

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
AND INDEPENDENT AUDITORS' REPORT

WELSPUN MIDDLE EAST PIPES COMPANY
(A limited liability company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016

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INDEPENDENT AUDITORS' REPORT

July 28, 2016

To the shareholders of Welspun Middle East Pipes Company:
(A limited liability company)

Scope of audit

We have audited the accompanying balance sheet of Welspun Middle East Pipes Company (the "Company") as of March 31, 2016 and the statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 23 which form an integral part of these financial statements. These financial statements, which were prepared by the Company in accordance with Article 175 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of March 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

PricewaterhouseCoopers

By: 

Ali H. Al Basri

License Number 409



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

		As at March 31,	
	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents	4	77,106,849	25,578,990
Accounts receivable	5	269,576,981	231,619,132
Inventories	6	162,069,433	235,448,181
Prepayments and other receivable	7	19,618,797	7,111,410
		528,372,060	499,757,713
Non-current assets			
Property, plant and equipment	8	305,294,406	331,742,489
Total assets		833,666,466	831,500,202
Liabilities			
Current liabilities			
Short-term borrowings	11	148,315,455	-
Current portion of long-term borrowings	12	7,076,360	6,244,360
Accounts payable	9	99,797,024	245,098,640
Advances from customers		900,501	23,672,485
Accrued and other liabilities	10	17,840,073	15,110,097
Zakat and income tax payable	15	-	17,116,437
		273,929,413	307,242,019
Non-current liabilities			
Long-term loans from shareholders	14	105,882,396	224,640,626
Long-term borrowings	12	185,640,950	24,673,314
Employee termination benefits	13	5,502,232	4,587,732
		297,025,578	253,901,672
Total liabilities		570,954,991	561,143,691
Shareholders' equity			
Share capital	16	76,046,875	76,046,875
Statutory reserve	17	25,609,186	24,584,763
Retained earnings		161,055,414	169,724,873
Total shareholders' equity		262,711,475	270,356,511
Total liabilities and shareholders' equity		833,666,466	831,500,202
Contingencies and commitments	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>	
	Note	2016	2015
Revenues		688,872,546	1,845,342,567
Cost of revenues	14	<u>(636,566,401)</u>	<u>(1,626,353,041)</u>
Gross margin		52,306,145	218,989,526
Operating expenses			
Selling and marketing	18	(16,257,662)	(13,536,090)
General and administrative	19	<u>(15,293,730)</u>	<u>(13,447,156)</u>
Income from operations		20,754,753	192,006,280
Other expenses			
Financial charges, net	11,12,14	(21,044,987)	(21,699,830)
Other income, net	20	10,534,465	17,332,134
Net income for the year		<u>10,244,231</u>	<u>187,638,584</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)

	Note	Year ended March 31,	
		2016	2015
Cash flows from operating activities			
Net income for the year		10,244,231	187,638,584
<u>Adjustments for non-cash items</u>			
Depreciation	8	29,613,961	29,412,281
Loss from disposal of property and equipment		10,635	-
<u>Changes in working capital</u>			
Accounts receivable		(38,906,534)	(178,727,068)
Inventories		73,378,748	(198,086,173)
Prepayments and other receivable		(8,156,976)	468,848
Accounts payable		(145,301,616)	185,058,839
Advances from customers		(22,771,984)	20,971,039
Accrued and other liabilities		2,729,976	5,732,784
Employee termination benefits		914,500	1,440,170
Net cash (utilized in) generated from operating activities		<u>(98,245,059)</u>	<u>53,909,304</u>
Cash flows from investing activities			
Purchase of property and equipment	8	(3,821,112)	(6,386,280)
Proceeds from disposal of property and equipment		644,599	-
Net cash utilized in investing activities		<u>(3,176,513)</u>	<u>(6,386,280)</u>
Cash flows from financing activities			
Short-term borrowings		148,315,455	-
Due to related parties		-	(89,493,059)
Proceeds from long-term borrowings		167,970,000	54,381,000
Repayment of long-term borrowings		(6,170,364)	(23,463,326)
Repayment of long-term loans from shareholders		(118,758,230)	-
Dividends paid		(18,063,033)	-
Zakat and income tax payments	15	(20,344,397)	(6,626,825)
Net cash generated from (utilized in) financing activities		<u>152,949,431</u>	<u>(65,202,210)</u>
Net change in cash and cash equivalents		51,527,859	(17,679,186)
Cash and cash equivalents at beginning of year		<u>25,578,990</u>	<u>43,258,176</u>
Cash and cash equivalents at end of year	4	<u>77,106,849</u>	<u>25,578,990</u>
Supplemental non-cash financial information			
Non-cash financing activities -			
- Dividends payable adjusted against account receivable balance due from a shareholder	21	<u>948,685</u>	-
- Zakat and income tax provisions charged to shareholders' equity accounts		<u>1,122,451</u>	<u>16,746,037</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
April 1, 2015		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
March 31, 2016		76,046,875	25,609,186	161,055,414	262,711,475
April 1, 2014		76,046,875	5,820,905	17,596,184	99,463,964
Net income for the year		-	-	187,638,584	187,638,584
Transfer to statutory reserve	17	-	18,763,858	(18,763,858)	-
Zakat and income tax	15	-	-	(16,746,037)	(16,746,037)
March 31, 2015		76,046,875	24,584,763	169,724,873	270,356,511

