

**LAFARAGE PAKISTAN
CEMENT LIMITED**

**COST AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2009**



IJAZ TABUSSUM & Co.

CHARTERED ACCOUNTANTS

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COST AUDIT REPORT FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009** 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;
 - (a) 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
 - (b) 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: 30-3-2010
ISLAMABAD

HLB Ijaz Tabussum & Co.
HLB IJAZ TABUSSUM & CO.,
Chartered Accountants
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COST AUDIT FOR THE YEAR-ENDED DECEMBER 31, 2009

1. CAPACITY:

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

	Licensed & Installed Capacity 2009	Licensed & Installed Capacity 2008	Capacity Utilized 2009	Capacity Utilized 2008
	(M.TON)	(M.TON)	(M.TON)	(M.TON)
Cement	2,400,000	2,400,000	2,224,333	2,001,565

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, 2009 is given below:

	2009 (M.TON)	2008 (M.TON)
Cement production (Ordinary portland cement)	2,224,333	2,001,565
Utilization of Installed Capacity	93%	83%

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:

	2009		2008	
	Quantity (Tons)	Value (Rupees)	Quantity (Tons)	Value (Rupees)
High grade limestone	496,236	44,897,152	479,123	36,978,213
Raw mix (marl+ clay+ limestone)	2,587,173	234,012,003	2,486,579	193,150,594
Laterite	94,954	85,803,816	89,435	69,434,519
Gypsum	124,327	77,323,643	104,754	60,937,054
Fly Ash	40,280	33,084,621	46,482	33,642,614
		<u>475,721,235</u>		<u>394,142,993</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:

The variance in high grade limestone and raw mix (marl, clay and limestone) is due to increase in royalty cost per ton.

Carriage charges on materials	2009 (Rupees)	2008 (Rupees)
High grade limestone	23,979,352	21,258,339
Clay	6,362,204	5,320,689
Marl	120,895,494	102,921,244
Laterite	97,433,979	58,193,252
Gypsum	69,243,439	63,038,007
Fly Ash	21,617,588	21,960,179



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

	Standard Requirement (M.TON)	Actual Consumption 2009 (M.TON)	Actual Consumption 2008 (M.TON)	
Raw mix (marl+ clay+ limestone)	1.65	1.6143	1.6176	Per ton of clinker
Laterite	0.05	0.0497	0.0488	Per ton of clinker
Gypsum	0.05	0.0559	0.0523	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.

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:

	2009 (Rupees)	2008 (Rupees)
i. Direct labour cost	57,591,025	64,348,392
ii. Indirect labour cost	103,375,590	93,143,982
iii. Employees' cost on administration	111,958,139	92,176,064
iv. Employees' cost on selling & distribution	72,067,212	49,821,758
v. Bonus to workers and employees	36,813,077	19,224,133
Total employees' cost	381,805,043	318,714,329

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:

	2009	2008	2009	2008	2009	2008
	Managing Director		Directors		Executives	
Managerial remuneratic	8,761,896	6,998,262	8,441,222	523,076	58,724,355	42,247,221
Provident fund	529,844	589,551	360,000	34,878	3,313,458	3,111,174
Other expenses	466,666	406,350	300,000	1,345,609	4,443,189	3,205,603
Bonus	2,344,441	5,122,344	928,521	-	10,309,742	10,251,897
	12,102,847	13,116,507	10,029,743	1,903,563	76,790,744	58,815,895

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In addition to the above remuneration, the Managing Director, 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: 11 (2008: Rs.6,000, Number of directors: 11).

	2009 (Days)	2008 (Days)	2007 (Days)
c. Total man-days of direct labour available	49,528	55,434	54,720
Total man-days of direct labour actually worked	45,972	54,722	48,565

	2009 (Number)	2008 (Number)	2007 (Number)
d. Average number of workers employed in processes	234	240	246

The workforce employed does not include Head Office and Auxiliaries.

	2009 (Rupees)	2008 (Rupees)	2007 (Rupees)
e. Direct labour cost per ton.	25.89	32.15	31.70

f. The Company has not offered any production – related incentive schemes during the year 2009.

6. STORES AND SPARE PARTS:

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

	2009		2008	
	Amount (Rupees)	Rate (Rs./ Ton)	Amount (Rupees)	Rate (Rs./ Ton)
a. Stores and spare parts	201,457,776	90.57	159,069,166	79.47
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. 736.387 million (2008: Rs. 647.490 million). A provision of Rs. 3 million (2008: Nil) has been made 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:

	2009 (Rupees)	2008 (Rupees)
a. Depreciation for the year (excluding depreciation allocated to distribution cost and administrative expenses).	642,098,207	900,845,621
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.		
b. Depreciation of the service cost centres is apportioned to the under-given main production departments on the following basis:		

	2009 (Rupees)	2008 (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.		

