

# 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.

## 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, 2014.

## State of the Company's Affairs

In 2014 there was a stable political climate. GDP for the fiscal year ending 2014 was marginally more than 6% in line with the growth sustained in the previous years. Despite the high competitive market of Bangladesh and the sharp increase of the market oversupply of cement in 2014, your Company managed to achieve 16% growth in cement sales volume, which has been the highest since the inception of your Company. This was achieved through innovation in our distribution systems and different programs of sales and marketing.

In 2014, the cement market grew strongly. However, the oversupply grew at an even faster pace due to capacity increases from competition. The presence of excess capacity compared to demand created pressure in overall market prices.

Faced with declining prices, your Company concentrated in increasing volumes by improving its dispatch from the plant, improving its sales force effectiveness and distribution network, and concentrating in expanding its numeric outlets at retail points. Emphasis was also paid in working with key influencers, like engineers, masons etc., to establish the brand quality with special emphasis on consistent quality cement, being the only producer of clinker in the country from a state-of-the-art cement plant.

Your Company has also concentrated its efforts on reducing costs in all areas relating to freight, variable cost of cement, plant fixed cost, and selling and administrative costs. This has been achieved through relentless pursuit of establishing a cost optimization culture at all levels.

Your Company also continuously endeavours to control its working capital levels through strict control over accounts receivable, inventory, and accounts payable. This is helping in generating a healthy cash flow from operations that is financing capital expenditure, meeting financial obligations in terms of debt repayment and interest, and payment of dividends.

Finance cost was also drastically reduced in 2014 compared to previous year through innovative financing schemes and reduction in debt brought about by strict control over working capital as explained above.

The Board of Directors of the Company would like to express its appreciation to the management of the Company in recording yet another year of growth in net profit under extremely challenging circumstances. This has been made possible through stellar performances by quarry, plant, dispatch, sales and marketing teams, which were ably supported by other functions such as Finance, Legal, Human Resources etc. Your Company's health and safety culture continues to improve as is evident from the improvement in leading and lagging indicators.

The Board of Directors of your Company would also like to thank the shareholders of the Company for their invaluable support over the years as a result of which your Company continues to be on a strong growth curve.

## Health and Safety

Your Company attaches top most priority in ensuring a safe workplace for its employees, contractors, contractor's employees and visitors.

Your Company integrates health and safety objectives into the management systems at all levels. Everyone working for your Company expects a safe and healthy work environment and, in turn, everyone is expected to contribute towards that expectation through responsible behaviour. Everyone in your Company is also expected to demonstrate that Health & Safety is a core value of our business through visible commitment and active engagement.

In your Company the emphasis on safety comes from top. Everybody engaged in your Company is working together with utmost focus to ensure that the Company does not have any accident. Your Company encourages employees



to pay attention to all basics of safety; for example, wearing PPE, making production processes and operations by design safe, and not taking shortcuts while doing a job. Your Company is working to ensure that every employee, including every contractor's employee, returns to their family safely at the end of each workday.

In 2014 your Company achieved its Leading Safety Indicators and managed Lagging Indicators except one major incident – LTI (Loss Time Injury) at the Surma Plant at Chhatak. Your Company identified the root causes of the LTI and derived an action plan to avoid the recurrences in future. This is one area where there is no scope for complacency or to rest on its laurels.

Like every year, your Company observed "Health and Safety Month" in 2014, where all employees of the Company, including the contractor's employees, actively participated. The theme was "My actions, My impact: Our progress". Various activities emphasizing the importance of Health and Safety in life and knowledge sharing on efficient ways to ensure safety were taken up during the month. The Health and Safety month ended with developing a culture to become committed, open and uncompromising regarding Health and Safety. During the safety month, a Sponsor Group organized a video competition. With great pleasure we would like to inform you that the video made by the employees of your Company was awarded as one the top ten in the Lafarge Group.

During the year under review, more than twelve thousand training hours on Health and Safety were organized to build awareness on safety rules at all levels of your Company. Sessions with the contractors were arranged to engage them in the safety policy. We also shared your Company's safety practices during customer engagements. Improving Behavioral Safety at workplace remains a challenge in your organization, although it has been improving year on year. All managers, including senior managers of your Company, are personally engaging as a role model with floor level employees to improve the safety culture through Visible Felt Leadership (VFL).

