

**LAFARAGE PAKISTAN
CEMENT LIMITED**

**COST AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2010**

HLB IJAZ TABUSSUM & CO.

Chartered Accountants

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COST AUDIT REPORT FOR THE YEAR ENDED DECEMBER 31, 2010

We, **HLB Ijaz Tabussum & Co., Chartered Accountants**, having been appointed to conduct an audit of cost accounts of **Messrs Lafarge Pakistan Cement Limited** (hereinafter referred to as the company), have examined the books of account and the statements prescribed under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 and the other relevant record for the year ended **December 31, 2010** and report that;

- (1) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of this audit;
- (2) In our opinion;
 - (a) Proper cost accounting records as required by clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 (XLVII of 1984), and as required by the Companies (Audit of Cost Accounts) Rules, 1998 have been kept by the company;
 - (b) No return, statement and schedule from branches was required to be received as there existed no branch;
 - (c) The said books and records give the information required by the rules in the manner so required; and
- (3) In our opinion and, subject to the best of our information;
 - (d) The annexed statement of capacity utilization and stock-in-trade are in agreement with the books of accounts of the company and exhibit true and fair view of the company's affairs; and
 - (e) Cost accounting records have been properly kept so as to give a true and fair view of the cost of production, processing, manufacturing and marketing of Ordinary Portland Cement.

The matter contained in the ANNEX forms part of this report.

DATE: 4-4-2011
ISLAMABAD

HLB Ijaz Tabussum & Co.

HLB IJAZ TABUSSUM & CO.,
Chartered Accountants
IJAZ AKBER - FCA



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HLBITC/LPCL/3694

COST AUDIT FOR THE YEAR-ENDED DECEMBER 31, 2010

1. CAPACITY:

The licensed, installed and utilised capacities of the factory are stated to be as follows:

	Licensed & Installed Capacity	Licensed & Installed Capacity	Capacity Utilized	Capacity Utilized
	2010	2009	2010	2009
	(M.TON)	(M.TON)	(M.TON)	(M.TON)
Cement	2,400,000	2,400,000	1,911,580	2,224,333

The company is engaged in the production of 'Ordinary Portland Cement (OPC)'.

2. COST ACCOUNTING SYSTEM:

The Company uses process-costing system in order to adequately determine the cost of the product. The production process has been divided into distinct cost centers to which direct and indirect costs are charged. The main production-related cost centres are extraction, crusher/ stock hall, raw mill, kiln, cement mill and packing plant. The costs of service departments, after being accumulated, are allocated over the main process/ production departments, using a reasonable basis of allocation for each major type of expense.

3. PRODUCTION:

The production of the plant during the year ended December 31, 2010 is given below:

	2010 (M.TON)	2009 (M.TON)
Cement production (Ordinary portland cement)	1,911,580	2,224,333
Utilization of Installed Capacity	80%	93%

There has been no addition to the production capacity of the plant during the year.

4. RAW MATERIALS:

a. During the year, the following quantities of raw materials, having values given against each item, were consumed:

	2010		2009	
	Quantity (Tons)	Value (Rupees)	Quantity (Tons)	Value (Rupees)
High grade limestone	456,882	46,454,526	496,236	44,897,152
Raw mix (marl+ clay+ limestone)	2,214,734	224,998,020	2,587,173	234,612,003
Laterite	72,134	72,057,106	94,954	85,803,816
Gypsum	101,619	65,558,348	124,327	77,323,643
Fly Ash	33,521	30,098,627	40,280	33,084,621
		<u>439,166,627</u>		<u>475,721,235</u>

Raw mix consists of a crushed mixture of marl, clay and limestone, whereas high grade limestone represents pure crushed limestone. For the purpose of external financial reporting, the Company has classified the raw mix as work-in-process inventory. The value presented above represents only the material cost of the raw mix and does not include allocated costs.

