

**WELSPUN MIDDLE EAST PIPES COMPANY**  
**(A limited liability company)**

**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2017**  
**AND INDEPENDENT AUDITOR'S REPORT**

**WELSPUN MIDDLE EAST PIPES COMPANY**  
**(A limited liability company)**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2017**

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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*

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#### *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, 2017, 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, 2017;
- 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 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.

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

**Report on other legal and regulatory requirements**

Further, in accordance with the requirements of the Regulations for Companies in Kingdom of Saudi Arabia, we report that, based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the accompanying financial statements have not been prepared and presented, in all material respects, in accordance with the requirements of the applicable provisions of the Regulations for Companies.

**PricewaterhouseCoopers**



Ali H. Al Basri  
License Number 409

July 13, 2017



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

		As at March 31,	
	Note	2017	2016
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	37,432,004	77,106,849
Accounts receivable	5	57,650,075	269,576,981
Inventories	6	88,518,914	162,069,433
Prepayments and other receivable	7	13,705,245	19,618,797
		<u>197,306,238</u>	<u>528,372,060</u>
<b>Non-current assets</b>			
Property, plant and equipment	8	282,753,660	305,294,406
		<u>480,059,898</u>	<u>833,666,466</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	11	-	148,315,455
Current portion of long-term borrowings	12	27,784,360	7,076,360
Accounts payable	9	6,964,709	99,797,024
Accrued and other liabilities	10	7,919,837	18,740,574
		<u>42,668,906</u>	<u>273,929,413</u>
<b>Non-current liabilities</b>			
Long-term loans from shareholders	14	105,882,396	105,882,396
Long-term borrowings	12	139,106,590	185,640,950
Employee termination benefits	13	6,204,174	5,502,232
		<u>251,193,160</u>	<u>297,025,578</u>
		<u>293,862,066</u>	<u>570,954,991</u>
<b>Shareholders' equity</b>			
Share capital	16	76,046,875	76,046,875
Statutory reserve	17	25,609,186	25,609,186
Retained earnings		84,541,771	161,055,414
		<u>186,197,832</u>	<u>262,711,475</u>
		<u>480,059,898</u>	<u>833,666,466</u>
<b>Contingencies</b>			
	23		

The accompanying notes from 1 to 23 form an integral part of these financial statements.

**WELSPUN MIDDLE EAST PIPES COMPANY**  
**(A limited liability company)**  
**Income statement**  
(All amounts in Saudi Riyals unless otherwise stated)

		<u>Year ended March 31,</u>	
	<b>Note</b>	<b>2017</b>	<b>2016</b>
Revenues		<b>308,919,835</b>	688,872,546
Cost of revenues	14	<u><b>(313,659,162)</b></u>	<u>(636,566,401)</u>
<b>Gross margin</b>		<b>(4,739,327)</b>	52,306,145
<b>Operating expenses</b>			
Selling and marketing	18	<b>(47,212,106)</b>	(16,257,662)
General and administrative	19	<u><b>(11,549,813)</b></u>	<u>(15,293,730)</u>
<b>(Loss) income from operations</b>		<b>(63,501,246)</b>	20,754,753
<b>Other (expenses) income</b>			
Financial charges, net	11,12,14	<b>(16,325,842)</b>	(21,044,987)
Other income, net	20	<u><b>6,555,654</b></u>	<u>10,534,465</u>
<b>Net (loss) income for the year</b>		<u><b>(73,271,434)</b></u>	<u>10,244,231</u>

The accompanying notes from 1 to 23 form an integral part of these financial statements.

**WELSPUN MIDDLE EAST PIPES COMPANY**  
**(A limited liability company)**  
**Cash flows statement**  
(All amounts in Saudi Riyals unless otherwise stated)

