

# REPORT OF THE BOARD OF DIRECTORS

## to the Shareholders

**Report of the Board of Directors to the Shareholders under section 184 of the Companies Act, 1994 and Notification dated August 7, 2012 of the Bangladesh Securities and Exchange Commission (BSEC).**

### Dear Valued Shareholders

The Board of Directors of Lafarge Surma Cement Ltd. (the “Company”) has the pleasure in presenting to the members their report together with audited financial statements of the Company for the year ended on December 31, 2013.

### State of the Company’s Affairs

For your Company, the year 2013 is marked by excellent production performance, both in the Surma Plant in Chhatak, Bangladesh and in the quarry in Meghalaya, India. The praiseworthy production performance was backed by equally commendable commercial and supply chain performances. These performances have been translated into an excellent financial performance for your Company amidst extremely difficult external situations that overcast the economy of the country for the entire 2013.

While your Company achieved an admirable production performance, the year 2013 was challenging for the Company mostly for external reasons. You are aware that the country faced adverse political and economic conditions which posed an extremely challenging environment for the commercial and supply chain activities of your Company. However, your Company successfully faced these challenges with innovative ideas and cost optimization initiatives. When delivering Company’s products from Surma Plant to the depots and from there to the doors of the end customers, came under threats, your Company sought for innovative ways to ensure that the products are safely delivered to the end users like best utilization of river routes etc.

As a result of the political situation, the overall growth of the cement market of the country was seriously affected, compared to last few years.

Considering all this unrest, the commercial activities of your Company was praiseworthy. When selling of bagged cement came under pressure, your Company had the advantage to sell clinkers to the other grinders, which was possible by excellent production that your Company achieved during the year.

The landmark achievement of 2013 is the launching of the new product - “Powercrete”. This is a well thought strategic move by your Company. Powercrete has enabled your Company to penetrate into a different segment of the market. The outsourced grinding station of Powercrete is strategically located near Dhaka, which is giving your Company logistic advantages to penetrate Central Zone and Southern Zone of the market. The consistent and excellent quality of Powercrete has already earned reputation in the market.

Moreover, your Company has made commendable achievements in cost optimization. Be it the maintenance of Plant equipments, spare parts, freight to customer costs or commercial and marketing costs, your Company through innovative thinking optimized the costs without allowing any compromise to the quality and standard.

The Board of Directors of the Company would like to express its deepest gratitude to all the valued shareholders for their invaluable support to the Company. It is with this support the Company is looking forward a brighter future of the Company in the coming years.

### Health and Safety

Health and safety is your Company’s Number 1 Priority. It is your Company’s core value and we follow Zero tolerance to health and safety violations. Health and Safety is considered to be the best tool to achieve operational excellence. Ensuring health and safety of the employees and the contractors is challenging in Bangladesh. With bold and steady steps, initiatives from the top levels and with proactive approaches, your organization is winning that challenge successfully.



The importance of safety is ensured right from the top management of your Company. Everyone in your Company is giving their utmost importance to ensure zero incident, accident and occupational injuries.

Your Company took many initiatives last year to build the safety awareness among all concerned, including its employees, contractors and other stakeholders. Among others, your Company observed Safety month programs and workshops with special emphasis on the behavioral aspects of a safety culture. Numbers of trainings were organized to ensure no one lags behind the safety rules. Sessions with the contractors were arranged to engage them in safety policy of the Company. Initiatives have been taken to do more personal safety contacts and hazard identification.

Serious accidents happening in sponsor groups facilities are simulated in your Company so that employees and contractor personnel take lessons from them and apply the learning's in their work areas.

The annual action plan for 2014 has been drawn up in line with world class standards and advisories in order to make your Company one of the safest in Bangladesh.

As you are aware, the limestone mine in Meghalaya, India, is owned by Lafarge Umiam Mining Pvt. Ltd. (LUMPL) which is registered in India and is a 100% owned subsidiary of your Company. All activities at the limestone mine of LUMPL are governed through better safety behavior amongst all employees and contractors. In 2013, a number of training programmes were organized to make sure that there was no laxity in the safety rules. Sessions with the contractors were arranged to engage them in the safety policy of the Company. With great pleasure, we would like to inform you that the North East Metalliferous Mines Safety Week for 2013 in Meghalaya, India was held from February 03, 2014 through February 9, 2014. Your quarry in Meghalaya, India was bestowed with several awards following an audit done by Directorate General of Mines Safety (DGMS), Ministry of Mines, Govt. of India.

The ultimate goal of your Company is to be the champion in the field of health and safety.