Limestone, clay and marl are being excavated whereas gypsum, laterite and fly ash are purchased, the transportation cost is included in their purchased price. The purchase value of all raw material is inclusive of a large component of carriage, which is as follows:

Carriage charges on materials	2010 (Rupees)	2009 (Rupees)
High grade limestone	24,123,006	23,979,352
Clay	5,874,726	6,362,204
Marl	111,655,674	120,895,494
Laterite	56,066,592	97,433,979
Gypsum	65,515,583	69,243,439
Fly Ash	21,806,330	21,617,588

b. Comparison of major raw materials' consumption with the standard requirements is given below:

	Standard Requirement	Actual Consumption	Actual Consumption	
	(M.TON)	2010 (M.TON)	2009 (M.TON)	
Raw mix (marl+ clay+ limestone)	1.65	1.6245	1.6143	Per ton of clinker
Laterite	0.05	0.0439	0.0497	Per ton of clinker
Gypsum	0.05	0.0532	0.0559	Per ton of cement

c. The variation of raw materials consumption from standard requirements is mainly due to the fact that the raw materials i.e., limestone, clay, marl and laterite vary in their chemical compositions, which accordingly affects their extent of utilisation. The chemical contents keep on changing, which is a natural phenomenon.



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- d. Major raw materials i.e high grade limestone and raw mix (limestone, clay and marl), are measured on an electronic weight balance installed at the crusher when these materials are crushed. Laterite and gypsum are weighed when received using the automatic raw material weigh scale. All of these raw materials are charged to production on weighted average method of costing and their stocks are also valued on this basis.

5. WAGES AND SALARIES:

- a. Total wages and salaries paid to different categories of employees during the year are mentioned hereunder:

	2010 (Rupees)	2009 (Rupees)
i. Direct labour cost	40,974,236	57,591,025
ii. Indirect labour cost	84,109,381	103,375,590
iii. Employees' cost on administration	114,899,972	111,958,139
iv. Employees' cost on selling & distribution	59,617,764	72,067,212
v. Bonus to workers and employees	9,286,982	36,813,077
Total employees' cost	308,888,335	381,805,042

b. REMUNERATION OF MANAGING DIRECTOR AND EXECUTIVES

The aggregate amounts charged in these financial statements for the year as remuneration and benefits to the Managing Director, Directors and Executives of the Company are as follows:

	2010	2009	2010	2009	2010	2009
	Managing Director		Directors		Executives	
Managerial remuneration	19,393,370	11,573,003	9,881,778	9,669,743	122,582,872	73,477,286
Provident fund	697,788	529,844	432,000	360,000	5,512,451	3,313,458
	20,091,158	12,102,847	10,313,778	10,029,743	128,095,323	76,790,744

In addition to the above remuneration, the Chief Executive, Directors and Executives are also provided with Company maintained cars.

Meeting fee of directors charged during the year was Rs. 10,000. Number of directors: 7 (2009: Rs. 10,000, Number of directors: 11).

	2010 (Days)	2009 (Days)	2008 (Days)
c. Total man-days of direct labour available	42,115	49,528	55,434
Total man-days of direct labour actually worked	37,685	45,972	54,722
	2010 (Number)	2009 (Number)	2008 (Number)
d. Average number of workers employed in processes	199	234	240
The workforce employed does not include Head Office and Auxiliaries.			
	2010 (Rupees)	2009 (Rupees)	2008 (Rupees)
e. Direct labour cost per ton.	21.43	25.89	32.15
Direct labour cost reduction is mainly due to reduction in head Count.			
f. The Company has not offered any production – related incentive schemes during the year 2010.			

6. STORES AND SPARE PARTS:

Given below is the consumption of stores and spares during the year :

	2010		2009	
	Amount (Rupees)	Rate (Rs./ Ton)	Amount (Rupees)	Rate (Rs./ Ton)
a. Stores and spare parts	275,053,795	143.89	201,457,776	90.57

- b. All items of stores and spares are routed through the store and are being kept on a perpetual inventory system. All issues and stocks are valued on weighted average method. The Company uses an Enterprise Asset Management system, which incorporates a separate stores and spares module. All receipts, identification, coding, issuance and valuation of closing stock is handled by the module. Details of the physical location of the items in the store is also maintained in the database which facilitates immediate access.

