Independent auditor’s report to the shareholders of Raysut Cement Company SAOG

Report on the audit of the financial statements

Our opinion
In our opinion, the financial statements of Raysut Cement Company SAOG (the “Parent Company”) and the consolidated financial statements of the Parent Company and its subsidiaries (together, the “Group”) present fairly, in all material respects, the respective financial position of the Parent company and the Group as at 31 December 2016, and their respective financial performance and their respective cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited
The financial statements of the Parent Company and the consolidated financial statements of the Group (together “these financial statements”) comprise the respective:

• statement of financial position as at 31 December 2016;
• statement of comprehensive income for the year then ended;
• statement of changes in equity for the year then ended;
• statement of cash flows for the year then ended; and
• 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 (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of these 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 Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of these financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach
Overview

<table>
<thead>
<tr>
<th>Key Audit Matters</th>
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<tbody>
<tr>
<td>• Impairment of Goodwill</td>
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<tr>
<td>• Impairment of Lime stone mines</td>
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in these financial statements. In particular, we considered where the directors made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on these financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which the Group and the Parent Company operates.

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Independent auditor’s report to the shareholders of Raysut Cement Company SAOG (continued)

Our audit approach (continued)

Key audit matters

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

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>How our audit addressed the key audit matter</th>
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<tbody>
<tr>
<td>Impairment of goodwill</td>
<td>We performed the procedures set out below to evaluate management’s assumptions considered in the impairment model. The most significant assumptions in the impairment test were business growth rate and cash flow growth rate applied to determine the terminal value and the discount rates applied to the projected future cash flows.</td>
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<tr>
<td></td>
<td>As indicated in Note 8, the impairment model is most sensitive to these particular assumptions.</td>
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<td></td>
<td><strong>Business growth rate and cash flow growth rate applied to determine the terminal value</strong></td>
</tr>
<tr>
<td></td>
<td>We have obtained management’s valuation model and tested it for mathematical accuracy and checked the inputs into the model. These inputs were agreed to supporting documentation such as the approved business plan. We have tested the reasonableness of ‘business growth rate’ and ‘cash flow growth rate applied to determine the terminal value’ by reviewing that forecasts agreed to the 2017 business plan which has been approved by the Board of Directors; by considering the current year performance against business plan and the reason for any deviation; and reviewing management’s achievements against previous forecasts and business plans.</td>
</tr>
<tr>
<td></td>
<td><strong>Discount rate</strong></td>
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<tr>
<td></td>
<td>Management have assumed a real discount rate of 9.9%. We used our internal valuations specialists who independently re-calculated the discount rate, taking into account independently obtained internal and external data.</td>
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<tr>
<td></td>
<td>We also performed and tested the sensitivity of impairment calculation to changes in assumptions and tested the appropriateness and completeness of the disclosures given in the financial statements relating to goodwill.</td>
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</table>

The Group determines the recoverable amount of goodwill using a discounted cash flow model. For 2016, management determined that there had been no impairment of the goodwill.

Refer to Note 4 (Critical accounting estimates and assumptions) and Note 8 (Goodwill) to the financial statements where goodwill has been discussed in detail.

We focused on this area due to the significant judgement 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 and the potential impact of its impairment, if any on the financial statements.
Key audit matters (continued)

**Impairment of limestone mines**

An impairment review of non-financial assets is performed when there is an indication that these may be impaired. Property, plant and equipment in the Group’s financial statements includes limestone mines (mines) at a carrying amount of RO 1.9 million. The Group determines the recoverable amount of these assets using the discounted cash flow model. The Group has entered into contract with a third party for lease of the mines from 2017 based on which the projected cash-flows are determined.

Refer to Note 5 (Property, plant and equipment) to the financial statements where the impairment of mines has been discussed.

We focused on this area due to the existence of impairment indicators as these mines are currently not operated or used by Group. Given the materiality of these non-financial assets, 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. We also focused on this area due to the significant judgement involved in performing the impairment tests which are underpinned by potentially variable assumptions.

In the current year, an impairment loss of RO 494,440 was recognised in the financial statements.

We performed the procedures set out below to evaluate management’s assumptions used in the impairment model. The most significant assumptions in the impairment test were limestone realisation rate, limestone realisation growth rate and discount rate.

**Limestone realisation rate and limestone realisation growth rate**

We have obtained management’s valuation model and tested it for mathematical accuracy and checked the inputs into the model. These inputs were agreed to supporting documentation such as the approved business plan. We have tested the reasonableness of the ‘limestone realisation rate’ and ‘limestone realisation growth rate’ by agreeing the limestone realisation rates to contracts; agreeing the management’s production forecasts to the contract with customer, data external and internal to the Group and our own industry experience.

**Discount rate**

Management assumed a discount rate of 11.57%. As a reasonableness test, we used our internal valuation specialists to independently calculate the discount rate, taking into account independently obtained data internal and external data.

We also performed and tested the sensitivity of impairment calculation to changes in assumptions and tested the appropriateness and completeness of the disclosures given in the financial statements relating to property, plant and equipment.

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**Other information**

The directors are responsible for the other information. The other information, which we obtained prior to the date of our auditor’s report comprises the Board of Directors’ report, the Corporate Governance report and Management’s Discussion and Analysis, but does not include these financial statements and our auditor’s report thereon. The complete annual report which is not yet received is expected to be made available to us after that date.

Our opinion on these financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.
Independent auditor's report to the shareholders of Raysut Cement Company SAOG (continued)

Other information (continued)

In connection with our audit of these 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 these financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, 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.

When we read the complete annual report which is not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for these financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority (“the CMA”) of the Sultanate of Oman and the Commercial Companies Law of 1974, as amended, 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 these financial statements, the directors are responsible for assessing the Parent Company and 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 directors either intend to liquidate the Parent Company and the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Parent Company and the Group’s financial reporting process.

Auditor’s responsibilities for the audit of these financial statements

Our objectives are to obtain reasonable assurance about whether these 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 financial statements.

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

- Identify and assess the risks of material misstatement of these 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 Parent Company and Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
Auditor's responsibilities for the audit of these financial statements (continued)

- 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 Parent Company and 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 these 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 Parent Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of these financial statements, including the disclosures, and whether these 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 to 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 these financial statements of the current period 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 these financial statements have been prepared and comply, in all material respects, with the relevant requirements of the CMA of the Sultanate of Oman and the Commercial Companies Law of 1974, as amended.

Kenneth Macfarlane

Muscat, Sultanate of Oman

27 February 2017