

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

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

WELSPUN MIDDLE EAST PIPES COATING 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 Coating 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 Coating 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' deficiency 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 Coating 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 Coating Company (continued)*

Report on other legal and regulatory requirements

During the course of our audit of the financial statements for the year ended March 31, 2018, and without having any impact on the financial statements, we became aware that the Company is not in compliance with Article 181-2 of the Regulations for Companies, which requires the Company to publish the shareholders' resolution with respect to continuing the Company's operations in a manner set forth in the applicable article of the Regulations for Companies. Also see Note 1.

PricewaterhouseCoopers

Sahar M. Hashem
License Number 439



May 14, 2018

WELSPUN MIDDLE EAST PIPES COATING 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	1,842,826	379,105
Accounts receivable	5	7,214,157	1,544,027
Inventories	6	12,223,870	4,382,655
Prepayments and other receivable	7	2,118,311	697,530
	1	<u>23,399,164</u>	<u>7,003,317</u>
Non-current assets			
Property, plant and equipment	8	96,003,939	104,520,764
Deferred charges	9	665,385	1,045,605
		<u>96,669,324</u>	<u>105,566,369</u>
Total assets		<u>120,068,488</u>	<u>112,569,686</u>
Liabilities and shareholders' deficiency			
Liabilities			
Current liabilities			
Current maturity of long-term borrowings	10	-	6,883,656
Accounts payable	11	30,431,983	7,154,554
Accrued and other liabilities	12	35,921,268	29,767,636
	1	<u>66,353,251</u>	<u>43,805,846</u>
Non-current liabilities			
Long-term borrowings	10	11,486,378	7,640,464
Long-term loans from shareholders	14	79,036,162	79,036,162
Employee termination benefits	15	1,542,393	1,355,454
		<u>92,064,933</u>	<u>88,032,080</u>
Total liabilities		<u>158,418,184</u>	<u>131,837,926</u>
Shareholders' deficiency			
Share capital	16	33,765,625	33,765,625
Accumulated deficit		<u>(72,115,321)</u>	<u>(53,033,865)</u>
Total shareholders' deficiency	1	<u>(38,349,696)</u>	<u>(19,268,240)</u>
Total liabilities and shareholders' deficiency		<u>120,068,488</u>	<u>112,569,686</u>
Commitments	19		

The accompanying notes from 1 to 19 form an integral part of these financial statements.

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

	Note	<u>Year ended March 31,</u>	
		2018	2017
Revenues	14	34,425,040	47,765,036
Cost of revenues	14	(44,958,222)	(54,472,752)
Gross loss		(10,533,182)	(6,707,716)
General and administrative expenses	18	(3,507,899)	(4,210,680)
Loss from operations		(14,041,081)	(10,918,396)
Other (expenses) income			
Financial charges	10,14	(5,148,143)	(5,323,241)
Other, net		107,768	44,348
Net loss for the year		(19,081,456)	(16,197,289)

The accompanying notes from 1 to 19 form an integral part of these financial statements.

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

		<u>Year ended March 31,</u>	
	Note	2018	2017
Cash flows from operating activities			
Net loss for the year		(19,081,456)	(16,197,289)
<u>Adjustment for a non-cash items</u>			
Depreciation and amortization	8,9,10	9,364,382	9,124,497
(Reversal) provision for inventory obsolescence	6	(65,516)	1,110,352
Write-off of plant and equipment		4,321	-
<u>Changes in working capital</u>			
Accounts receivable		(5,670,130)	16,699,496
Inventories		(7,775,698)	20,476,733
Prepayments and other receivable		(1,420,782)	1,401,380
Accounts payable		23,277,429	(31,880,162)
Accrued and other liabilities		6,153,632	950,332
Employee termination benefits		186,939	268,333
Net cash generated from operating activities		<u>4,973,121</u>	<u>1,953,672</u>
Cash flows from investing activity			
Purchase of equipment		<u>(9,400)</u>	<u>(250,105)</u>
Cash flows from financing activity			
Repayment of long-term borrowings		<u>(3,500,000)</u>	<u>(7,000,000)</u>
Net change in cash and cash equivalents		1,463,721	(5,296,433)
Cash and cash equivalents at beginning of year		<u>379,105</u>	<u>5,675,538</u>
Cash and cash equivalents at end of year	4	<u>1,842,826</u>	<u>379,105</u>

The accompanying notes from 1 to 19 form an integral part of these financial statements.