		<u>Year ended March 31,</u>	
	Note	2017	2016
<b>Cash flows from operating activities</b>			
Net (loss) income for the year		(73,271,434)	10,244,231
<u>Adjustments for non-cash and other items</u>			
Depreciation and amortization	8, 12	29,987,716	30,369,597
Loss from disposal of property and equipment		32,826	10,635
<u>Changes in working capital</u>			
Accounts receivable		211,926,906	(38,906,534)
Inventories		73,550,519	73,378,748
Prepayments and other receivable		5,688,819	(8,156,976)
Accounts payable		(92,832,315)	(145,301,616)
Accrued and other liabilities		(10,820,737)	(20,042,008)
Employee termination benefits		701,942	914,500
Net cash generated from (utilized in) operating activities		<u>144,964,242</u>	<u>(97,489,423)</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	8	(6,724,156)	(3,821,112)
Proceeds from disposal of property and equipment		-	644,599
Net cash utilized in investing activities		<u>(6,724,156)</u>	<u>(3,176,513)</u>
<b>Cash flows from financing activities</b>			
Short-term borrowings		(148,315,455)	148,315,455
Proceeds from long-term borrowings	12	-	167,970,000
Repayment of long-term borrowings	12	(26,582,000)	(6,926,000)
Repayment of long-term loans from shareholders		-	(118,758,230)
Dividends paid	21	-	(18,063,033)
Zakat and income tax payments	15	(3,017,476)	(20,344,397)
Net cash (utilized in) generated from financing activities		<u>(177,914,931)</u>	<u>152,193,795</u>
<b>Net change in cash and cash equivalents</b>		<b>(39,674,845)</b>	<b>51,527,859</b>
Cash and cash equivalents at beginning of year		<u>77,106,849</u>	<u>25,578,990</u>
<b>Cash and cash equivalents at end of year</b>	<b>4</b>	<b><u>37,432,004</u></b>	<b><u>77,106,849</u></b>
<b>Supplemental non-cash financial information</b>			
<u>Non-cash financing activities :</u>			
- Dividends payable adjusted against balance due from a shareholder	21	-	948,685
- Zakat and income tax provisions charged (credited) to shareholders' equity accounts	15	<u>3,242,209</u>	<u>(1,122,451)</u>

The accompanying notes from 1 to 23 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
<b>April 1, 2016</b>		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	15	-	-	(3,242,209)	(3,242,209)
<b>March 31, 2017</b>		<b>76,046,875</b>	<b>25,609,186</b>	<b>84,541,771</b>	<b>186,197,832</b>
<b>April 1, 2015</b>		76,046,875	24,584,763	169,724,873	270,356,511
Net income for the year		-	-	10,244,231	10,244,231
Transfer to statutory reserve	17	-	1,024,423	(1,024,423)	-
Dividends	21	-	-	(19,011,718)	(19,011,718)
Zakat and income tax	15	-	-	1,122,451	1,122,451
<b>March 31, 2016</b>		<b>76,046,875</b>	<b>25,609,186</b>	<b>161,055,414</b>	<b>262,711,475</b>

The accompanying notes from 1 to 23 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, 2016**  
**(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 Industrial City II, Dammam, Kingdom of Saudi Arabia.

The accompanying financial statements were approved by the Company's management on July 13, 2017.

**2 Summary of significant accounting policies**

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 Saudi Organization for Certified Public Accountants.

**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 income statement. Net amount of such gains or losses for 2017 and 2016 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.

**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 income statement 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 income statement.

**WELSPUN MIDDLE EAST PIPES COMPANY**

**(A limited liability company)**

**Notes to the financial statements for the year ended March 31, 2017**

(All amounts in Saudi Riyals unless otherwise stated)

**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.

**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 income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	<b>Number of years</b>
• Buildings and land improvements	10 - 20
• Plant and machinery	2 - 20
• Furniture, fixture 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 income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement 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 income statement.

**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 income statement 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 income statement.

**WELSPUN MIDDLE EAST PIPES COMPANY**  
**(A limited liability company)**

**Notes to the financial statements for the year ended March 31, 2017**

(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 final 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 income statement. 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 Dividends**

Dividends are recorded in the financial statements in the year in which they are approved by the Company's shareholders.

**2.15 Operating leases**

Rental expense under operating leases is charged to the income statement 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.

**WELSPUN MIDDLE EAST PIPES COMPANY****(A limited liability company)****Notes to the financial statements for the year ended March 31, 2017****(All amounts in Saudi Riyals unless otherwise stated)****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.

