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COST AUDITORS' REPORT

We, Naveed Zafar Ashfaq Jaffery & Co., Chartered Accountants having been appointed to conduct an audit of cost accounts of **Attock Cement Pakistan Limited** have examined the books of account and the statement prescribed under clause (e) of sub-section 230 of the Companies Ordinance, 1984 and the other relevant records for the year ended June 30, 2016 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 purpose 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 these rules, have been kept by the company;
 - b. proper returns, statements and schedules for the purpose of audit of cost accounts relating to branches were not required as the company has no branches in or outside Pakistan;
 - 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 best of our information:
 - a. the annexed statements of capacity utilization and stock-in-trade are in agreement with the books of account 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 the undermentioned products of the company, namely:
 1. Ordinary Portland Cement,
 2. Sulphate Resistance Cement,
 3. Falcon Block Cement, and
 4. Ordinary Portland Clinker

The matters contained in the ANNEXED Forms are part of this report.

Dated: 07 OCT 2016
Karachi


Naveed Zafar Ashfaq Jaffery & Co.
Chartered Accountants
Engagement Partner: Shahid Hussain - FCA

1. CAPACITY (Tonne)

	Licensed / Installed Capacity	Utilized Capacity	% of Installed Capacity
Clinker			
Kiln-I (2,500 T/D x 300 days)	750,000	807,067	108
Kiln-II (3,300 T/D x 300 days)	990,000	1,059,930	107
	1,740,000	1,866,997	107

The company's main business activity is manufacturing and sale of cement.

2. COST ACCOUNTING SYSTEM

- Manufacturing of cement is a continuous process, therefore, the company uses process cost accounting system as prescribed by SECP as per Cement Industry (Cost Accounting Records) Order, 1994.
- The company is operating a fully online integrated costing system, which generates cost statements relating to six stages / departments and allocates cost thereon.

3. PRODUCTION

	Production		Qty. in Tonne	
	YEARS		Increase/(Decrease)	
	2016	2015	Tonne	%
(a)				
- Clinker				
Line-1				
Ordinary Portland Clinker	641,017	620,031	20,986	3.4%
Sulphate Resistance Clinker	166,050	178,869	(12,819)	-7.2%
	807,067	798,900	8,167	1.0%
Line-2				
Ordinary Portland Clinker	1,059,930	1,036,354	23,576	2.3%
Sulphate Resistance Clinker	-	-	-	-
	1,059,930	1,036,354	23,576	2.3%
	1,866,997	1,835,254	31,743	1.7%
- Cement				
Ordinary Portland Cement	1,723,868	1,688,248	35,620	2.1%
Sulphate Resistance Cement	152,194	152,454	(260)	-0.2%
Block Cement	91,329	36,448	54,881	1.0%
	1,967,391	1,877,150	90,241	4.8%

(b) The plant design facilities production of the various types of cement as per production requirements within the installed capacity limits.

(c) There is no addition to production capacity during the year under review.

11/07

4. RAW MATERIAL

(a) Major Raw Materials Consumed

ITEMS	2016			2015			2014		
	Quantity (Tonne)	Value Rs. in '000'	Cost per Tonne	Quantity (Tonne)	Value Rs. in '000'	Cost per Tonne	Quantity (Tonne)	Value Rs. in '000'	Cost per Tonne
Limestone	1,080,076	340,773	316	1,014,920	301,830	297	996,074	300,964	302
Shale / Overburden / Mag Sand	1,745,134	319,217	183	1,769,515	325,619	184	1,751,799	315,784	180
Iron Ore, Silica Sand and Bauxitic Iron	87,305	67,197	770	92,575	75,912	820	96,264	78,241	813
Gypsum	60,090	87,689	1,459	98,336	156,508	1,592	75,326	134,565	1,786
Slag Ground Slag	-	-	-	-	-	-	76	78	1,018
	-	814,876	-	-	859,869	-	-	829,632	-

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(b) Major Raw Materials consumption per unit of production compared with standard requirements.**i. Ordinary Portland Cement**

Description	Standard Tonne	Ordinary Portland Cement			% Increase / (Decrease) as compared to Standard			
		2016	2015	2014	2016	2015	2014	
		Tonne	Tonne	Tonne				
Limestone	Clinker	0.240	0.544	0.520	0.507	127	117	111
Shale / Overburden / Mag Sand	Clinker	1.328	0.974	1.004	1.028	(27)	(24)	(23)
Iron Ore / Baux. Iron	Clinker	0.032	0.041	0.044	0.045	27	38	41
Salica Sand	Clinker	-	-	-	-	-	-	-
Slag	Clinker	-	-	-	-	-	-	100
TOTAL	Clinker	1.600	1.559	1.568	1.581	-2.54%	-2.01%	-1.19%

