

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

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

WELSPUN MIDDLE EAST PIPES COATING 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 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, 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' 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

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 COATING COMPANY
(A limited liability company)
Balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

		As at March 31,	
	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	4	379,105	5,675,538
Accounts receivable	5	1,544,027	18,243,524
Inventories	6	4,382,655	25,969,740
Prepayments and other receivable	7	697,530	1,665,169
	1	<u>7,003,317</u>	<u>51,553,971</u>
Non-current assets			
Property, plant and equipment	8	104,520,764	113,014,937
Deferred charges	9	1,045,605	1,425,825
		<u>105,566,369</u>	<u>114,440,762</u>
Total assets		<u>112,569,686</u>	<u>165,994,733</u>
Liabilities			
Current liabilities			
Current maturity of long-term borrowings	10	6,883,656	6,566,260
Accounts payable	11	7,154,554	39,034,715
Accrued and other liabilities	12	29,767,636	28,817,306
	1	<u>43,805,846</u>	<u>74,418,281</u>
Non-current liabilities			
Long-term borrowings	10	7,640,464	14,524,120
Long-term loans from shareholders	14	79,036,162	79,036,162
Employee termination benefits	15	1,355,454	1,087,121
		<u>88,032,080</u>	<u>94,647,403</u>
Total liabilities		<u>131,837,926</u>	<u>169,065,684</u>
Shareholders' deficiency			
Share capital	16	33,765,625	33,765,625
Accumulated deficit		<u>(53,033,865)</u>	<u>(36,836,576)</u>
Total shareholders' deficiency	1	<u>(19,268,240)</u>	<u>(3,070,951)</u>
Total liabilities and shareholders' deficiency		<u>112,569,686</u>	<u>165,994,733</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)
Income statement
(All amounts in Saudi Riyals unless otherwise stated)

	Note	<u>Year ended March 31,</u>	
		2017	2016
Revenues	14	47,765,036	72,431,331
Cost of revenues	14	<u>(54,472,752)</u>	<u>(73,426,172)</u>
Gross loss		(6,707,716)	(994,841)
General and administrative expenses	18	<u>(4,210,680)</u>	<u>(5,681,363)</u>
Loss from operations		(10,918,396)	(6,676,204)
Other (expenses) income			
Financial charges	10,14	(5,323,241)	(5,706,123)
Other income, net		<u>44,348</u>	<u>245,240</u>
Net loss for the year		<u>(16,197,289)</u>	<u>(12,137,087)</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)
Cash flows statement
(All amounts in Saudi Riyals unless otherwise stated)

		<u>Year ended March 31,</u>	
	Note	2017	2016
Cash flows from operating activities			
Net loss for the year		(16,197,289)	(12,137,087)
<u>Adjustment for a non-cash item</u>			
Depreciation and amortization	8, 10	9,124,497	9,097,131
<u>Changes in working capital</u>			
Accounts receivable		16,699,496	(13,005,996)
Inventories		21,587,085	(11,517,160)
Prepayments and other receivable		1,401,380	(247,936)
Accounts payable		(31,880,162)	32,552,940
Accrued and other liabilities		950,332	6,833,172
Employee termination benefits		268,333	265,031
Net cash generated from operating activities		<u>1,953,672</u>	<u>11,840,095</u>
Cash flows from investing activity			
Purchase of property, plant and equipment		<u>(250,105)</u>	<u>(918,320)</u>
Cash flows from financing activity			
Repayment of long-term borrowings		<u>(7,000,000)</u>	<u>(7,000,000)</u>
Net change in cash and cash equivalents		(5,296,433)	3,921,775
Cash and cash equivalents at beginning of year		<u>5,675,538</u>	<u>1,753,763</u>
Cash and cash equivalents at end of year	4	<u>379,105</u>	<u>5,675,538</u>
Supplemental non-cash financial information			
Non-cash financing activity -			
- Zakat and income tax provisions charged to shareholders' equity accounts	13	<u>-</u>	<u>5,474</u>

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

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

	Note	<u>Share capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
April 1, 2016		33,765,625	(36,836,576)	(3,070,951)
Net loss for the year	1	-	(16,197,289)	(16,197,289)
March 31, 2017		33,765,625	(53,033,865)	(19,268,240)
April 1, 2015		33,765,625	(24,704,963)	9,060,662
Net loss for the year		-	(12,137,087)	(12,137,087)
Zakat and income tax		-	5,474	5,474
March 31, 2016		33,765,625	(36,836,576)	(3,070,951)

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, 2017
(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 Industrial City II, Dammam, Kingdom of Saudi Arabia.