## Production Performance

### At Surma Plant in Chhatak, Sunamganj, Bangladesh:

The year 2013 was a year of remarkable achievements for Surma Plant. During the year your Plant set a new record in achieving the highest ever clinker production

in a calendar year. This achievement was possible as the Plant team worked together and accepted the challenges to maximize clinker production, implement improvement plans to maximize cement dispatch during monsoon, establish regular inspection and maintenance system to make the Long Belt Conveyor available and gave thrust in improving reliability of major process equipments like Kiln, VRM and Cement Mills.

Uninterrupted supply of 2 million tons of limestone from the Mines in Meghalaya ensured production of 1,292 KT clinker and 1,212 KT cement during the year. Out of 1,292 KT of clinker, 535 KT clinker was sold to the clinker market of the country and remaining clinker was converted to cement.

Your Company believes that quality of cement is the key in winning the customers. Your Plant is strongly placed to deliver the highest quality of cement, being the only integrated cement plant producing its own clinker from very high quality limestone, with quality of incoming and outgoing cement tested in its own laboratory that is one of its kind in Bangladesh. The plant laboratory continues to achieve 100% Lab Accuracy Index (LAI). Our product continues to achieve 100% Product Uniformity in excellent category.

In-house manufacturing/fabrication of some spare parts and increased thrust on local sourcing of spare parts helped in reducing significant costs for your Company and savings of valuable foreign currency for the country.

The above achievements were possible because of the skilled and efficient manpower at the plant. Your Company gives continuous efforts to improve the skill and competency of the team by arranging trainings etc. In 2013, 17,022 Man Hours of trainings were arranged.

Your Company is encouraged and motivated with the achievements of 2013 and will continue to give more efforts to bring better result in the coming years.

## Production Performance

### At Limestone Quarry in Meghalaya, India:

The year 2013 was a land-mark year for the Nongtraï Limestone Mines. This mine is located in Meghalaya, India and owned and operated by LUMPL, the Indian subsidiary of your Company. 100% of the limestone produced by LUMPL are exported to your Plant in Chhatak, Sunamganj through the 17 kilometer long



elevated conveyor belt crossing international border. During the year, LUMPL quarry achieved 100% export target by exporting the two (2) million tones, i.e. 100% of the approved capacity, within a record time. This was the results of the untiring efforts of the Quarry team who did their utmost to maximize the mines and crusher efficiency by regular maintenance of the mining equipment, the MMD Crusher and Long Belt Conveyor. As a result of such relentless efforts the crusher reliability improved to 78%. Additionally, the introduction of a new fleet of mining equipments like dumpers and excavators complemented the mines and ensured uninterrupted supply to the Surma Plant.

The Quarry operations are conducted in compliance with all environmental laws and regulations and are consistent with sustainable development principles. This was achieved through a process of continuous improvements. Safe work practices and day-to-day works are integrated in environmental performance through the use of effective environmental management systems. In 2013, the quarry adopted certain effective measures aimed at protection of the environment, such as water sprinklers along the haul road and a fogger at the Crusher Hopper.

With the achievements of 2013, your Company is motivated to give more efforts to bring better result in the coming years.

### Commercial & Marketing Performance

Adverse externalities created major challenges in the expansion of cement industry in 2013. As a result, overall cement market growth in Bangladesh was significantly affected. External environment and steady clinker price in the international market resulted in very limited price lead during the year.

Despite the challenging situation, your Company managed to sale a nearly equal volume as the previous year. Though your Company's bagged cement sales in 2013 was slightly lower than the previous years, profit was higher than previous year. This was possible due to higher production and increased sales of clinker and better management of resources.

The most significant achievement of your Company in 2013 is the launching of a new product - "Powercrete". It is produced in a third party grinding unit near Dhaka. The clinker is supplied from the Chhatak Plant of your Company. Powercrete is produced as per the specification under strict supervision of a quality assurance team of your Company.

Powercrete is a different product mix (Portland Composite Cement) than Supercrete (Portland Limestone Cement). In comparison to most of the other Portland Composite Cement in the market, Powercrete is having excellent quality and enhanced performance. Powercrete has given access to your Company to a different segment of customers and also has put your Company in an advantageous position to penetrate in Dhaka Metro and Southern part of Bangladesh. As a result, distribution costs are significantly lower, which gives an opportunity to create more value for the end users. Moreover, the bulk distribution facility of Powercrete has opened a new avenue for having stronger presence in the corporate and government projects.

Marketing activities of your Company were geared more towards keeping the relationship warm with channel partners. Successful loyalty building programs and rewards were provided for top customers. Brand re-enforcement and awareness building programs were continued through outdoor advertisement, retail outlet visibility and media presence. Recently, your Company has taken up a project named "Nijer ekti bari" partnering with an NGO to provide affordable housing solutions in semi urban and rural Bangladesh.