Gypsum	Cement	0.050	0.031	0.057	0.041	(38)	13	(18)
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ii. Sulphate Resistance Cement

Description	Standard Tonne	Sulphate Resistance Cement			% Increase / (Decrease) as compared to Standard			
		2016	2015	2014	2016	2015	2014	
		Tonne	Tonne	Tonne				
Limestone	Clinker	0.240	0.929	0.861	0.871	287	259	263
Shale / Overburden / Mag Sand	Clinker	1.264	0.529	0.595	0.599	(58)	(53)	(53)
Iron Ore / Baux. Iron	Clinker	0.096	0.110	0.110	0.110	14	14	14
Salica Sand	Clinker	-	-	-	-	-	-	-
Slag	Clinker	-	-	-	-	-	-	-
TOTAL	Clinker	1.600	1.567	1.565	1.580	-2.05%	-2.17%	-1.25%

Gypsum	Cement	0.050	0.028	0.042	0.042	(43)	(15)	(16)
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iii. Falcon Block Cement

Description	Standard Tonne	Falcon Block Cement			% Increase / (Decrease) as compared to Standard			
		2016	2015	2014	2016	2015	2014	
		Tonne	Tonne	Tonne				
Limestone	Clinker	0.240	0.598	0.710	0.707	149	196	195
Shale / Overburden / Mag Sand	Clinker	1.296	0.912	0.776	0.792	(30)	(40)	(39)
Iron Ore / Baux. Iron	Clinker	0.064	0.050	0.081	0.081	(21)	26	26
Salica Sand	Clinker	-	-	-	-	-	-	-
Slag	Clinker	-	-	-	-	-	-	-
TOTAL	Clinker	1.600	1.560	1.566	1.580	-2.48%	-2.10%	-1.25%

Gypsum	Cement	0.050	0.042	0.053	0.040	(15)	6	(5)
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(c) Explanation of Variances

- The variances from standard requirements are attributed to chemical contents of raw materials.

(d) Method of Accounting

- The company is maintaining raw material records using perpetual inventory system. The per unit cost for issue of material is determined using weighted average basis.
- Limestone, shale, overburden and magazine sand are extracted from leased mines.
- Salica Sand, Iron ore, Bauxite, Gypsum and Slag are purchased from open market. The quantities and values are recorded in the store ledger and general ledger from stores receiving report.

5. WAGES AND SALARIES

(a) Total wages and salaries paid for all categories of employees

	2016		2015		% Increase / (Decrease)	
	Rs. in '000'	Rs. in '000'	Rs. in '000'	Rs. in '000'	Base 2015	Base 2014
Direct labour cost on production	405,342	348,586	298,224		16	36
Indirect labour cost on production	844,370	738,929	677,821		14	25
	1,249,712	1,087,515	976,045		15	28
Employees' cost on administration	295,515	242,888	201,288		22	47
Employees' cost on selling and distribution	84,871	75,351	65,064		13	30
Total employees cost	1,630,098	1,405,754	1,242,397		16	31

(b) Salaries and perquisites of Chief Executive, Directors and Executives

- The aggregate amounts charged in the financial accounts for remuneration to the Chief Executive, Directors and Executives of the company are as follows:

	2016			2015		
	Rs. in '000'			Rs. in '000'		
	Chief Executive	Executive Directors	Executives	Chief Executive	Executive Directors	Executives
Managerial remuneration	22,972	14,423	187,222	20,883	13,118	181,848
Housing Allowance	7,309	5,201	71,847	6,645	4,752	70,256
Utility Allowance	2,784	1,031	15,264	2,531	945	14,990
Bonus	17,403	12,695	182,659	11,229	9,568	107,268
Retirement benefits	987	2,841	44,561	4,032	2,127	41,705
Others	5,975	3,233	38,599	3,774	3,291	34,541
	57,430	39,424	540,152	49,094	33,801	450,608
Number of person(s)	1	2	152	1	2	157

