
April 1	1,952,050	2,707,690
Less: amortization	<u>(755,640)</u>	<u>(755,640)</u>
March 31	<u>1,196,410</u>	<u>1,952,050</u>

Related to:

Current maturity shown under current liabilities	755,640	755,640
Shown under long-term borrowings	<u>440,770</u>	<u>1,196,410</u>
	<u>1,196,410</u>	<u>1,952,050</u>

Maturity profile of SIDF

Years ending March 31:

	2018	2017
2018	-	9,790,000
2019	8,223,000	11,748,000
2020	<u>24,475,000</u>	<u>16,055,000</u>
	<u>32,698,000</u>	<u>37,593,000</u>

11.2 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.

The covenants of the loan agreement require the Company to maintain certain level of financial conditions. The aggregate maturities of the loan outstanding at March 31, 2018, based on its respective repayment schedule, are spread in 2018 through 2021. During 2018, the Company has carried out early repayment of one installment due in April 2018 amounting to Saudi Riyals 18.7 million.

Maturity profile of commercial bank loan

Years ending March 31:

	2018	2017
2018	-	18,750,000
2019	18,750,000	37,500,000
2020	37,500,000	37,500,000
2021	<u>37,500,000</u>	<u>37,500,000</u>
	<u>93,750,000</u>	<u>131,250,000</u>

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12 Related party matters

The Company has transactions with the shareholders and their affiliates (collectively the "related parties") in normal course of the Company's operations.

12.1 Related party transactions

	2018	2017
Revenues	4,706,193	265,065,863
Purchases	-	80,483,497
Coating services received	25,801,237	28,672,161
Costs charged by related parties	6,128,952	1,807,417
Financial charges charged by related parties	5,558,826	5,558,826

12.2 Related party balances

i) Due from related parties

	2018	2017
Welspun Middle East Pipes Coating Company	22,089,521	1,540,861
Welspun Trading Limited	-	26,274,343
Aziz European Pipe Factory, a shareholder	-	2,153,342
	<u>22,089,521</u>	<u>29,968,546</u>

ii) Due to related parties

	2018	2017
Aziz Company for Contracting & Industrial Investment	2,444,362	2,340,938
Welspun Corp. Ltd.	170,098	199,302
Arabian Company for Water & Power Development	122,736	1,251,199
Mohawareen Industrial Services, a shareholder	78,780	47,268
	<u>2,815,976</u>	<u>3,838,707</u>

iii) Long-term loans from shareholders

	2018	2017
Welspun Mauritius Holdings Ltd, a shareholder	52,816,198	52,816,198
Aziz European Pipe Factory, a shareholder	53,066,198	53,066,198
	<u>105,882,396</u>	<u>105,882,396</u>

These represent funding obtained from shareholders which carry financial charges at prevailing market rates and have no specific repayment schedule. However, the shareholders have confirmed that no repayment of such loans are required during financial year ending March 31, 2019 and accordingly, the amounts are disclosed as non-current liability in the accompanying 2018 balance sheet.

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13 Employee termination benefits

	2018	2017
April 1	6,204,174	5,502,233
Provisions	1,471,678	1,443,715
Payments	<u>(1,050,479)</u>	<u>(741,774)</u>
March 31	<u>6,625,373</u>	<u>6,204,174</u>

14 Share capital

The share capital of the Company as of March 31, 2017 and 2018 comprised of 76,046,875 shares stated at Saudi Riyals 1 per share owned as follows:

Shareholder	Country of Incorporation	Shareholding percentage	
		2018	2017
Welspun Mauritius Holdings Company Ltd.	Mauritius	50.01	50.01
Aziz European Pipe Factory	Kingdom of Saudi Arabia	45.00	45.00
Mohawareen Industrial Services	Kingdom of Saudi Arabia	<u>4.99</u>	<u>4.99</u>
		<u>100.00</u>	<u>100.00</u>

15 Statutory reserve

In accordance with the Company's Articles of Association, the Company is required to transfer 10% of the net income for the year to a statutory reserve until it equals to 50% of its share capital. The Regulations for Companies require the Company to transfer 10% of the net income for the year, after adjustment of accumulated losses, to the statutory reserve until it equals a minimum of 30% of its share capital. This reserve currently is not available for distribution to the shareholders of the Company.