Year 2014 is expected to be promising in terms of market share gain due to healthy growth rates of housing, industrial and infrastructural segment. Your Company is continuing its excellent marketing and commercial plans to capture the opportunity created by the promising 2014.

### Supply Chain Performance

2013 was a challenging year especially for Supply Chain activities of your Company. The Supply Chain was most affected by the adverse political condition during the year. Amidst these adverse external situations, Supply Chain has persistently added value to your Company by safely delivering Company's products to customers, successfully managing business volumes from plant to depots and to end customers, and optimizing in all areas of Supply Chain costs. This was possible by team work, innovative thinking and taking the challenge to keep the service standard high under any circumstances.

The Supply Chain team of your Company worked relentlessly to find innovative ways to achieve dispatch and distribution requirements. This includes introduction of new delivery routes and usage of multi





transport modes to address external adverse situations. When road transport was mostly affected by external situation, your Company successfully increased the river transport system. Your Company optimized freight to customer costs and decreased purchasing cost by bringing in efficient and creative approach.

You Company will continue the good work in 2014 across Supply Chain function to continue delivering Company's objective to meet customer's demand in a cost effective manner

## Financial Performance

The Directors take pleasure in reporting the Financial Results of the Company for the year ended on 31st December 2013 as follows:

	Tk. 000s	
	2013	2012
Income before tax	2,743,605	2,139,195
Income tax	(669,708)	(654,140)
Income after tax for the year	2,073,897	1,485,055
Earnings per share	1.79	1.28

The Consolidated Financial Result of the Company for the year ended on 31st December 2013 is as follows:

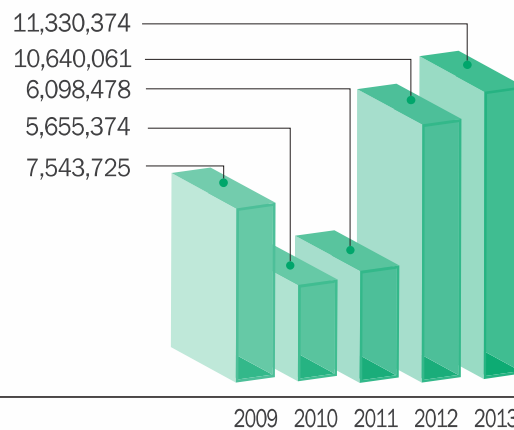
	Tk. 000s	
	2013	2012
Income before tax	3,215,807	2,507,574
Income tax	(669,708)	(654,140)
Income after tax for the year	2,546,099	1,853,434
Earnings per share	2.19	1.60

Following on from a strong performance in 2012, the Company continued to demonstrate strong operational and financial performance in 2013. You are aware that this achievement has been recorded under extremely challenging circumstances that the country faced surrounding the adverse political and economic conditions during the year. There was slowdown in growth of cement market and cement prices came under pressure. Your management concentrated in controlling costs in all areas of the business relating to freight, raw materials, plant

costs, general, selling and distribution expenses and finance costs. The devaluation of the Rupee versus the US dollars in the Indian subsidiary had an adverse impact on the profitability of your Company. However, finance costs have been reduced by 42% compared to last year. Your Company also kept a tight rein on working capital, as a result of which cash flow from operations has grown strongly by 43% compared to the previous year.

## Lafarge Surma Cement Ltd Comparative Sales Growth

REVENUE (Tk. 000s)



## Dividend

Despite the fact that the Company earned a consolidated EPS of 2.19 in 2013, the Company has accumulated loss at the end of the year. The Company's policy and practice is not to declare dividend when there are accumulated losses. This policy is also based on financial prudence and addresses the long term interests of the shareholders. Accordingly, the Board of Directors of the Company did not recommend any dividend for the year 2013.

## Human Resource

Your Company believes that the quality of the people plays the key role in driving and making the organization a success.

The vision of your Company is to work as a business driver and take necessary strategies as per the demand. Placing the right employee with the right quality for the right job, identifying the successor for the key positions and developing the leaders within the organization are the major focus areas for the Human Resources Department of your Company.



Your Company has formulated specific retention strategy in terms of working environment, compensation package and career progression to ensure that critical resources and high performers stay and grow with the Company.

Your Company believes in the continuous development of the employees and provides local and international training to ensure the employees are updated with the latest technology and management practices and their quality and efficiency are regularly sharpened.

## Community Development Program

Your Company continues to successfully deliver on its commitment towards corporate social responsibility and its promises to build a better future for the communities surrounding the plant in Chhatak and quarry in Meghalaya. As in previous years, the focus has been on meeting the core necessities of the communities through initiatives in health and infrastructure development and improving their livelihood and future earning potential through education and skill development programs. Such facilities were a dream to them only a decade ago and, with the help of your Company, this dream has now become a reality.