- The Chief Executive, Executive Directors and certain executives are provided with free use of company maintained cars and are also provided with medical facilities in accordance with their entitlements.
- In addition to the above, fee paid to 3 (2015: 3) non-executive directors for attending Board of Directors meetings during the year amounted to Rs. 1.93 million (2015: Rs. 1.73 million)

(c) Total man-days of direct labour

300 days x 312 workers = 93,600
300 days x 312 workers = 93,600

Worked	Available	% Worked
93,600	93,600	100.00

(d) Average number of production workers employed

2016	2015	% Increase / (Decrease)
312	318	-1.9%

(e) Direct labour cost per tonne

Direct labour cost (Rs. in '000)
Production in tonne
Cost per tonne (Rs. / tonne)

2016	2015	2014	% Increase / (Decrease)	
			Base 2014	Base 2013
405,342	348,586	298,224	16	36
1,967,391	1,877,150	1,912,921	5	3
206	186	156	21	39

(f) Comments on Incentives Scheme

- The company awards bonus based on the profitability of the company and performance of the employees.

6. STORES AND SPARE PARTS

(a) Expenditure per unit of output

Stores & spares consumed (Rs.in '000')
Production in tonne
Cost per tonne (Rs./tonne)

2016	2015	% of Increase / (Decrease)
450,671	455,657	(1)
1,967,391	1,877,150	5
229	243	(6)

- Per tonne cost of stores and spares decreased during the year due to increase in production.

(b) System of stores

- These are valued at monthly weighted average cost less provision for slow moving and obsolete stores, spares and loose tools. Items in transit are stated at cost.
- All items of stores are properly coded and entered by designated staff members of the finance department through network

(c) Proportion of closing inventory of stores representing items which have not moved for over twenty four months.

- Provision against slow moving items amounting to Rs. 36.502 million which represents 2.70% of closing inventory (2015: 24.061 million: 4.11% of closing inventory).

7. DEPRECIATION

(a) Method of depreciation

- These are stated at cost less accumulated depreciation and impairment losses (if any) except freehold land, capital work in progress and stores held for capital expenditures which are stated at cost. Depreciation is calculated using the straight line method on all assets in use to charge off their cost excluding residual value, if not insignificant, over their estimated useful lives.
- Depreciation on acquisition is charged from the month of addition whereas no depreciation is charged in the month of disposal.
- Company accounts for impairment, where indications exist, by reducing its carrying value to the estimated recoverable value.
- Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.
- Gains and losses on disposal / retirement of fixed assets are included in profit and loss account.

(b) Basis of allocation of depreciation on common assets to the different departments.

Depreciation on common assets is allocated as under:

- Cost of Sales
- Administrative Expenses
- Distribution Cost

2016		2015	
(Rs. '000)	%	(Rs. '000)	%
414,608	96.83	404,331	96.82
13,594	3.17	13,293	3.18
-	-	-	-
428,202	100	417,624	100

(c) Basis of charging depreciation to cost of products

- The depreciation is allocated to cost of production on the value of assets employed.

8. OVERHEADS

(a) Total amounts of the overheads

	2016	2015	2014
	Rs. in '000'	Rs. in '000'	Rs. in '000'
(i) Factory	777,277	777,689	696,785
(ii) Administration	401,792	346,946	307,163
(iii) Selling & distribution	954,746	986,673	806,050
(iv) Financial	21,309	25,999	29,794
	2,155,124	2,137,307	1,839,792

(i) Factory Overheads

	2016	2015	2014	% Increase / (Decrease)	
				Based on	Based on
				2015	2014
	Rs.in'000'	Rs.in'000'	Rs. in '000'		
Repairs and maintenance	119,445	118,870	79,118	0	51
Vehicle running & maintenance	81,446	86,397	93,076	(6)	(12)
Travelling and entertainment	7,792	5,374	7,387	45	5
Depreciation	414,609	404,331	384,458	3	8
Insurance	59,664	62,595	60,791	(5)	(2)
Others	94,322	100,122	71,955	(6)	31
	777,277	777,689	696,785	(0)	12

- Overall factory overheads almost remain same but there significant increase in travelling and entertainment.