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

	<u>Share capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
April 1, 2017	33,765,625	(53,033,865)	(19,268,240)
Net loss for the year	-	(19,081,456)	(19,081,456)
March 31, 2018	33,765,625	(72,115,321)	(38,349,696)
April 1, 2016	33,765,625	(36,836,576)	(3,070,951)
Net loss for the year	-	(16,197,289)	(16,197,289)
March 31, 2017	33,765,625	(53,033,865)	(19,268,240)

The accompanying notes from 1 to 19 form an integral part of these financial statements.

WELSPUN MIDDLE EAST PIPES COATING 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 Coating Company (the "Company") is engaged in providing spiral pipes coating services.

The Company is a limited liability company licensed under foreign investment license number 121031119001 issued by Saudi Arabian General Investment Authority on 22 Rajab 1431 H (July 4, 2010) operating under commercial registration number 2050071524 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 Company has incurred a net loss of Saudi Riyals 19.1 million for the year ended March 31, 2018 and has shareholders' deficiency of Saudi Riyals 38.3 million as of that date. Also, the Company's current liabilities exceeded its current assets by Saudi Riyals 43.0 million as of March 31, 2018. In such a situation, under the requirements of the Regulations for Companies, the shareholders of the Company have resolved to provide adequate financial support to the Company to meet its obligations as they become due and to continue as a going concern. Accordingly, the accompanying financial statements have been prepared under the going concern basis. However, such resolution was not published in accordance with the requirements of the Regulations for Companies.

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.

WELSPUN MIDDLE EAST PIPES COATING 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)

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year-end exchange rates are recognized in the statement of income. Net amounts of such foreign exchange gains and 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.

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 losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, 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 reversals of impairment at 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 units in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

WELSPUN MIDDLE EAST PIPES COATING 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)

2.8 Deferred charges

Deferred charges include non-refundable amount paid for obtaining electricity connection and is amortized over a period of five years from the date of obtaining such electricity connection.

2.9 Accounts payable and accruals

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

2.10 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.

2.11 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.

2.12 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.

2.13 Revenues

Revenues from services are recognized upon performance of services and transfer of significant risks and rewards of ownership to the customers.

2.14 General and administrative expenses

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 general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

2.15 Operating leases

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

WELSPUN MIDDLE EAST PIPES COATING 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 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.

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 long-term borrowings and long-term loans from shareholders which carry interest at prevailing market rates and subject to repricing on a regular basis. 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, 99.97% of trade accounts receivable was due from one customer (2017: 78.00% from one customer). Management believes that this concentration of credit risk is mitigated as such receivable are supported by agreements with the customers having an established track record of regular payments.

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, as well as obtaining sufficient financial support from the shareholders, to meet the Company's obligations as they become. Also see Note 1.

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.

WELSPUN MIDDLE EAST PIPES COATING 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)

4 Cash and cash equivalents

	2018	2017
Cash in hand	8,567	12,974
Cash at bank	1,834,259	366,131
	<u>1,842,826</u>	<u>379,105</u>

5 Accounts receivable

	Note	2018	2017
Trade		7,160,683	1,246,267
Related parties	14	53,474	297,760
		<u>7,214,157</u>	<u>1,544,027</u>

6 Inventories

	2018	2017
Raw materials	3,094,060	1,080,797
Finished products	6,011,447	115,633
Work-in-process	92,617	133,017
Parts and consumables, not held for sale	4,070,582	4,163,560
	<u>13,268,706</u>	<u>5,493,007</u>
Less: provision for inventory obsolescence	<u>(1,044,836)</u>	<u>(1,110,352)</u>
	<u>12,223,870</u>	<u>4,382,655</u>

Movement in provision for inventory obsolescence is as follows:

	2018	2017
April 1	1,110,352	-
(Reversals) additions	(65,516)	1,110,352
March 31	<u>1,044,836</u>	<u>1,110,352</u>

7 Prepayments and other receivable

	2018	2017
Advances to suppliers	1,585,069	139,207
Prepaid expenses	218,196	233,292
Advances to employees	136,145	132,621
Other	178,901	192,410
	<u>2,118,311</u>	<u>697,530</u>