Your Company has taken initiatives not only to ensure safety but also to create awareness on Occupational Health. Health Assessment Standard Operation Procedure (HASOP) has been developed in line with the Sponsor Groups and implementation is being done as per Sponsor Groups' Guideline.

The goal of your Company is to set an example and establish itself as a role model in the industry for its Health and Safety standards.

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

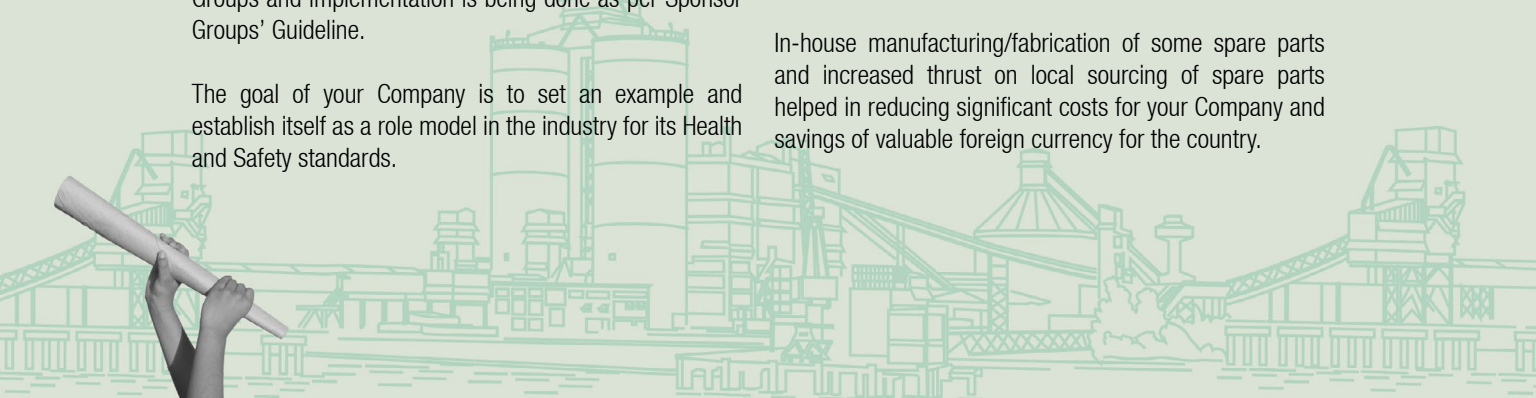
The year 2014 continued to be a year of remarkable achievements for your Surma Plant. During the year your Plant set a new record in achieving the highest ever clinker production, cement grinding and cement dispatches in a calendar year. This achievement was possible as the Plant team worked together and accepted the challenges to maximize clinker production, implement improvement plan 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.

Such excellent performance could not have been possible without technical innovation. The Plant team did a great job in technical innovation: in the area of kiln and cement grinding section, such as in house kiln drive adjustment, resulted in no kiln tripping due to kiln drive vibration, enhancement of kiln main burner life up to one year by selecting new type castables eliminated 24 hours kiln stoppage requirement, installation of Variable Speed Drive in Cement Mill Fan resulted in reduction of energy consumption, as well as saving in both variable and fixed cost etc. contributed to increase in outputs, reduce costs. Surma Plant is now POM2.0 (Plant Operating Model) compliant in the Sponsor Group that enriched the technical skill of the Plant team resulting in achieving such record performance.

The above performance would also not have been possible without uninterrupted supply of 2 million tons of limestone from the Mines in Meghalaya.

Your Company believes that quality of cement is the key to winning customers. Your Plant is strongly placed to deliver the highest quality of cement, being the only integrated cement plant producing its own clinker produced 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. Our product continues to achieve 100% Product Uniformity in excellent category in the Group.

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 makes continuous efforts to improve the skill and competency of the team by arranging trainings, etc. In 2014, 17110 Man Hours of trainings were arranged.