**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 fixed interest 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, 2017, 99.7% of accounts receivable was due from two customers (2016: 78% from two customers). Management believes that this concentration of credit risk is mitigated as such receivables are mainly from a quasi-government customer having an established track record of timely 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**

	<b>2017</b>	<b>2016</b>
Cash in hand	48,303	36,482
Cash at bank	<b>37,383,701</b>	<b>77,070,367</b>
	<b>37,432,004</b>	<b>77,106,849</b>

**5 Accounts receivable**

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Trade		<b>27,681,529</b>	218,009,151
Related parties	14	<b>29,968,546</b>	51,567,830
		<b>57,650,075</b>	<b>269,576,981</b>

**WELSPUN MIDDLE EAST PIPES COMPANY**  
**(A limited liability company)**  
**Notes to the financial statements for the year ended March 31, 2017**  
(All amounts in Saudi Riyals unless otherwise stated)

**6 Inventories**

	2017	2016
Raw materials	12,045,811	63,746,492
Finished goods	62,426,989	75,036,550
Work in process	233,734	6,879,083
Parts and consumables, not held for sale	13,812,380	16,407,308
	<u>88,518,914</u>	<u>162,069,433</u>

**7 Prepayments and other receivable**

	Note	2017	2016
Prepaid expenses		8,611,191	12,520,532
Prepaid income tax	15	4,125,678	4,350,411
Advances to suppliers		381,472	1,709,119
Advances to employees		382,296	554,810
Other		204,608	483,925
		<u>13,705,245</u>	<u>19,618,797</u>

**8 Property, plant and equipment**

	April 1, 2016	Additions	Disposals / transfer	March 31, 2017
<b><u>2017</u></b>				
<b>Cost</b>				
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, fixture 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>
<b>Accumulated depreciation</b>				
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, fixture 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>

**WELSPUN MIDDLE EAST PIPES COMPANY**  
**(A limited liability company)**  
**Notes to the financial statements for the year ended March 31, 2017**  
**(All amounts in Saudi Riyals unless otherwise stated)**

	April 1, 2015	Additions	Disposals / transfer	March 31, 2016
<b>2016</b>				
<b>Cost</b>				
Buildings and land improvements	44,454,072	-	654,667	45,108,739
Plant and machinery	390,354,993	1,950,155	3,812,245	396,117,393
Furniture, fixture and office equipment	5,048,162	359,454	(926,514)	4,481,102
Vehicles	1,942,791	243,054	(448,464)	1,737,381
Construction-in-progress	5,153,422	1,268,449	(5,362,454)	1,059,417
	<u>446,953,440</u>	<u>3,821,112</u>	<u>(2,270,520)</u>	<u>448,504,032</u>
<b>Accumulated depreciation</b>				
Buildings and land improvements	(9,390,220)	(2,541,216)	-	(11,931,436)
Plant and machinery	(100,609,205)	(26,151,497)	147,075	(126,613,627)
Furniture, fixture and office equipment	(4,105,954)	(581,791)	1,019,747	(3,667,998)
Vehicles	(1,105,572)	(339,457)	448,464	(996,565)
	<u>(115,210,951)</u>	<u>(29,613,961)</u>	<u>1,615,286</u>	<u>(143,209,626)</u>
	<u>331,742,489</u>			<u>305,294,406</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 0.6 million (2016: Saudi Riyals 0.5 million) with terms ranging from one to five years.

**9 Accounts payable**

	Note	2017	2016
Trade		3,126,002	5,875,643
Related parties	14	3,838,707	93,921,381
		<u>6,964,709</u>	<u>99,797,024</u>

**10 Accrued and other liabilities**

	2017	2016
Salaries and benefits	3,734,127	3,798,833
Accrued financial charges	2,001,138	5,437,234
Accrued expenses	1,492,780	8,604,006
Advances from customers	691,792	900,501
	<u>7,919,837</u>	<u>18,740,574</u>

**11 Short-term borrowings**

These represent bank loan at March 31, 2016 obtained from a commercial bank bearing financial charges at prevailing market rates which were based on Saudi inter-bank offer rates. Such loan has been fully repaid during the year.

**WELSPUN MIDDLE EAST PIPES COMPANY**  
**(A limited liability company)**

**Notes to the financial statements for the year ended March 31, 2017**

(All amounts in Saudi Riyals unless otherwise stated)

**12 Long-term borrowings**

	Note	2017	2016
Saudi Industrial Development Fund ("SIDF") loan	12.1	37,593,000	45,425,000
Commercial bank loan	12.2	131,250,000	150,000,000
		<u>168,843,000</u>	<u>195,425,000</u>
Long-term unamortized transaction costs		(1,952,050)	(2,707,690)
Current maturity shown under current liabilities		<u>(27,784,360)</u>	<u>(7,076,360)</u>
		<u>139,106,590</u>	<u>185,640,950</u>

**12.1 SIDF loan**

The loan from SIDF is repayable in twelve un-equal semi-annual installments which commenced in June 2014. 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.

