

Independent auditor's report to the Shareholders of Raysut Cement Company SAOG

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Report on the parent company and consolidated financial statements

Qualified opinion

We have audited the parent company and consolidated financial statements ("the financial statements") of **Raysut Cement Company SAOG** ("the parent company") and its subsidiaries ("the Group"), which comprise of the parent company and consolidated statements of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the parent company and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of matters as described in the basis for qualified opinion paragraph, the accompanying parent company and consolidated financial statements present fairly, in all material respects, the financial position of the parent company and the Group as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

Prepayments, advances and other receivables, are carried in the parent company and consolidated statements of financial position at RO 11.4 million and RO 9.8 million respectively. Trade receivables – net are carried in the parent company and consolidated statements of financial position at RO 15.5 million and RO 26 million respectively. These amounts include an amount due from an associate with a total carrying amount of RO 4.05 million. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the amount due from an associate as the associate confirmed a different amount and management were in the process of reconciling the difference of RO 2.93 million as at the date of this report and we were unable to verify management's assertion that the amount due from an associate was recoverable. Consequently, we were unable to determine whether any adjustments to this amount were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the parent company and consolidated 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 parent company and consolidated 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 qualified opinion.

Key audit matters

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

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Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of goodwill</p> <p>As at 31 December 2019, the carrying value of goodwill amounted to RO 46.6 million, or 18% of the group's total assets as disclosed in Note 8 to the consolidated financial statements.</p> <p>In accordance with IAS 36 Impairment of Assets, an entity is required to test goodwill acquired in a business combination for impairment at least annually.</p> <p>An impairment is recognized in the consolidated profit or loss when the recoverable amount is less than the carrying amount. The determination of the recoverable amount is based on discounted future cash flows and benchmarking the values with market multiples.</p> <p>We considered the impairment of goodwill to be a key audit matter, given the method for determining the recoverable amount and the significance of the amount in the Group's consolidated financial statements.</p> <p>In addition, the recoverable amounts are based on the use of important assumptions, estimates or assessments made by management, in particular future cash flow projections, the estimate of the discount rates and long-term growth rates.</p> <p>Refer to note 8 to the consolidated financial statements for further details relating to goodwill.</p>	<p>We tested the goodwill impairment models and the key assumptions used by management with the involvement of our valuation specialists. Our audit procedures included the following:</p> <ul style="list-style-type: none"> • understanding the business process for the impairment assessment, identifying the relevant internal controls over the impairment assessment process and testing their design and implementation; • evaluating whether the cash flows in the models used by management to calculate the recoverable value are in accordance with IAS 36 Impairment of Assets; • Obtaining and analyzing the approved business plans for each Cash generating Unit to assess accuracy of the computations and the overall reasonableness of key assumptions; • Compared actual historical cash flow results with previous forecasts to assess forecasting accuracy; • Assessing the methodology used by the Group to estimate the Weighted Average Cost of Capital (WACC) and benchmarking that with discount rates used by other similar businesses and other external sector related guidelines; • Benchmarking the values with market multiples, where applicable; and • Assessing the disclosure in the consolidated financial statements relating to goodwill against the requirements of IFRSs.

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Other information

The Board of Directors ("the Board") is responsible for the other information. The other information comprises the Board of Directors' report, the Corporate Governance Report and Management's Discussion and Analysis. We obtained these reports prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the 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 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. As described in the Basis for qualified opinion paragraph above, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the amount due from an associate and we were unable to verify management's assertion that the amount due from an associate was recoverable. Accordingly, we were unable to conclude whether or not the other information is materially misstated with respect to this matter.

Responsibilities of Board of Directors and those charged with governance for the parent company and consolidated financial statements

The Board is responsible for the preparation and fair presentation of the parent company and consolidated 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 and for such internal control as management determines is necessary to enable the preparation of the parent company and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company and consolidated financial statements, the Board 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 the Board 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 and Parent Company's financial reporting process.

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Auditor's responsibilities for the audit of the parent company and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the parent company and consolidated 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 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 parent company and consolidated financial statements.

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 parent company and consolidated 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 auditor's report to the related disclosures in the parent company and consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether the parent company and consolidated 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.

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Auditor's responsibilities for the audit of the parent company and consolidated financial statements (continued)

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 parent company and consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's 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.

Report on other legal and regulatory requirements

Further, we report that the parent company and consolidated financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law and the disclosure requirements issued by the Capital Market Authority.

Deloitte • Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
4 March 2020

Mark Dunn

Signed by
Mark Dunn
Partner