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 registered in the Kingdom of Saudi Arabia under Commercial Registration 2050071522 issued in city of Dammam on 22 Rajab 1431 H (July 4, 2010). The Company is licensed under foreign investment license No. 121031118992, issued by the Saudi Arabian General Investment Authority 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 28, 2016.

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 principles 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 2016 and 2015 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, 2016

(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:

	Number of years
• Buildings and land improvements	20
• Plant and machinery	5 - 20
• Furniture, fixture and office equipment	3 - 5
• Vehicles	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, 2016

(All amounts in Saudi Riyals unless otherwise stated)

2.10 Zakat and taxes

In accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"), the Company is subject to zakat and income taxes. Provisions for zakat and income taxes 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 as 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 principles. 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.

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)

3 Financial instruments and risk management

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts and other receivables, short and long-term 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.

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 short-term and long-term borrowings and loans from shareholder which carry interest at market rates and subject to re-pricing on a regular basis. Management monitors the changes in interest rates and 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, 2016, 78% of accounts receivable was due from two customers (2015: 98% from one customer). 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 a 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 instruments are not materially different from their carrying values.

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)

4 Cash and cash equivalents

	2016	2015
Cash in hand	36,482	36,282
Cash at bank	77,070,367	25,542,708
	77,106,849	25,578,990

5 Accounts receivable

	Note	2016	2015
Trade receivable:			
- Billed		218,009,151	182,714,600
- Unbilled		-	43,823,983
		218,009,151	226,538,583
Related parties	14	51,567,830	5,080,549
		269,576,981	231,619,132

6 Inventories

	2016	2015
Raw materials	63,746,492	148,120,282
Finished goods	75,036,550	63,578,761
Work in process	6,879,083	11,187,437
Parts and consumables, not held for sale	16,407,308	12,561,701
	162,069,433	235,448,181

7 Prepayments and other receivable

	Note	2016	2015
Prepaid expenses	15	12,520,532	2,909,215
Prepaid income tax		4,350,411	-
Advances to suppliers		1,709,119	3,441,603
Advances to employees		554,810	528,843
Other		483,925	231,749
		19,618,797	7,111,410

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)

8 Property, plant and equipment

	April 1, 2015	Additions	Disposals / transfer	March 31, 2016
2016				
Cost				
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>
Accumulated depreciation				
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>
	April 1, 2014	Additions	Transfer	March 31, 2015
2015				
Cost				
Buildings and land improvements	43,260,085	35,500	1,158,487	44,454,072
Plant and machinery	389,539,557	302,820	512,616	390,354,993
Furniture, fixture and office equipment	4,252,570	197,256	598,336	5,048,162
Vehicles	1,672,891	269,900	-	1,942,791
Construction in progress	1,842,057	5,580,804	(2,269,439)	5,153,422
	<u>440,567,160</u>	<u>6,386,280</u>	<u>-</u>	<u>446,953,440</u>
Accumulated depreciation				
Buildings and land improvements	(6,917,851)	(2,472,369)	-	(9,390,220)
Plant and machinery	(75,044,542)	(25,564,663)	-	(100,609,205)
Furniture, fixture and office equipment	(3,025,760)	(1,080,194)	-	(4,105,954)
Vehicles	(810,517)	(295,055)	-	(1,105,572)
	<u>(85,798,670)</u>	<u>(29,412,281)</u>	<u>-</u>	<u>(115,210,951)</u>
	<u>354,768,490</u>			<u>331,742,489</u>

Buildings and equipment of the Company have been constructed on land parcels leased under various renewable operating lease agreements at annual rent of Saudi Riyals 0.5 million (2015: Saudi Riyals 0.6 million) with terms ranging from one to five years.