16 Zakat and income tax matters

16.1 Components of zakat base attributable to the Saudi shareholders

	Note	2018	2017
Shareholders' equity at beginning of year		93,080,296	132,580,729
Provisions at beginning of year	6,13	4,022,789	2,379,753
Adjusted net loss for the year		(35,368,658)	(37,413,104)
Borrowings		115,543,879	136,359,395
Property, plant and equipment, as adjusted		(135,476,595)	(139,858,537)
Other		<u>6,915,651</u>	<u>-</u>
Approximate zakat base		<u>48,717,362</u>	<u>94,048,236</u>

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

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16.2 Advance for zakat and income tax

	Zakat	Income tax	Total
April 1, 2017	2,351,206	(6,476,884)	(4,125,678)
Provisions:			
- For current 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	-
March 31, 2018	<u>1,194,901</u>	<u>(4,246,298)</u>	<u>(3,051,397)</u>

	Zakat	Income tax	Total
April 1, 2016	3,081,844	(7,432,255)	(4,350,411)
Provisions:			
- For current year	2,351,206	-	2,351,206
- Adjustments related to prior periods	157,686	733,317	891,003
Advance tax adjustment	(3,239,530)	3,239,530	-
Payments	-	(3,017,476)	(3,017,476)
March 31, 2017	<u>2,351,206</u>	<u>(6,476,884)</u>	<u>(4,125,678)</u>

Income tax is payable at 20 percent of adjusted net income attributable to the foreign shareholder.

The zakat and income tax refundable of Saudi Riyals 3.1 million (2017: Saudi Riyals 4.1 million) has been included under 'Prepayments and other receivable' in the accompanying balance sheets.

16.3 Temporary differences

	2018	2017
Net loss for the year	(73,653,381)	(73,271,434)
- Depreciation	1,515,968	(2,980,631)
- Employee termination benefits	1,471,678	701,941
- Other	(85,731)	708,948
Adjusted net loss income for the year	<u>(70,751,466)</u>	<u>(74,841,176)</u>

Deferred income taxes arising out of such temporary differences were not significant and accordingly, were not recorded as of March 31, 2018 and 2017.

16.4 Status of certificates and final assessments

The Company has received zakat and income tax certificates from the GAZT for the years through 2017. The Company's assessments for the years since inception are currently under review by the GAZT.

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17 Selling and marketing expenses

	2018	2017
Rent	3,845,837	4,985,564
Salaries and benefits	1,023,968	1,284,417
Freight charge	978,663	38,425,511
Packing material	574,346	1,364,853
Repair	440,236	1,006,259
Others	360,699	145,502
	<u>7,223,749</u>	<u>47,212,106</u>

18 General and administrative expenses

	Note	2018	2017
Salaries and benefits		6,340,010	9,036,291
Depreciation		278,470	593,587
Professional fee		327,246	359,230
Repair		220,932	341,577
Utilities		461,747	296,523
Rent		236,195	291,109
Travel		113,329	113,545
Provision for doubtful debts	5	1,692,571	-
Other		1,026,092	517,951
		<u>10,696,592</u>	<u>11,549,813</u>

19 Other income, net

	2018	2017
Scrap sales	3,649,558	5,338,197
Other	383,422	1,217,457
	<u>4,032,980</u>	<u>6,555,654</u>

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20 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 (2017: Saudi Riyals 6.6 million).

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

	2018	2017
Years ending March 31:		
2018	-	4,656,663
2019	5,263,884	5,525,956
2020	5,525,956	5,525,956
2021	5,525,956	5,525,956
2022	725,956	725,956
2023 and thereafter	5,636,360	5,636,360
	<u>22,678,112</u>	<u>27,596,847</u>

21 Contingencies and commitments

As at March 31, 2018, the Company was contingently liable for letters of credits and guarantees in the normal course of business amounting to Saudi Riyals 276.0 million (2017: Saudi Riyals 34.9 million).

Also see Note 20.