	2017	2016
Principal amount	37,593,000	45,425,000
less: unamortized transaction costs	<u>(1,952,050)</u>	<u>(2,707,690)</u>
	<u>35,640,950</u>	<u>42,717,310</u>

Long-term borrowings are presented as follows:

Current maturity under current liabilities	9,034,360	7,076,360
Long-term borrowings	<u>26,606,590</u>	<u>35,640,950</u>
	<u>35,640,950</u>	<u>42,717,310</u>

Movement in unamortized transaction costs are as follows:

	2017	2016
April 1	2,707,690	3,463,326
Less: amortization	<u>(755,640)</u>	<u>(755,636)</u>
March 31	<u>1,952,050</u>	<u>2,707,690</u>

Related to:

Current maturity shown under current liabilities	755,640	755,640
Shown under long-term borrowings	<u>1,196,410</u>	<u>1,952,050</u>
	<u>1,952,050</u>	<u>2,707,690</u>

**12.2 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, 2017, based on its respective repayment schedule, are spread in 2018 through 2021.



**WELSPUN MIDDLE EAST PIPES COMPANY****(A limited liability company)****Notes to the financial statements for the year ended March 31, 2017**

(All amounts in Saudi Riyals unless otherwise stated)

**Maturity profile of long-term borrowings**

Years ending March 31:

	2017	2016
2017	-	7,832,000
2018	28,540,000	47,290,000
2019	49,248,000	49,248,000
2020	53,555,000	53,555,000
2021	37,500,000	37,500,000
	<u>168,843,000</u>	<u>195,425,000</u>

**13 Employee termination benefits**

	2017	2016
April 1	5,502,233	4,587,732
Provisions	1,443,715	1,371,596
Payments	(741,774)	(457,096)
March 31	<u>6,204,174</u>	<u>5,502,232</u>

**14 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.

**14.1 Related party transactions**

	2017	2016
Sales	265,065,863	20,729,999
Purchases	80,483,497	100,332,026
Coating services received	28,672,161	34,061,879
Costs charged by related parties	1,807,417	3,075,198
Financial charges charged by related parties	5,558,826	9,309,871

**14.2 Related party balances**

## i) Due from related parties

	2017	2016
Welspun Trading Limited	26,274,343	20,733,749
Aziz European Pipe Factory, a shareholder	2,153,342	3,854,509
Welspun Middle East Pipes Coating Company	1,540,861	26,979,572
	<u>29,968,546</u>	<u>51,567,830</u>

**WELSPUN MIDDLE EAST PIPES COMPANY****(A limited liability company)****Notes to the financial statements for the year ended March 31, 2017**

(All amounts in Saudi Riyals unless otherwise stated)

## ii) Due to related parties

	2017	2016
Aziz Company for Contracting & Industrial Investment	2,340,938	2,468,325
Arabian Company for Water & Power Development	1,251,199	1,251,274
Welspun Corp. Ltd.	199,302	90,186,025
Mohawareen Industrial Services	47,268	15,757
	<u>3,838,707</u>	<u>93,921,381</u>

## iii) Long-term loans from shareholders

	2017	2016
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, carry financial charges at prevailing market rates and have no specific repayment schedule. However, the shareholders have confirmed that no repayment of such amounts are expected to be required during financial year 2018 and accordingly, the amounts are disclosed as non-current liability in the accompanying 2017 balance sheet.

**15 Zakat and income tax matters****15.1 Components of zakat base attributable to the Saudi shareholders**

	Note	2017	2016
Shareholders' equity at beginning of year		132,580,729	125,560,856
Provisions	13	2,379,753	2,293,407
Adjusted net income		(37,413,104)	499,022
Borrowings		136,359,395	149,127,896
Property, plant and equipment, as adjusted		<u>(139,858,537)</u>	<u>(147,020,819)</u>
Approximate zakat base		<u>94,048,236</u>	<u>130,460,362</u>

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

**15.2 Advance for zakat and income tax**

	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>

**WELSPUN MIDDLE EAST PIPES COMPANY****(A limited liability company)****Notes to the financial statements for the year ended March 31, 2017****(All amounts in Saudi Riyals unless otherwise stated)**