Your Company is encouraged and motivated with the achievements of 2014 and continuing to give more efforts to bring better result in the coming years.

## Production Performance: At Limestone Quarry in Meghalaya, India

Your Quarry, owned and operated by Lafarge Umiyam Mining Pvt. Ltd. (LUMPL), the Indian subsidiary of your Company, successfully exported 2 million tons of limestone to the Chattak Plant in 2014.

This remarkable achievement made by LUMPL is the result of the determined efforts of the LUMPL team who, despite numerous challenges, ensured that the operations of the mines, crusher and Long Belt Conveyor (LBC) were maximized.

We are proud to declare that apart from ensuring the export target, LUMPL truly demonstrated safety as its 'number 1' priority by recording Zero Accidents in 2014. LUMPL has been awarded with the "Guru Dronacharya Award" at the 12th North-East Metalliferous Mine Safety-Week 2014-15 celebrated in Meghalaya. Fourteen (14) mines from North-East region participated in the competition. LUMPL having won overall first prize in last three consecutive years, has been recognized as the "model mine" in the region and awarded this honor for the first time in the North East Region by the Directorate General of Mine Safety, Government of India.

Since inception, the mining operations in the Nongtrai Mine have been conducted by a mining contractor. The quality and availability of the mining equipment supplied by the mining contractor did not meet the required standard and their performance was unsatisfactory in 2014. In order to improve the quality of mining operations, LUMPL has taken a bold step to start in-house mining and have procured world class brand new mining equipment. All the mining equipment have reached the mining site. The Limestone Mining Agreement with the mining contractor was terminated effective from March 01, 2015 and LUMPL entered into the new phase of mining with its own equipment. Procurement and introduction of a new world class fleet of mining equipment has clearly uplifted the morale of LUMPL employees who now seek to further ensure a safe and uninterrupted supply of limestone to the

Surma Plant at Chhatak, Bangladesh.

## Marketing Performance

Your Company scaled new heights by achieving record sales volume record in the year 2014. The pioneering marketing activities of your Company made significant contribution in this achievement of the Company in a very challenging environment.

The year 2014 experienced geared up marketing activities of your Company. Aiming at the Individual Home Builders (IHB), the biggest segment of your Company's target customers, a new campaign of SUPERCETE brand cement has been launched during the year. Through this campaign, SUPERCETE has taken bold steps ahead to position itself as a durable construction material for building structures relating with "Legacy" for future generations. The brand had significant visibility in 2014 in all the major medium of communications, including the electronic and print media. Your Company continued to give preference to build relationship with the influencers' groups like engineers and masons and organized various events across the country throughout the year. Various loyalty programs were initiated for the channel partners by offering different reward programs for building sustainable business relationship.

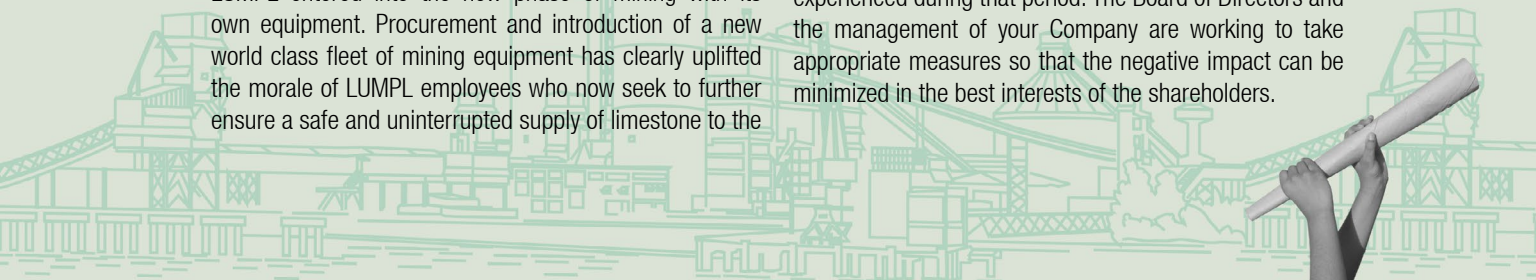
Two outsourced depots (Kapasias and Kamrangirchar) were launched by your Company under 'Route to Market' initiatives through which your products were made available at the potential pocket markets to serve the end users. In addition, another solution based initiative "Affordable Housing" was also expanded under the "Nijer Ekta Bari" project in semi-urban areas partnering with a local NGO.