WELSPUN MIDDLE EAST PIPES COATING 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	Write-off	March 31, 2018
2018				
Cost				
Buildings and land improvements	24,290,605	-	-	24,290,605
Plant and machinery	127,990,508	-	(5,831)	127,984,677
Furniture, fixtures and office equipment	541,803	9,400	(41,842)	509,361
Vehicles	125,495	-	-	125,495
	<u>152,948,411</u>	<u>9,400</u>	<u>(47,673)</u>	<u>152,910,138</u>
Accumulated depreciation				
Buildings and land improvements	(7,094,539)	(1,214,530)	-	(8,309,069)
Plant and machinery	(40,746,993)	(7,251,587)	5,831	(47,992,749)
Furniture, fixtures and office equipment	(484,576)	(37,534)	37,521	(484,589)
Vehicles	(101,539)	(18,253)	-	(119,792)
	<u>(48,427,647)</u>	<u>(8,521,904)</u>	<u>43,352</u>	<u>(56,906,199)</u>
	<u>104,520,764</u>			<u>96,003,939</u>
	April 1, 2016	Additions	Transfers	March 31, 2017
2017				
Cost				
Buildings and land improvements	24,290,605	-	-	24,290,605
Plant and machinery	127,665,775	176,523	148,210	127,990,508
Furniture, fixtures and office equipment	536,059	5,744	-	541,803
Vehicles	125,495	-	-	125,495
Construction-in-progress	80,373	67,837	(148,210)	-
	<u>152,698,307</u>	<u>250,104</u>	<u>-</u>	<u>152,948,411</u>
Accumulated depreciation				
Buildings and land improvements	(5,880,009)	(1,214,530)	-	(7,094,539)
Plant and machinery	(33,291,664)	(7,455,329)	-	(40,746,993)
Furniture, fixtures and office equipment	(435,257)	(49,319)	-	(484,576)
Vehicles	(76,440)	(25,099)	-	(101,539)
	<u>(39,683,370)</u>	<u>(8,744,277)</u>	<u>-</u>	<u>(48,427,647)</u>
	<u>113,014,937</u>			<u>104,520,764</u>

Buildings and plant facilities of the Company have been constructed on a land parcel leased under a renewable operating lease arrangement at nominal annual rent for a term of 20 Hijri years expiring in 2031. Also see Note 19.

WELSPUN MIDDLE EAST PIPES COATING 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 Deferred charges

	2018	2017
April 1	1,045,605	1,425,825
Amortization	<u>(380,220)</u>	<u>(380,220)</u>
March 31	<u>665,385</u>	<u>1,045,605</u>

10 Long-term borrowings

	2018	2017
Principal amount	12,000,000	15,500,000
Less: unamortized transaction costs	<u>(513,622)</u>	<u>(975,880)</u>
	<u>11,486,378</u>	<u>14,524,120</u>

Long-term borrowings are presented as follows:

Current maturity under current liabilities	-	6,883,656
Long-term borrowings	<u>11,486,378</u>	<u>7,640,464</u>
	<u>11,486,378</u>	<u>14,524,120</u>

Movement in unamortized transaction costs are as follows:

April 1	975,880	1,409,620
Less: amortization	<u>(462,258)</u>	<u>(433,740)</u>
March 31	<u>513,622</u>	<u>975,880</u>

Related to:

Current maturity shown under current liabilities	-	616,344
Shown under long-term borrowings	<u>513,622</u>	<u>359,536</u>
	<u>513,622</u>	<u>975,880</u>

This represents loan obtained by the Company from Saudi Industrial and Development Fund ('SIDF') of Saudi Riyals 40.0 million to finance the construction of the Company's plant facilities. The loan is denominated in Saudi Riyals.

During 2018, the Company rescheduled the loan and as per the rescheduling agreement, the loan is payable in two un-equal semi-annual installments due in 2020. The covenants of the loan agreement require the Company to maintain certain level of financial conditions, place limitations on dividend distributions and on annual capital and rental expenditures and certain other matters. As at March 31, 2018, the Company was not in compliance with certain loan covenants related to maintenance of financial ratios as per the agreement with SIDF. However, the Company has obtained a waiver from SIDF in respect of such non-compliance before the year-end.