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)

9 Accounts payable

	Note	2016	2015
Trade		5,875,643	37,954,929
Related parties	14	<u>93,921,381</u>	<u>207,143,711</u>
		<u>99,797,024</u>	<u>245,098,640</u>

10 Accrued and other liabilities

	2016	2015
Accrued expenses	8,604,006	5,132,560
Accrued financial charges	5,437,234	6,111,818
Salaries and benefits	<u>3,798,833</u>	<u>3,865,719</u>
	<u>17,840,073</u>	<u>15,110,097</u>

11 Short-term borrowings

At March 31, 2016 short-term borrowings represents bank borrowings obtained from a commercial bank and bear financial charges at prevailing market rates which are based on Saudi inter-bank offer rates.

12 Long-term borrowings

	Note	2015	2014
Saudi Industrial Development Fund ("SIDF") loan	12.1	42,717,310	30,917,674
Commercial bank loan	12.2	<u>150,000,000</u>	-
		192,717,310	30,917,674
Current maturity shown under current liabilities		<u>(7,076,360)</u>	<u>(6,244,360)</u>
		<u>185,640,950</u>	<u>24,673,314</u>

12.1 SIDF loan

This represent loan obtained from SIDF. The loan do not bear financial charges and is repayable in twelve 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.

	2016	2015
Principal amount	45,425,000	34,381,000
less: unamortized transaction costs	<u>(2,707,690)</u>	<u>(3,463,326)</u>
	<u>42,717,310</u>	<u>30,917,674</u>

Long-term borrowings are presented as follows:

Current maturity under current liabilities	7,076,360	6,244,360
Long-term borrowings	<u>35,640,950</u>	<u>24,673,314</u>
	<u>42,717,310</u>	<u>30,917,674</u>

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)

Movement in unamortized transaction costs are as follows:

	2016	2015
April 1	3,463,326	-
Addition	-	4,156,000
Less: amortization	(755,636)	(692,674)
March 31	2,707,690	3,463,326
Related to:		
Current maturity shown under current liabilities	755,640	755,640
Shown under long-term borrowings	1,952,050	2,707,686
	2,707,690	3,463,326

12.2 Commercial bank loan

During 2016 the Company obtained a loan facility from a 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, 2016, based on its respective repayment schedule, are spread in 2018 through 2021.

Maturity profile of loan-term borrowings

Years ending March 31:

	2016	2015
2016	-	7,000,000
2017	7,832,000	8,000,000
2018	47,290,000	10,000,000
2019	49,248,000	9,381,000
2020	53,555,000	-
2021	37,500,000	-
	195,425,000	34,381,000

13 Employee termination benefits

	2016	2015
April 1	4,587,732	3,147,562
Provisions	1,371,596	1,592,450
Payments	(457,096)	(152,280)
March 31	5,502,232	4,587,732

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)

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

	2016	2015
Sales	20,729,999	-
Purchases	100,332,026	696,217,132
Coating services received	34,061,879	57,349,891
Costs charged by related parties	3,075,198	4,816,328
Financial charges charged by related parties	9,309,871	11,793,516