## Sales Performance

The year 2014 was very challenging for the cement industry in Bangladesh. Real Estate business continued to be sluggish throughout the year. Increased capacity of the industry created oversupply situation in the market and led to stray price competition, which was again supported by a declining clinker price in the international market.

Amid fierce competition, your Company achieved an impressive 16% growth in sales volume over 2013. This growth is in line with industry growth. Although price target could not be achieved due to the price competition, your Company made praiseworthy achievement in terms of price protection and sales growth.

The sales performance of your Company in the first quarter of 2015 has been affected by the unrest that the country experienced during that period. The Board of Directors and the management of your Company are working to take appropriate measures so that the negative impact can be minimized in the best interests of the shareholders.



## Supply Chain Performance

2014 was a challenging year for driving stretched business volume in order to achieve bottom line objectives. Supply Chain continued their relentless efforts for maximizing dispatch volume and cost reductions. Your Company's Supply Chain Function implemented different innovative projects and had been able to deliver stretched volume which were higher than budget and also higher than 2013 performance.

The team focused on devising different cost reduction levers and optimized distribution cost. Continued focus was placed on river transport which is most cost effective and inventive thinking and efforts were put in place for optimum route mix which led to cost savings and hence added value to business bottom line. Supply Chain also improved customer service distributing products at right time to customer's end.

Your Company will continue the good work in 2015 across Supply Chain Function to continue delivering Company's objective to meet customers' demand in a cost effective manner.

## Financial Performance

The Directors take pleasure in reporting the Financial Results of your Company for the year ended on 31st December 2014 as follows:

	Tk. 000s	
	2014	2013
Income before tax	2,445,736	2,743,605
Income tax	(713,064)	(669,708)
Income after tax for the year	1,732,672	2,073,897
Earnings per share	1.49	1.79

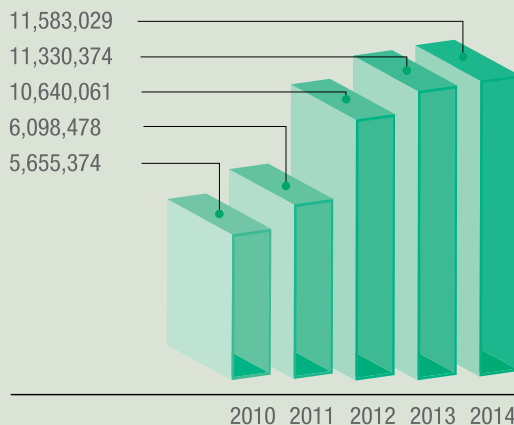
The Consolidated Financial Result of your Company for the year ended on 31st December 2014 is as follows:

	Tk. 000s	
	2014	2013
Income before tax	3,532,862	3,215,807
Income tax	(713,064)	(669,708)
Income after tax for the year	2,819,798	2,546,099
Earnings per share	2.43	2.19

2014 has been yet another challenging year for your Company especially due to the difficult conditions prevailing in the cement industry. In the backdrop of excess grinding capacity, cement prices have declined compared to 2013 that has had a major impact in your

Company's bottom line. Faced with this adverse scenario, your Company concentrated in increasing sales volume of cement that grew strongly compared to the previous year. At the same time, the Company continued its focus in keeping costs within budget. As a result, all major elements of cost relating to freight, plant costs, general, selling and distribution expenses and finance costs have been kept well within budget. Your Company has been successful in reducing its variable cost per ton of cement compared to previous year in a scenario where the inflation is around 7%. In India, LUMPL, the subsidiary of your Company, has successfully negotiated with the Indian authorities to allow refund of service tax since the inception of mining totaling INR 230 million. This reflects great credit to your Company's management since this is the first time such an exemption has been granted. Finance costs have been reduced by 57% compared to last year. This was possible through innovative financing schemes, as well as through reduction in working capital and debt. Your Company has also kept a tight rein on working capital as a result of which cash flow from operations has been positively impacted.