The Company has incurred a net loss of Saudi Riyals 16.2 million for the year ended March 31, 2017 and has shareholder deficiency of Saudi Riyals 19.3 million as of that date. Also, the Company's current liabilities exceeded its current assets by Saudi Riyals 36.8 million as of March 31, 2017. In accordance with the requirements of the Regulations for Companies, the shareholders of the Company have resolved to continue the Company's operations and to provide adequate financial support to enable the Company to meet its obligations as they become due. However, such resolution has not been published in accordance with the requirements of the Regulation of Companies as of the date of approval of these financial statements.

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 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 amounts of such foreign exchange gains and losses for 2017 and 2016 were not significant.

WELSPUN MIDDLE EAST PIPES COATING 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)

2.4 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.

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	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 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 income statement.

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.

WELSPUN MIDDLE EAST PIPES COATING 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)

2.9 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 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.

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 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.

2.12 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.

2.13 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 income statement 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, 2017
(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, long-term borrowings, long-term 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 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, 78% of trade accounts receivable was due from one customer (2016: 89% 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, 2017
(All amounts in Saudi Riyals unless otherwise stated)

4 Cash and cash equivalents

	2017	2016
Cash in hand	12,974	1,846
Cash at bank	366,131	5,673,692
	<u>379,105</u>	<u>5,675,538</u>

5 Accounts receivable

	Note	2017	2016
Trade		1,246,267	16,303,232
Related parties	14	297,760	326,260
Retentions		-	1,614,032
		<u>1,544,027</u>	<u>18,243,524</u>

6 Inventories

	2017	2016
Raw materials	1,080,797	4,116,195
Finished products	115,633	17,378,558
Work-in-process	133,017	435,071
Parts and consumables, not held for sale	3,053,208	4,039,916
	<u>4,382,655</u>	<u>25,969,740</u>

7 Prepayments and other receivable

	2017	2016
Prepaid expenses	233,292	260,919
Advances to suppliers	139,207	923,327
Advances to employee	132,621	179,531
Other	192,410	301,392
	<u>697,530</u>	<u>1,665,169</u>

WELSPUN MIDDLE EAST PIPES COATING 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)

8 Property, plant and equipment

	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, fixture 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, fixture 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>
	April 1, 2015	Additions	Transfers	March 31, 2016
2016				
Cost				
Buildings and land improvements	24,121,730	-	168,875	24,290,605
Plant and machinery	124,156,597	528,067	2,981,111	127,665,775
Furniture, fixture and office equipment	439,117	96,942	-	536,059
Vehicles	125,495	-	-	125,495
Construction-in-progress	2,937,048	293,311	(3,149,986)	80,373
	<u>151,779,987</u>	<u>918,320</u>	<u>-</u>	<u>152,698,307</u>
Accumulated depreciation				
Buildings and land improvements	(4,662,506)	(1,217,503)	-	(5,880,009)
Plant and machinery	(25,907,630)	(7,384,034)	-	(33,291,664)
Furniture, fixture and office equipment	(345,050)	(90,207)	-	(435,257)
Vehicles	(51,273)	(25,167)	-	(76,440)
	<u>(30,966,459)</u>	<u>(8,716,911)</u>	<u>-</u>	<u>(39,683,370)</u>
	<u>120,813,528</u>			<u>113,014,937</u>

Buildings and plant facilities of the Company have been constructed on a land leased under a renewable operating lease arrangement at nominal annual rent for a term of 20 Hijri years expiring in 2031. Also see Note 10.

WELSPUN MIDDLE EAST PIPES COATING 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)

9 Deferred charges

	2017	2016
April 1	1,425,825	1,806,045
Amortization	<u>(380,220)</u>	<u>(380,220)</u>
March 31	<u>1,045,605</u>	<u>1,425,825</u>

10 Long-term borrowings

	2017	2016
Principal amount	15,500,000	22,500,000
Less: unamortized transaction costs	<u>(975,880)</u>	<u>(1,409,620)</u>
	<u>14,524,120</u>	<u>21,090,380</u>

Long-term borrowings are presented as follows:

Current maturity under current liabilities	6,883,656	6,566,260
Long-term borrowings	<u>7,640,464</u>	<u>14,524,120</u>
	<u>14,524,120</u>	<u>21,090,380</u>

Movement in unamortized transaction costs are as follows:

April 1	1,409,620	1,843,360
Less: amortization	<u>(433,740)</u>	<u>(433,740)</u>
March 31	<u>975,880</u>	<u>1,409,620</u>

Related to:

Current maturity shown under current liabilities	616,344	433,740
Shown under long-term borrowings	<u>359,536</u>	<u>975,880</u>
	<u>975,880</u>	<u>1,409,620</u>

This represents loan obtained from Saudi Industrial and Development Fund ("SIDF"). This loan is secured by mortgage on the Company's property, plant and equipment. The loan is repayable in twelve un-equal semi-annual installments which commenced in June 2013. The covenants of the loan agreement require the Company to maintain certain level of financial conditions, place limitation of dividend distribution and on annual capital, rental expenditures and certain other matters.