- c. Closing inventory of stores items amounts to Rs. 612.745 million (2009: Rs. 734.155 million). A provision of Rs. 3 million (2009: Rs. 3 million) is available in the financial statements. The rest of items are not technically obsolete, and can be utilised in the plant's normal course of operations during its useful life.

7. DEPRECIATION:

	2010 (Rupees)	2009 (Rupees)
a. Depreciation for the year (excluding depreciation allocated to distribution cost and administrative expenses)	616,627,077	642,098,207
Depreciation on fixed assets is charged on straight line method and is commenced from the date the asset is available for use up to the date when the asset is retired.		



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b. Depreciation of the service cost centres is apportioned to the under-given main production departments on the following basis:

	2010 (Rupees)	2009 (Rupees)
Kiln	70.0%	70.0%
Cement mill	30.0%	30.0%

c. Depreciation on assets which are used in relation to the production of the main product is charged to cost of production.

8. OVERHEADS:

	2010 (Rupees)	2009 (Rupees)	2008 (Rupees)
a. i) Factory overheads			
Stores & spare parts consumed	275,053,795	201,457,776	159,069,166
Rents, rates and taxes	9,342,843	15,762,613	22,271,542
Insurance	64,544,430	80,864,052	83,244,831
In plant transportation	32,866,351	32,647,281	45,120,418
Fuel and power	3,461,276,420	4,250,344,354	3,748,509,600
Repairs and maintenance	67,866,105	70,308,470	81,480,213
Technical assistance fee to related party	35,332,121	130,864,120	326,720,739
Communication	5,082,407	5,286,663	6,998,869
Other factory overheads	27,471,514	26,876,948	29,205,680
Depreciation	616,627,077	642,098,207	900,845,621
Travelling and conveyance	36,968,432	35,642,306	34,823,550
Utilities	10,382,788	13,373,936	10,995,481
Consumables	10,215,811	11,568,250	25,302,799
Office canteen	19,714,972	30,251,846	31,886,447
Legal and professional charges	5,688,066	9,607,469	7,472,572
	4,678,433,132	5,556,954,291	5,513,947,528
ii) Selling and administrative overheads			
Salaries, wages and benefits	114,899,972	111,958,139	92,176,060
Travelling expenses	10,047,435	7,847,933	9,565,378
Vehicle running expenses	5,537,928	5,293,069	3,827,903
Rent, rates and taxes	14,087,907	14,885,915	13,378,827
Accommodation and living	94,006	48,056	509,934
Legal and professional charges	11,978,013	51,597,668	53,908,183
Utilities	4,488,509	4,493,469	2,848,165
Advertisement expenses	2,331,017	1,202,869	1,703,988
Technical assistance fee to related party	-	41,604,751	109,338,392
Office canteen	3,454,437	2,754,051	3,369,039
Printing and stationery	1,636,734	1,659,016	1,693,935
Meetings and conferences	332,481	497,140	1,034,305
Telephone and postage	3,993,499	3,424,115	5,142,162
Newspaper and periodicals	69,466	65,236	70,795
Donations	653,495	1,020,360	50,000
Fees and subscriptions	2,836,750	4,236,564	1,403,552
Depreciation	4,492,616	10,407,352	13,275,108
Amortization	1,162,185	1,143,902	3,045,809
Repairs and maintenance	5,610,207	9,037,401	7,335,689
Security charges	692,080	1,303,426	1,644,117
Software expense	2,319,436	2,034,054	2,791,421
Insurance expenses	733,373	1,132,865	864,996
Royalty to related party	215,389,761	268,288,699	111,585,331
	406,811,397	545,936,050	440,563,089
iii) Distribution overheads			
Salaries and benefits	59,617,764	72,067,212	49,821,761
Travelling expenses	8,007,795	3,818,433	4,559,008
Vehicle running expenses	340,233	400,031	229,018
Freight and handling charges	379,400,433	348,668,685	386,302,105
Repairs and maintenance	3,396,819	3,568,229	5,184,425
Rent, rates and taxes	20,295,591	12,448,028	8,481,835
Accommodation and living	-	135,246	-
Legal and professional charges	1,052,649	1,053,081	513,444
Utilities	1,942,082	1,753,162	1,540,823
Advertisement expenses	6,842,566	1,886,477	6,759,793
Office canteen	3,631,701	4,279,147	5,248,879
Printing and stationery	681,798	1,011,153	697,215
Meetings and conferences	60,547	53,108	413,015
Telephone and postage	3,172,080	3,021,509	3,505,356
Newspapers and periodicals	32,781	46,260	46,973
Fees and subscriptions	804,998	1,220,088	684,078
Depreciation	1,482,192	3,196,521	3,014,589
Security charges	846,320	887,857	1,080,699
Insurance	250,678	262,703	235,018
Provision against debt considered doubtful	-	-	4,714,538
	491,859,027	459,776,930	483,932,572