## Lafarge Surma Cement Ltd Comparative Sales Growth REVENUE (Tk. 000s)



## Dividend

The Board of Directors of the Company at its meeting held on June 9, 2014 has paid an interim dividend of five percent (5%), in cash, on the paid-up capital of the Company out of five (5) months' profits of 2014 (from January 1, 2014 to May 31, 2014). The said interim dividend amounted to BDT 580,686,750 which was BDT 0.50 per share of BDT 10.00 each.

Further, the Board of Directors of the Company at its meeting held on March 5, 2015 recommended a final dividend of five percent (5%), in cash, on the paid-up capital of the Company out of seven (7) months' profits of



2014 (from June 1, 2014 to December 31, 2014). The said final dividend amounts to BDT 580,686,750 which is BDT 0.50 per share of BDT 10.00 each.

Inclusive of the interim dividend of 5% already paid, this would make a cumulative total dividend @ 10% of the paid-up capital amounting to BDT 1,161,373,500 which is BDT 1.00 per share for the year ended December 31, 2014. This recommendation of the Board of Directors regarding the declaration of dividend shall be forwarded to the shareholders at the 17th Annual General Meeting for their consideration and approval.

## Retained Earnings

The total Retained Earnings of your Company stood at BDT 1,295,008,000, details of which are given in the Statement of Changes in Equity of the Consolidated Financial Statements.

## Human Resource

Your Company believes that success relies heavily on the quality of the employees. They are the most important asset and the main driver to ensure success of the organization.

Recruiting the right employee, with the right qualities, for the right job, identifying the successor for the key positions and developing the leaders within the organization are the major focus area for the Human Resource Department of your Company.

The Human Resource Department has formulated specific strategies in terms of working environment, employee engagement, employer branding, compensation and benefits, and career progression to ensure that employees stay and grow with your Company.

Continuous development of employees is ensured so that the employees are updated with the latest technology and management practices and their quality and efficiency are regularly developed.

## Community Development Program

Your Company's Corporate Social Responsibility (CSR) activities reflect its ongoing commitment to community development and responsible business practices in order to drive sustainable development of the economy, environment and society. Your Company's CSR initiatives also provide a platform for the Company to deliver growth and sustainable returns in the medium and longer term. While society's expectations are constantly evolving in line with the country's ongoing development activities,

new trends and the changing concerns of the Company's stakeholders, we strive to remain abreast with such changes and continue to undertake the right initiatives that deliver the required benefit in this ever changing environment. Environment and community development initiatives are our primary focus areas for the location surrounding the plant in Chhatak and quarry in Meghalaya to help shape a sustainable society for a better future.

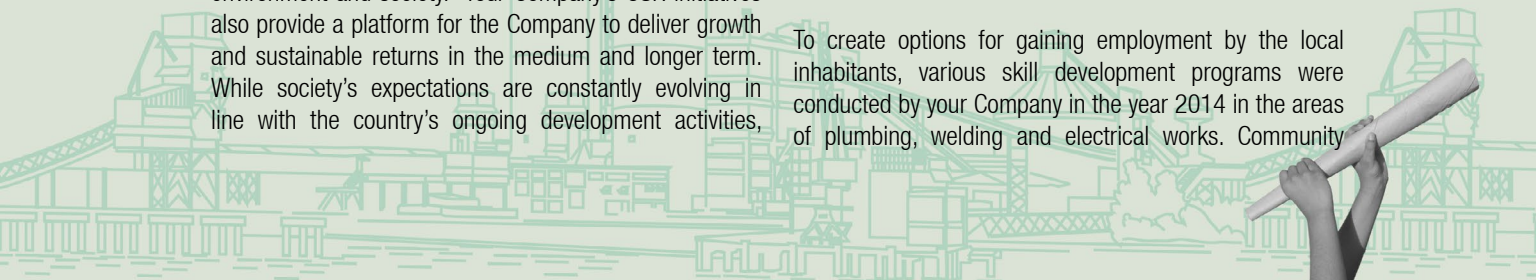
2014 was a positive year for your Company's CSR initiatives. Your Company inaugurated the Volunteering Activity Campaign in 2014. As a part of Sustainable Ambition 2020 of the Sponsor Groups, 500 employees of your Company dedicated a portion of their time for Volunteering Activities in the selected project in three locations in Dhaka, Chhatak and Meghalaya in India. The employees of your Company contributed 3180 hours against a target of 1500 hours of Volunteering Activity. The focus of this campaign was on tree plantation and H&S awareness drive among construction workers. Your Company also partnered with leading 22 Real Estate companies, educated 1,067 construction workers and 253 engineers on health and safety. Employees of your Company planted more than 1,000 saplings in partnership with key local stakeholders.