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8. OVERHEADS:

	2009 (Rupees)	2008 (Rupees)	2007 (Rupees)
a. i) Factory overheads			
Stores & spare parts consumed	201,457,776	159,069,166	88,795,607
Rents, rates and taxes	15,762,613	22,271,542	17,772,406
Insurance	80,864,052	83,244,831	59,186,232
In plant transportation	32,647,281	45,120,418	15,524,320
Fuel and power	4,250,344,354	3,748,509,600	2,687,136,519
Repairs and maintenance	70,308,470	81,480,213	30,064,762
Technical assistance fee to related party	130,864,120	326,720,739	146,192,751
Communication	5,286,663	6,998,869	7,723,430
Other factory overheads	26,876,948	29,205,680	12,700,697
Depreciation	642,098,207	900,845,621	724,004,297
Travelling and conveyance	35,642,306	34,823,550	30,171,027
Utilities	13,373,936	10,995,481	10,006,751
Consumables	11,568,250	25,302,799	25,711,184
Office canteen	30,251,846	31,886,447	22,440,393
Legal and professional charges	9,607,469	7,472,572	3,555,598
	5,556,954,291	5,513,947,528	3,880,985,974
ii) Selling and administrative overheads			
Salaries, wages and benefits	111,958,139	92,176,060	80,581,648
Traveling expenses	7,847,933	9,565,378	8,096,361
Vehicle running expenses	5,293,069	3,827,903	1,379,597
Rent, rates and taxes	14,885,915	13,378,827	15,243,007
Accommodation and living	48,056	509,934	5,667,058
Legal and professional charges	51,597,668	53,908,183	19,533,410
Utilities	4,493,469	2,848,165	2,023,130
Advertisement expenses	1,202,869	1,703,988	1,902,720
Technical assistance fee to related party	41,604,751	109,338,392	45,634,412
Office canteen	2,754,051	3,369,039	121,465
Printing and stationery	1,659,016	1,693,935	1,271,694
Meetings and conferences	497,140	1,034,305	2,524,755
Telephone and postage	3,424,115	5,142,162	5,798,209
Newspaper and periodicals	65,236	70,795	100,404
Donations	1,020,360	50,000	-
Fees and subscriptions	4,236,564	1,403,552	9,175,168
Depreciation	10,407,352	13,275,108	11,214,041
Amortization	1,143,902	3,045,809	495,801
Repairs and maintenance	9,037,401	7,335,689	5,215,411
Security charges	1,303,426	1,644,117	1,530,976
Software expense	2,034,054	2,791,421	-
Insurance expenses	1,132,865	864,996	707,145
Royalty to related party	268,288,699	111,585,331	62,873,871
Miscellaneous expenses	-	-	2,666,264
Prov for doubtful debt	-	-	-
Advance tax written off	-	-	5,635,964
	545,936,050	440,563,089	289,392,509
iii) Distribution overheads			
Salaries and benefits	72,067,212	49,821,761	49,797,166
Traveling expenses	3,818,433	4,559,008	4,516,655
Vehicle running expenses	400,031	229,018	(29,228)
Freight and handling charges	348,668,685	386,302,105	178,666,778
Repairs and maintenance	3,568,229	5,184,425	1,498,550
Rent, rates and taxes	12,448,028	8,481,835	9,661,321
Accommodation and living	135,246	-	504,917
Legal and professional charges	1,053,081	513,444	1,549,599
Utilities	1,753,162	1,540,823	1,286,963
Advertisement expenses	1,886,477	6,759,793	3,953,784
Office canteen	4,279,147	5,248,879	3,108,468
Printing and stationery	1,011,153	697,215	1,078,826
Meetings and conferences	53,108	413,015	523,440
Telephone and postage	3,021,509	3,505,356	2,949,581
Newspapers and periodicals	46,260	46,973	53,655
Fees and subscriptions	1,220,088	684,078	307,093
Depreciation	3,196,521	3,014,589	1,655,952
Security charges	887,857	1,080,699	634,732
Insurance	262,703	235,018	193,871
Provision against debt considered doubtful	-	4,714,538	-
	459,776,930	483,032,572	261,912,125