	<b>Zakat</b>	<b>Income tax</b>	<b>Total</b>
April 1, 2015	3,102,628	14,013,809	17,116,437
Provisions:			
For current year	3,261,509	40,594	3,302,103
Adjustments related to prior periods	(409,078)	(4,015,476)	(4,424,554)
Payments	<u>(2,873,215)</u>	<u>(17,471,182)</u>	<u>(20,344,397)</u>
March 31, 2016	<u>3,081,844</u>	<u>(7,432,255)</u>	<u>(4,350,411)</u>

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

The zakat and income tax advance of Saudi Riyals 4.1 million (2015: Saudi Riyals 4.3 million) has been included under 'Prepayments and other receivable' in the accompanying balance sheets.

**15.3 Temporary differences**

	<b>2017</b>	<b>2016</b>
Net (loss) income for the year	<b>(73,271,434)</b>	10,244,231
- Depreciation	<b>(2,980,631)</b>	(10,606,949)
- Employee termination benefits	<b>701,941</b>	914,501
- Other	<b>708,948</b>	446,461
Adjusted net (loss) income for the year	<u><b>(74,841,176)</b></u>	<u>998,244</u>

Deferred income taxes arising out of such temporary differences were not significant and, accordingly, were not recorded as of March 31, 2017 and 2016. No income tax provision has been recorded for year ended March 31, 2017 due to adjusted net loss.

**15.4 Status of final assessments**

The Company has received zakat and income tax certificates from the GAZT for the years through 2016.

**16 Share capital**

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

<b>Shareholder</b>	<b>Country of incorporation</b>	<b>Shareholding percentage</b>	
		<b>2017</b>	<b>2016</b>
Welspun Mauritius Holdings Company Ltd.	Mauritius	<b>50.01</b>	50.01
Aziz European Pipe Factory	Kingdom of Saudi Arabia	<b>45.00</b>	45.00
Mohawareen Industrial Services	Kingdom of Saudi Arabia	<b>4.99</b>	4.99
		<u><b>100.00</b></u>	<u>100.00</u>

**17 Statutory reserve**

In accordance with the Company's Articles of Association and the Regulations for Companies in Kingdom of Saudi Arabia, prior to the issuance of new Regulations for Companies in 2016, the Company is required to transfer 10% of the net income for the year to a statutory reserve, after adjusting for accumulated deficit, until it equals 50% of its share capital. The new Regulations for Companies require the Company to transfer 10% of the net income for the year to the statutory reserve, after adjustment for accumulated deficit, until it equals 30% of its share capital. This reserve currently is not available for distribution to the shareholders of the Company.

**WELSPUN MIDDLE EAST PIPES COMPANY****(A limited liability company)****Notes to the financial statements for the year ended March 31, 2017****(All amounts in Saudi Riyals unless otherwise stated)****18 Selling and marketing expenses**

	2017	2016
Freight charge	38,425,511	1,354,613
Rent	4,985,564	11,322,513
Salaries and benefits	1,284,417	1,405,099
Other	2,516,614	2,175,437
	<u>47,212,106</u>	<u>16,257,662</u>

**19 General and administrative expenses**

	2017	2016
Salaries and benefits	9,036,291	9,853,250
Depreciation	593,587	647,502
Professional fee	359,230	1,301,126
Repair and maintenance	341,577	713,151
Utilities	296,523	347,324
Rent	291,109	364,293
Travel	113,545	429,205
Other	517,951	1,637,879
	<u>11,549,813</u>	<u>15,293,730</u>

**20 Other income**

	2017	2016
Scrap sales	5,338,197	9,423,457
Other	1,217,457	1,111,008
	<u>6,555,654</u>	<u>10,534,465</u>

**21 Dividends**

During 2016, the Company's shareholders approved dividends amounting to Saudi Riyals 19.0 million which were fully paid during the year (2017: Nil).

**22 Operating leases**

The Company has operating leases for land, office premises, employees' housing and vehicles which generally have terms of one year. Rental expense under such leases amounted to Saudi Riyals 6.6 million (2016: Saudi Riyals 7.9 million). Future rental commitments at March 31, 2017 under these operating leases amounts to Saudi Riyals 8.3 million (2016: Saudi Riyals 4.3 million).

**23 Contingencies**

As at March 31, 2017, the Company was contingently liable for letters of credits and guarantees in the normal course of business amounting to Saudi Riyals 34.9 million (2016: Saudi Riyals 84.6 million).