The Community Development Center (CDC) located at Chhatak continues to improve its services for the betterment of the community people by providing them education and health care facilities. Besides, the center is relentlessly working on training the members of the local community that will gradually increase their job skill and employment opportunities. Your Company has established another Lafarge Surma Sub-Center at Ragar Par, Chhatak in 2014, which will provide educational coaching and basic medical treatment in the remote areas of Chhatak along with the existing five sub-centers.

Approximately, 17,000 health and counseling services were provided in the year 2014 from our health care program. Another successful milestone in the Company's health care program was the eye camp organized in three different locations of Chhatak and Dowarabazaar upazila. 1,700 people benefited from this program.

More than 500 children benefited from our education program in the year 2014. The Community School located in the CDC at the plant in Chhatak continues to provide primary education up to class V. In addition to that, 100 high school students were given scholarship to support continuation of their education. Training programs for the teachers were also conducted.

To create options for gaining employment by the local inhabitants, various skill development programs were conducted by your Company in the year 2014 in the areas of plumbing, welding and electrical works. Community



youths benefited from this initiative. Besides, women were given training on tailoring and embroidery at the CDC.

Your Company made remarkable progress in terms of CSR initiatives in the areas surrounding LUMPL, the Indian subsidiary of your Company. The Nongtraï Secondary School continues to provide education facilities to the local inhabitants. Selected students from the local communities were provided scholarships. Total 119 students were benefitted from the education program in 2014. Local tribal people continues to get benefits of the General Health Camp at Nongtraï village, which includes cataract surgical operations, health services from the mobile clinics, and vehicle support in medical emergencies. Total 7756 people were benefitted from the health care program in 2014. Women were provided training on weaving at Nongtraï weaving center to develop their livelihood skills.

Whether it is healthcare, education, skill development, or infrastructure development, your Company is committed to serve the community for a greater cause, creating an opportunity and improving the livelihood of the people for a better future.

## Auditors

Pursuant to Section 210 of the Companies Act, 1994, the Company's statutory auditors M/S Hoda Vasi Chowdhury & Co, Chartered Accountants, retire at the 17th Annual General Meeting. Being eligible, they express their willingness to be appointed.

## Directors

The Company has thirteen (13) 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

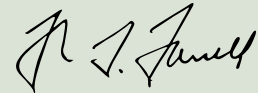
the Board of Directors shall retire from office at the next ordinary general meeting but shall be eligible for election by the Company. Accordingly, five (5) Directors of the Company will retire at the 17th Annual General Meeting. The retiring Directors are:

1. Mr. Shivesh Kumar Sinha (nominee of Surma Holding B.V.)
2. Mr. Carlos Martinez Ferrer (nominee of Surma Holding B.V.)
3. Mr. Marcos Cela Rey (nominee of Surma Holding B.V.)
4. Mr. Monzurur Rahman, Independent Director
5. Mr. Manzurul Islam, Director

Being eligible they offer themselves for re-election.

As per notification dated August 07, 2012 from the Bangladesh Securities and Exchange Commission, the Directors made additional statements and furnish compliance report in the Annexure attached herewith.

For and on behalf of the Board of Directors



Thomas Gerard Farrell  
Chairman

Date: Dhaka, April 05, 2015