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Maturity profile of long-term borrowings:

	2018	2017
Years ending March 31,		
2018	-	7,500,000
2019	-	8,000,000
2020	12,000,000	-
	12,000,000	15,500,000

11 Accounts payable

	Note	2018	2017
Trade		6,469,922	3,962,610
Related parties	14	23,962,061	3,191,944
		30,431,983	7,154,554

12 Accrued and other liabilities

	Note	2018	2017
Accrued financial charges	14	32,357,524	28,477,651
Accrued expenses		3,167,575	1,259,229
Advances from customers		396,169	30,756
		35,921,268	29,767,636

13 Zakat and income tax matters

13.1 Components of approximate zakat base attributable to Saudi shareholders

	Note	2018	2017
Shareholders' deficiency at beginning of year		(9,632,193)	(1,535,168)
Provisions at beginning of year	6,15	1,232,656	528,997
Adjusted net loss for the year		(8,611,279)	(5,305,543)
Borrowings		45,252,217	46,770,785
Property, plant and equipment, as adjusted		(48,826,460)	(54,280,725)
Others		16,944,833	-
Approximate zakat base		(3,640,226)	(13,821,654)

Zakat is payable at 2.5 percent of higher of the approximate zakat base and adjusted net income. No provision for zakat has been recorded for years ended March 31, 2018 and 2017 due to negative zakat base and adjusted net loss for such years.

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13.2 Temporary differences

	2018	2017
Net loss for the year	(19,081,456)	(16,197,289)
- Depreciation	1,668,515	(156,167)
- Employee termination benefits	186,939	268,333
- Other	-	5,471,915
Adjusted net loss for the year	<u>(17,226,002)</u>	<u>(10,613,208)</u>

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

Deferred income taxes arising out of such temporary differences were not significant and, accordingly, were not recorded as of March 31, 2018 and 2017. No income tax provision has been recorded for years ended March 31, 2018 and 2017 due to adjusted net loss for such years.

13.3 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.

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

	2018	2017
Revenues	25,802,144	28,673,443
Financial charges charged by related parties	4,149,399	4,149,399
Costs charged to a related party	205,311	236,970

14.2 Related party balances

(i) Due from related parties

	2018	2017
Aziz European Pipe Factory	53,474	53,474
Arabian Pipeline Projects Company, a shareholder	-	237,708
Other	-	6,578
	<u>53,474</u>	<u>297,760</u>

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(ii) Due to related parties

	2018	2017
Welspun Middle East Pipes Company	22,089,521	1,540,861
Welspun Corp. Ltd.	573,643	477,405
Arabian Pipeline Projects Company, a shareholder	500,000	500,000
Aziz Company for Contracting & Industrial Investment	278,528	229,728
Welspun Mauritius Holdings Ltd., a shareholder	250,000	250,000
Arabian Company for Water & Power Development	235,150	193,950
Others	35,219	-
	<u>23,962,061</u>	<u>3,191,944</u>

(iii) Long-term loans from shareholders

	2018	2017
Arabian Pipeline Projects Company, a shareholder	40,012,719	40,012,719
Welspun Mauritius Holdings Ltd., a shareholder	39,023,443	39,023,443
	<u>79,036,162</u>	<u>79,036,162</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.

15 Employee termination benefits

	2018	2017
April 1	1,355,454	1,087,121
Provisions	298,885	297,249
Payments	(111,946)	(28,916)
March 31	<u>1,542,393</u>	<u>1,355,454</u>

16 Share capital

The share capital of the Company as of March 31, 2017 and 2018 comprised of 33,765,625 shares stated at Saudi Riyals 1 per share owned as follows:

Shareholder	Country of incorporation	Shareholding percentage	
		2018	2017
Welspun Mauritius Holdings Ltd.	Mauritius	50.01	50.01
Arabian Pipeline Projects Company	Kingdom of Saudi Arabia	45.00	45.00
Mohawareen Industrial Services	Kingdom of Saudi Arabia	4.99	4.99
		<u>100.00</u>	<u>100.00</u>

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17 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.

18 General and administrative expenses

	2018	2017
Salaries and benefits	2,152,659	2,644,098
Rent and utilities	532,466	743,816
Depreciation	229,891	246,901
Repairs	68,843	64,243
Professional fees	53,175	113,244
Other	470,865	398,378
	<u>3,507,899</u>	<u>4,210,680</u>

19 Operating lease

The Company has operating leases for land, office premises and employees' housing which generally have terms ranging from one to twenty years. Rental expense under such leases amounted to Saudi Riyals 0.9 million (2017: Saudi Riyals 1.3 million). Future rental commitments at March 31, 2018 under these operating leases amounts to Saudi Riyals 3.7 million (2017: Saudi Riyals 4.0 million).

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

	2018	2017
Year ending March 31:		
2018	-	149,589
2019	163,099	300,000
2020	300,000	300,000
2021	300,000	300,000
2022	300,000	300,000
2023 and thereafter	2,700,000	2,700,000
	<u>3,763,099</u>	<u>4,049,589</u>