In 2013, your Company's community development program won the "Lafarge Awards", one of the most prestigious awards given by Sponsor annually for the best initiatives undertaken by the business units of the Sponsor in 5 broad categories. Your Company won the award under the 'Sustainable Development' category as the 'Best initiative to contribute to the long-term development of local communities', by competing and winning against submissions made by 50 countries. The comments from the Jury clearly portrays the comprehensive and successful nature of your Company's program - [*Very comprehensive program – deep understanding of community needs, partnership with NGO to work along key axes (education, health, skills development, etc) and clear focus on measuring results.*"]

As part of the Company's focus on education, 159 students were provided free education from the Primary School set up by the Company in its Community Development Centre (CDC). Another 223 students received free education from 5 "Lafarge Surma sub centers" established in the remote locations of Chhatak for people who cannot access the benefits of the CDC. These sub centers serve as coaching centers and has one full time teacher present in each location.

Your Company also continued its focus on ensuring availability of better health services for the local communities, providing more than 12,000 medical services and 980 vaccinations from the health centre located in the CDC. This health centre has one full time doctor and one nurse to provide these services. The five (5) "Lafarge Surma sub centers" provided 8,000 medical services and 700 vaccinations to the neighboring villages.

Creating employment opportunities for the locals through skill development has always been one of the key focus areas of your Company's programs. This has also been identified as one of the major ambitions of Sponsor group under its 'Sustainable Ambitions 2020'. As part of this initiative, 50 women were provided Small Enterprise Development Training and grants in the area of embroidery and tailoring. 20 youths from the local communities were provided training on solar panel installation and mobile servicing along with the necessary startup capital. This has opened up new employment opportunities for these youths, with most of them opening up their own mobile servicing shops.

Your Company has also set a great example of community development in the areas surrounding LUMPL, the Indian subsidiary of your Company, especially in the villages of Nongtraï and Shella in Meghalaya, India. The Nongtraï Secondary School which is fully sponsored by LUMPL imparted education to 30 students. 48 bright students selected from the local communities were provided scholarships. As part of your Company's mandate in providing community health services, 370 people benefited from the General Health Camp at Nongtraï Village, 8 people received Cataract surgical operations, 8,200 patients received health services from the mobile clinics and 147 patients received vehicle support for medical emergencies. In the area of skill development, 10 women were provided training on weaving at the Nongtraï Weaving Center. Your Company had also organized an Entrepreneur Development Program (EDP) which was attended by 49 individuals (10 women and 39 men) from Nongtraï Village. Additionally, a Self Help Group (SHG) capacity training session was conducted at Shella Village which was attended by 10 women.

The commitment towards corporate social responsibility of your Company generated not only short term social and economic development, but also long term development by enrolling more students in high schools, creating employment



opportunity and improving livelihood skill development and health conditions.

### Auditors

Pursuant to Section 210 of the Companies Act, 1994, the Company's statutory auditors, M/S, Nurul Faruk Hasan & Co. Chartered Accountants, retire at the 16th Annual General Meeting.

By notification dated January 3, 2002 the Bangladesh Securities and Exchange Commission restricts appointment of any firm of chartered accountants as the statutory auditors for a consecutive period exceeding three years. Appointment of M/S, Nurul Faruk Hasan & Co., Chartered Accountants as the statutory auditors of the Company for the year ending on December 31, 2014 falls under this restriction of the Notification.

The Board of Directors recommends for change of the existing Auditor and appointment of M/S Hoda Vasi Chowdhury & Co. as the Statutory Auditors of the Company.

Being eligible, they expressed their willingness to be appointed.

### Directors

The Company has 14 Directors in the Board including the Chief Executive Officer. Pursuant to the provisions

of the Companies Act, 1994, one third of the Directors, except the Chief Executive

Officer, shall retire by rotation in every ordinary general meeting. The Companies Act 1994 also provides that any Director appointed by the Board of Directors shall retire from office at the next ordinary general meeting but shall be eligible for election by the Company. Accordingly, 5 Directors of the Company will retire at the 16th Annual General Meeting. The retiring Directors are Mr. Thomas Gerard Farrell (nominee of Surma Holding B.V.), Mr. Fabrizio Angelo Olivares (nominee of Surma Holding B.V.), Mr. Salvador Fernandez Capo (nominee of Surma Holding B.V), Mr. Zakir Ahmed Khan, Independent Director and Mr. Tufail K Haider, Independent Director. Being eligible they offer themselves for re-election.

As per notification dated August 07, 2012 from the BSEC, the Directors made additional statements and furnish compliance report in Annexure 1 attached herewith.

**For and on behalf of the Board of Directors**



Thomas Gerard Farrell  
Chairman

Dated: Dhaka  
March 31, 2014