14.2 Related party balances

i) Due from related parties

	2016	2015
Welspun Middle East Pipes Coating Company	26,979,572	706,610
Welspun Trading Limited	20,733,749	-
Aziz European Pipe Factory, a shareholder	3,854,509	3,854,509
Mohawareen Industrial Services, a shareholder	-	519,430
	51,567,830	5,080,549

ii) Due to related parties

	2016	2015
Welspun Corp Ltd.	90,186,025	1,061,975
Aziz Company for Contracting & Industrial Investment	2,468,325	2,434,996
Arabian Company for Water & Power Development	1,251,274	1,517,552
Mohawareen Industrial Services	15,757	-
Welspun Trading Limited	-	169,375,410
Aziz European Pipe Factory	-	17,257,893
Welspun Mauritius Holdings Ltd.	-	15,495,885
	93,921,381	207,143,711

iii) Long-term loans from shareholders

	2016	2015
Welspun Mauritius Holdings Ltd, a shareholder	52,816,198	112,320,313
Aziz European Pipe Factory, a shareholder	53,066,198	112,320,313
	105,882,396	224,640,626

These represent funding obtained from shareholders 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 2017 and accordingly, the amounts are disclosed as non-current liability in the accompanying 2016 balance sheet.

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)

15 Zakat and income tax matters

15.1 Components of zakat base attributable to the Saudi shareholders

	2016	2015
Shareholders' equity at beginning of year	125,560,856	49,722,036
Provisions	2,293,407	1,497,341
Adjusted net income	499,022	83,429,888
Borrowings	149,127,896	144,127,205
Property, plant and equipment, as adjusted	<u>(147,020,819)</u>	<u>(154,671,365)</u>
Approximate zakat base	<u>130,460,362</u>	124,105,105

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

15.2 Provision for zakat and income tax

	Zakat	Income tax	Total
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>

	Zakat	Income tax	Total
April 1, 2014	3,884,636	3,112,589	6,997,225
Provisions:			
For current year	3,102,628	16,085,381	19,188,009
Adjustments related to prior periods	(2,111,480)	(330,492)	(2,441,972)
Payments	<u>(1,773,156)</u>	<u>(4,853,669)</u>	<u>(6,626,825)</u>
March 31, 2015	<u>3,102,628</u>	<u>14,013,809</u>	<u>17,116,437</u>

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

15.3 Temporary differences

	2016	2015
Net income for the year	10,244,231	187,638,584
- Depreciation	(10,606,949)	(22,337,888)
- Employee termination benefits	914,501	1,440,170
- Other	<u>446,461</u>	<u>(5,921,657)</u>
Adjusted net income for the year	<u>998,244</u>	160,819,209

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)

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

Deferred income taxes arising out of such temporary differences were not significant and, accordingly, were not recorded as of March 31, 2016 and 2015.

15.4 Status of final certificates

The Company has received zakat and income tax certificates from the DZIT for the years through 2015.

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:

Shareholder	Country of incorporation	Shareholding percentage	
		2016	2015
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	4.99	4.99
		100.00	100.00

17 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of the net income for the year to a statutory reserve till it equals to 50% of its share capital. This reserve currently is not available for distribution to the shareholders of the Company.

18 Selling and marketing expenses

	2016	2015
Salaries and benefits	1,405,099	1,318,356
Rent	11,322,513	7,620,139
Freight charge	1,354,613	3,345,350
Other	2,175,437	1,252,245
	16,257,662	13,536,090

19 General and administrative expenses

	2016	2015
Salaries and benefits	9,853,250	9,032,661
Professional fee	1,301,126	459,826
Repair and maintenance	713,151	737,790
Depreciation	647,502	718,008
Travel	429,205	325,352
Rent	364,293	364,607
Utilities	347,324	247,181
Other	1,637,879	1,561,731
	15,293,730	13,447,156

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)

20 Other income

	2016	2015
Scrap sales	9,423,457	14,207,514
Other	1,111,008	3,124,620
	<u>10,534,465</u>	<u>17,332,134</u>

21 Dividends

During 2016, the shareholders of the Company approved dividends amounting to Saudi Riyals 19.0 million (2015: Nil), which were paid during the year.

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 7.9 million (2015: Saudi Riyals 7.2 million). Future annual rental commitments at March 31, 2016 under these operating leases amounts to Saudi Riyals 4.3 million (2015: Saudi Riyals 4.7 million).

23 Contingencies and commitments

- i. As at March 31, 2016, the Company was contingently liable for letters of credits and guarantees in the normal course of business amounting to Saudi Riyals 84.6 million (2015: Saudi Riyals 196.2 million).
- ii. The capital expenditure contracted by the Company but not incurred till March 31, 2016 was Saudi Riyals 1.2 million (2015: Saudi Riyals 1.8 million).