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	2009 (Rupees)	2008 (Rupees)	2007 (Rupees)
iv) Financial charges			
Secured long term financing	753,669,283	874,713,087	623,971,450
Secured short term running finances	273,634,349	124,669,360	-
Shareholder's loan	-	44,461,138	21,237,461
Obligations under finance leases	739,983	5,121,761	4,123,213
Fair value adjustment of deferred liabilities for custom duties and sales tax	-	-	30,779,689
Adjustment of Imputed interest on long term liabilities	27,000,000	-	-
Foreign exchange (gain)/ loss	147,855,257	406,910,154	76,065,824
Letter of guarantee commission	2,517,968	3,392,860	29,991,341
Bank charges	25,393,010	22,405,406	9,815,525
	1,230,809,850	1,481,673,766	795,984,503
TOTAL(i to iv)	7,793,477,121	7,919,216,955	5,228,275,110

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.

	2009 (Rupees)	2008 (Rupees)
Cost of packing material	674,311,391	583,344,213

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:

	Royalty expenses			
	Limestone		Clay	
	Amount Rupees	Rate Rs./Ton	Amount Rupees	Rate Rs./Ton
2009	43,716,462	23.75	8,868,185	7.92
2008	31,982,250	15.00	611,080	5.00

b) During the current year, the company has entered into an Industrial Franchise Agreement (IFA) with Lafarge S.A France (the ultimate parent company) under which the company will pay a franchise fee @ 3% p.a of net sales effective from 01 January 2009. The amount payable in 2009 is Rs. 268,288,699. This IFA has replaced the previous Royalty agreement with a related party Pakistan Cement Holding which was PKR 111,585,331 in the year 2008 and is classified under 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.130,864,120 (2008, Rs. 326,720,739).

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:

	2009		2008	
	Amount (Rs.)	Rate (Rs. / M.Ton)	Amount (Rs.)	Rate (Rs. / M.Ton)
Cost of sales	7,091,299,008	3,161.75	6,482,805,047	3,188.80
Add: Closing finished goods	90,048,863		71,769,120	
	7,181,347,872		6,554,574,167	
Less: Opening finished goods	(71,769,120)		(80,841,603)	
Cost of production	7,109,578,752	3,196.27	6,473,732,564	3,419.36

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12. SALES:

a) Sales for the year ended December 31, 2009 were as follows:

	2009		2008	
	Amount (Rs.)	Quantity (M. Tons)	Amount (Rs.)	Quantity (M. Tons)
Gross sales				
Local	8,623,273,058	1,654,336	7,804,082,188	1,452,442
Export	2,420,846,732	588,501	2,275,653,299	580,549
	11,044,119,790		10,079,735,487	
Less Sales tax and excise duty	2,536,499,020		2,282,174,712	
Discounts and commission to dealers	377,660,179		358,185,430	
	2,914,159,200		2,640,360,142	
Net sales	8,129,960,591	2,242,837	7,439,375,345	2,032,991
Net sales realization per unit	3,624.86		3,659.33	

13. PROFITABILITY:

	2009		2008	
	Amount (Rs.)	Rate (Rs. / M.Ton)	Amount (Rs.)	Rate (Rs. / M.Ton)
Sales- net	8,129,960,591	3624.86	7,439,375,345	3659.33
Cost of sales	(7,146,258,006)	(3,186.26)	(6,460,140,974)	(3,177.65)
Gross profit/(loss)	983,702,585	439	979,234,371	482
Adjustment /(Write down) of inventory to NRV	983,702,585	439	979,234,371	482
Selling, administrative & distribution expenses	(1,007,021,980)	(448.99)	(924,698,661)	(454.85)
Other expenses	(21,592,378)	(9.03)	(35,035,616)	(17.23)
Financial expenses	(1,230,809,850)	(548.77)	(1,481,673,766)	(728.81)
Other operating income	21,218,643	9.46	47,408,433	23.32
(Loss)/ profit before taxation	(1,254,502,980)	(559)	(1,414,765,239)	(696)
Taxation	(24,461,787)	10.91	172,261,681	84.73
Net profit/(loss)	(1,278,964,767)	(548)	(1,242,503,558)	(611)

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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 93% 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.
 - 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.

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.

16. GENERAL

Comparison of figure, cost and production have been made with previous year and have been restated wherever necessary.

Thanking you.

Yours truly,

HLB Ijaz Tabussum & Co.

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

DATE: 30-3-2010

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