Maturity profile of long-term borrowings:

	2017	2016
Years ending March 31,		
2017	-	7,000,000
2018	7,500,000	7,500,000
2019	<u>8,000,000</u>	<u>8,000,000</u>
	<u>15,500,000</u>	<u>22,500,000</u>

WELSPUN MIDDLE EAST PIPES COATING 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)

11 Accounts payable

	Note	2017	2016
Trade		3,962,610	10,597,902
Related parties	14	<u>3,191,944</u>	<u>28,436,813</u>
		<u>7,154,554</u>	<u>39,034,715</u>

12 Accrued and other liabilities

	Note	2017	2016
Accrued financial charges	14	28,477,651	24,328,253
Accrued expenses		1,259,229	2,824,156
Advances from customers		<u>30,756</u>	<u>1,664,897</u>
		<u>29,767,636</u>	<u>28,817,306</u>

13 Zakat and income tax matters

13.1 Components of approximate zakat base attributable to Saudi shareholders

	2017	2016
Shareholders' (deficiency) equity at beginning of year	(1,535,168)	4,529,428
Provisions	528,997	407,485
Adjusted net loss for the year	(5,305,543)	(4,776,470)
Borrowings	46,770,785	50,053,259
Property, plant and equipment, as adjusted	<u>(54,280,725)</u>	<u>(55,582,420)</u>
Approximate zakat base	<u>(13,821,654)</u>	<u>(5,368,718)</u>

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, 2017 and 2016 due to negative zakat base and adjusted net loss for such years.

13.2 Temporary differences

	2017	2016
Net loss for the year	(16,197,289)	(12,137,087)
- Depreciation	(156,167)	(1,827,858)
- Employee termination benefits	268,333	265,031
- Other	<u>5,471,915</u>	<u>4,145,062</u>
Adjusted net loss for the year	<u>(10,613,208)</u>	<u>(9,554,852)</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, 2017 and 2016. No income tax provision has been recorded for years ended March 31, 2017 and 2016 due to adjusted net loss for such years.

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13.3 Status of final certificates

The Company has received zakat and income tax certificates from the GAZT for the years through 2016. The Company has not yet received assessments from the GAZT for the years through 2016.

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
Revenues	28,673,443	34,061,878
Financial charges charged by related parties	4,149,399	4,160,767
Costs charged to a related party	236,970	181,480

14.2 Related party balances

(i) Due from related parties

	2017	2016
Arabian Pipeline Projects Company, a shareholder	237,708	237,708
Aziz European Pipe Factory	53,474	53,474
Welspun Tabular LLC	-	18,520
Other	6,578	16,558
	<u>297,760</u>	<u>326,260</u>

(ii) Due to related parties

	2017	2016
Welspun Middle East Pipes Company	1,540,861	26,979,572
Arabian Pipeline Projects Company, a shareholder	500,000	500,000
Welspun Corp. Ltd.	477,405	373,563
Welspun Mauritius Holdings Ltd., a shareholder	250,000	250,000
Aziz Company for Contracting & Industrial Investment	229,728	180,928
Arabian Company for Water & Power Development	193,950	152,750
	<u>3,191,944</u>	<u>28,436,813</u>

(iii) Long-term loans from shareholders

	2017	2016
Arabian Pipeline Projects Company	39,023,443	40,012,719
Welspun Mauritius Holdings Ltd.	40,012,719	39,023,443
	<u>79,036,162</u>	<u>79,036,162</u>

These represent funds obtained from the shareholders, carry financial charges at prevailing market rates and have no specific repayment schedule. The shareholders have confirmed that no repayments of such amounts

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will be required during financial year 2018 and, accordingly, these amounts are disclosed as non-current liability in the accompanying 2017 balance sheet.

15 Employee termination benefits

	2017	2016
April 1	1,087,121	822,090
Provisions	297,249	271,987
Payments	<u>(28,916)</u>	<u>(6,956)</u>
March 31	<u>1,355,454</u>	<u>1,087,121</u>

16 Share capital

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

Shareholder	Country of incorporation	Shareholding percentage	
		2017	2016
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	<u>4.99</u>	<u>4.99</u>
		<u>100.00</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 adjusting 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. No such transfer was made during 2017 and 2016 because of net loss for such years.

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18 General and administrative expenses

	2017	2016
Employees related costs	2,644,098	3,083,405
Rent and utilities	743,816	1,349,787
Depreciation	246,901	278,852
Professional fees	113,244	139,999
Repair and maintenance	64,243	228,518
Other	398,378	600,802
	<u>4,210,680</u>	<u>5,681,363</u>

19 Operating lease

The Company has operating leases for employees' housing and vehicles which generally have terms of one year. Rental expense under such leases amounted to Saudi Riyals 1.3 million (2016: Saudi Riyals 2.4 million). There were no significant future rental commitments at March 31, 2017. Also see Note 8.