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## **Independent Auditors' Report to the Shareholders of Raysut Cement Company SAOG**

### **Report on the Audit of the Consolidated and Separate Financial Statements**

#### **Opinion**

We have audited the consolidated and separate financial statements of Raysut Cement Company SAOG (the Parent Company) and Raysut Cement Company SAOG and its subsidiaries (the Group) set out on pages 2 to 52, which comprise the consolidated and separate statements of financial position as at 31 December 2017, the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Parent Company and the Group as at 31 December 2017, and their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Refer to note 6.21, 8(d) and 12 to the consolidated and separate financial statements on pages 15, 24 and 32.

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**Goodwill (RO 45.8 million)**

Goodwill arose when the Group acquired control over Pioneer Cement Industries LLC (PCIL). Goodwill was calculated as the difference between the purchase consideration for the 99.99% interest in PCIL and the fair value of the Group's share of net assets acquired, and was valued at RO 45.8 million. For the purposes of allocating the above goodwill, PCIL is treated as a single operating unit.

In accordance with the Group's accounting policy and the provisions of IAS 36 "Impairment of Assets" management is required to test the goodwill at least annually for impairment.

The Group carries out impairment test for goodwill using a discounted cash flow model. For 2017, management determined that there had been no impairment of goodwill.

There is a risk that due to the significant judgments involved in performing the impairment assessment of the carrying value of goodwill due to the potential variability of the underlying assumptions in the estimation process could lead to potential impact of impairment on the financial statements.

*Our response*

We evaluated management's future cash flow forecasts and the process by which they were determined and approved, including checking that the forecasts were consistent with the latest Board approved budgets and confirming the mathematical accuracy of the underlying calculations. We also considered the accuracy of previous forecasts made by management. We obtained corroborating evidence regarding the carrying value of goodwill, and the related disclosures, through challenging:

- key assumptions for growth rates in the cash flow forecasts by comparing them to historical results, and economic forecasts; and
- the discount rates by independently estimating a range based on market data

**Impairment of Limestone mines (RO 0.62 million)**

Refer to note 6.8, 6.10, 8(f) and 9 to the consolidated and separate financial statements on pages 11, 12, 24 and 25 to 29.

Property, plant and equipment in the Group's financial statements includes limestone mine at a carrying amount of RO 0.62 million. The Group determines the recoverable amount of the mine using the discounted cash flow model. The Group has entered into contract with a third party for lease of mine from 2016 based on which the projected cash flows are determined. There is a risk due to the existence of impairment indicators as extraction from the mine was not as per expectation. Given the material significance of this non-financial asset, the risk due to the significant judgment involved in performing the impairment test which are underpinned by variable assumptions the recognition of impairment could have a significant impact on the Group's reported financial position, its reported financial performance and its earnings per share.

*Our response*

Our audit procedures included testing the Group's controls over the impairment assessment process of limestone mine; obtaining the management's valuation model and testing it for mathematical accuracy and checking the inputs into the model; agreeing the inputs to the supporting documentation such as the approved business plan; testing the reasonableness of 'limestone extraction', 'limestone extraction growth rate' and revenue to the Group; data external and internal to the Group; independently re-calculated the discount rate, taking into account independently obtained internal and external data and performed and tested the

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sensitivity of impairment calculation to changes in assumptions and tested the appropriateness and completeness of the disclosures given in the consolidated financial statements relating to Property, plant and equipment.

#### **Other matter**

The consolidated and separate financial statements of the Company for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those consolidated and separate financial statements dated 26 February 2017.

#### **Other Information**

Management is responsible for the other information. The other information comprises the Chairman's report, Management Discussion and Analysis Report and Report on Code of Corporate Governance.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### **Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs 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 consolidated and separate financial statements.

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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### Report on Other Legal and Regulatory Requirements

We report that the separate and consolidated financial statements of the Parent Company and the Group as at and for the year ended 31 December 2017, in all material respects, comply with the:

- relevant disclosure requirements of the Capital Market Authority; and
- the applicable provisions of the Commercial Companies Law of 1974, as amended.

21 February 2018

  
Mobeen Chaudhri