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	2010 (Rupees)	2009 (Rupees)	2008 (Rupees)
iv) Financial charges			
Secured long term financing	511,031,740	753,669,283	874,713,087
Secured short term running finances	424,820,311	273,634,349	124,669,360
Shareholder's loan	-	-	44,461,138
Obligations under finance leases	-	739,983	5,121,761
Adjustment of Imputed interest on long term liabilities	-	27,000,000	-
Letter of guarantee commission	24,777,994	2,517,968	3,392,860
Bank charges	20,048,039	25,393,010	22,405,406
	980,678,084	1,082,954,593	1,074,763,612
TOTAL(i to iv)	6,557,781,550	7,645,621,864	7,512,306,801

a) Figure have been re-arranged due to re-classification in the audited Financial Statements.

b) Directly attributable overheads have been charged directly to the respective cost centres (production and service). The total costs allocated to the service cost centres are then apportioned to the two main production cost centres in the ratio of 70:30. This is considered to be a reasonable basis of allocation by the management, considering past experience of the industry.

	2010 (Rupees)	2009 (Rupees)
c)		
Cost of packing material	644,948,662	674,311,391

The packing plant is being charged with its cost as an independent cost centre with necessary overheads allocation. Details of allocated and apportioned costs of this department/ cost centre are available in Annexure. Polypropylene, jumbo, as well as paper bags have been used during the year.

9. ROYALTY / TECHNICAL AIDS PAYMENTS:

a)	Royalty expenses			
	Limestone		Clay	
	Amount Rupees	Rate Rs./Ton	Amount Rupees	Rate Rs./Ton
2010	46,711,994	30.00	9,240,821	10.00
2009	43,716,462	24.44	8,868,185	8.19

b) The Company has also provided for franchise fee during the year payable to its ultimate parent company Lafarge S.A France (the ultimate parent company) @ 3% p.c.a of net sales. This fee, amounting to Rs. 215,389,761 (2009: Rs. 268,288,699) is classified as selling, general and administrative expenses in the financial statements.

c) The salaries and perquisites paid to production-related expatriates have been classified as technical assistance fee in the cost of sales. The cost for the year amounts to Rs. 35,332,121 (2009: Rs. 130,864,120).

10. ABNORMAL - NON RECURRING FEATURES:

The year under review was a normal year with no lockouts, strikes and abnormal shutdowns and as such there have been no special expenses.

11. COST OF PRODUCTION:

	2010		2009	
	Amount (Rs.)	Rate (Rs. / M.Ton)	Amount (Rs.)	Rate (Rs. / M.Ton)
Cost of sales	6,032,665,749	3,167.42	7,091,299,008	3,198.05
Add: Closing finished goods	108,062,381		90,048,863	
	6,140,728,129		7,181,347,872	
Less: Opening finished goods	(90,048,863)		(71,769,120)	
Cost of production	6,050,679,266	3,165.28	7,109,578,752	3,196.27



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12. SALES:

a) Sales for the year ended December 31, 2010 were as follows:

	2010		2009	
	Amount (Rs.)	Quantity (M. Tons)	Amount (Rs.)	Quantity (M. Tons)
i) Net Sales - Cement				
Local Sales	4,265,670,569	1,272,453	5,880,550,367	1,653,878
Export Sales	2,615,096,216	632,144	2,149,377,302	593,501
Net sales	6,880,766,785	1,904,598	8,029,927,669	2,217,379
Net sales realization per unit Local	3,352.32		3,555.61	
Net sales realization per unit Export	4,136.87		3,814.33	
ii) Net Sales - Clinker				
Local Sales	-	-	1,269,172	458
Export Sales	-	-	98,763,750	25,000
Net sales	-	-	100,032,922	25,458
Net sales realization per unit Local	-	-	2,771.12	
Net sales realization per unit Export	-	-	3,950.55	
iii) Average sales realization per unit				
	3,612.71		3,624.86	

13. PROFITABILITY:

	2010		2009	
	Amount (Rs.)	Rate (Rs. / M.Ton)	Amount (Rs.)	Rate (Rs. / M.Ton)
Cement-local				
Sales- net	4,265,670,569	3,352.32	5,880,550,367	3,555.61
Cost of sales	3,979,546,112	3,127.46	5,261,517,713	3,181.32
Gross profit/(loss)	286,124,457	225	619,032,654	374
Cement-export				
Sales- net	2,615,096,216	4136.87	2,149,377,302	3814.33
Cost of sales	2,045,311,034	3,236	1,815,144,122	3,221.19
Gross profit/(loss)	569,785,182	901	334,233,180	593
Clinker-local				
Sales- net	-	-	1,269,172	2771.12
Cost of sales	-	-	1,252,529	2,735
Gross profit/(loss)	-	-	16,643	36
Clinker-export				
Sales- net	-	-	98,763,750	3950.55
Cost of sales	-	-	68,344,107	2,733.76
Gross profit/(loss)	-	-	30,419,643	1,217



14) OBSERVATIONS AND CONCLUSION:

On the basis of our cost audit, our observations are as under:

- a) There has been no significant matter that has come across, to be wrongly reported or unjustified.
- b) We have not come across any material instances where the funds of the Company have been used inefficiently or negligently.
- c)
 - i. The Company has maintained a budgetary control system and budgets are established keeping in view the planned level of activities. Variances are pointed out between the budgets and the actual quantities/amounts.
 - ii. The Company has an effective internal audit and control function. The Board of Directors has constituted an audit committee, the meetings of which are held on regular basis.
- d)
 - i. During the year, the plant operations were running smoothly.
 - ii. The Company currently operates at around 80% of the installed capacity, and there is room for utilizing the idle capacity and reducing per unit costs, which depends on sufficient demand in local market and exploring export options vigorously.
 - iii. The company uses coal as a major source of fuel and installed a coal plant for this purpose. Due to reduction in coal supply bio fuels are used as a secondary source of fuel.
 - iv. The technology being used in the production of cement is quite modern.
 - v. The plant was new, when installed.



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15. RECONCILIATION WITH FINANCIAL STATEMENTS:

Enclosed is the reconciliation of the cost statements with financial accounts. The differences have emerged as a result of different grouping and rearrangement of figures in both the statements.

16. GENERAL

Comparisons of cost and production have been made with previous year(s). Figures have been restated wherever necessary.

We appreciate the cooperation and courtesy of the management and staff of the Company that remained available to us during the course of the audit.

Thanking you.

Yours truly,

HLB IJAZ TABUSSUM & CO.
Chartered Accountants
IJAZ AKBER – FCA

DATE: 4-4-2011