(ii) Administration Overheads

	2016	2015	2014	% Increase / (Decrease)	
				Based on	Based on
				2015	2014
	Rs.in'000'	Rs.in'000'	Rs. in '000'		
Salaries, wages and benefits	295,515	242,888	201,288	22	47
Utilities	4,854	3,177	8,616	53	(44)
Repairs and maintenance	9,240	10,435	11,768	(11)	(21)
Depreciation	13,594	13,293	13,191	2	3
Travelling and entertainment	8,965	8,544	6,171	5	45
Communication and printing	13,840	15,569	16,542	(11)	(16)
Auditors' remuneration	3,607	3,489	4,730	3	(24)
Legal and professional charges	17,832	16,218	14,675	10	22
Rent, rates and taxes	14,441	15,268	12,513	(5)	15
Donations	7,877	6,491	5,465	21	44
Insurance	2,576	2,532	3,840	2	(33)
Other expenses	9,451	9,042	8,364	5	13
	401,792	346,946	307,163	16	31

- The increase is mainly due to increase in salaries,wages and benefits,utilities, donations etc.
- Salaries, Wages and benefits include Rs.11.02 million and Rs. 5.31 million (2015: Rs. 12.01 million and Rs. 5.71 million) in respect of charge for defined benefit plans and contributory provident fund respectively.

(iii) Selling and Distribution Overheads

				% Increase / (Decrease)	
	2016	2015	2014	Based on	Based on
	Rs.in'000'	Rs.in'000'	Rs. in '000'	2015	2014
Salaries, wages and benefits	84,871	75,351	65,064	13	30
PSI marking fee	14,263	13,388	12,816	7	11
Carriage outward on export sales	241,257	336,072	294,477	(28)	(18)
Carriage outward on local sales	113,909	65,788	42,726	73	167
Advertisement and sales promotion	1,155	3,377	1,736	(66)	(33)
Travelling and entertainment	5,414	1,964	4,336	176	25
Handling and other export related expenses	443,066	451,564	319,660	(2)	39
Commission on export sales	48,895	37,845	63,931	29	(24)
Other expenses	1,916	1,324	1,304	45	47
	954,746	986,673	806,050	(3)	18

- Selling & distribution expenses decreased mainly due to decrease in carriage outward on export sales, advertisement and sales promotion etc.
- Salaries, Wages and benefits include Rs. 3.40 million and Rs. 1.76 million (2015: Rs. 3.29 million and Rs. 1.77 million) in respect of charge for defined benefit plans and contributory provident fund respectively.

(iv) Financial Charges

				% Increase / (Decrease)	
	2016	2015	2014	Based on	Based on
	Rs.in'000'	Rs.in'000'	Rs. in '000'	2015	2014
Finance charges on finance lease	920	1,395	1,291	(34)	(29)
Bank charges and commission	18,120	22,226	19,288	(18)	(6)
Interest on workers' profits participation fund	2,269	2,378	2,246	(5)	1
Exchange loss	-	-	6,969	-	100
	21,309	25,999	29,794	(18.04)	(28)

- The decrease in finance cost is mainly due to decrease in finance charges on finance lease.

(b) Reasons for any significant variances in the overheads

- Reasons have already been given against items where ever necessary.

(c) Basis of allocation of overheads

- The allocation was made on activity based on %age basis.

(d) Cost of Packing

	Quantity Sold (M. Tonne)					
	2016		2015			
OPC + SRC +FBC						
Packed cement		1,934,955		1,864,697		
Bulk cement		35,634		17,244		
Total		1,970,589		1,881,941		
	2016		2015		Increase / (Decrease)	
	Rs. in '000'	Rupees/Ton	Rs. in '000'	Rupees/Ton	Rupees/Ton	%
Packing material	950,852	491.41	995,174	533.69	(42)	(8)
Power	38,417	19.50	43,988	23.37	(4)	(17)
Salaries & wages	22,156	11.24	18,844	10.01	1	12
Stores / spares, repair & maint.	68,414	34.72	72,715	38.64	(4)	(10)
Insurance	1,193	0.61	1,252	0.67	(0)	(10)
Depreciation	8,292	4.21	8,087	4.30	(0)	(2)
Other overheads	126,718	64.30	118,266	62.84	1	2
	1,216,043	625.98	1,258,326	673.52	(48)	(7)

9. ROYALTY / TECHNICAL AID PAYMENTS

	2016			2015		
	Production in Tonne	Amount Rs. In '000	Rupees / Tonne	Production in Tonne	Amount Rs. In '000	Rupees / Tonne
Limestone, Shale/Overburden & Magsand	2,797,621	165,815	59.27	2,812,284	164,659	58.55

- Royalty, excise duty and lease rent is paid to the provincial government on the quantity of limestone, shale / overburden extracted and transported to mill from quarries at statutory rates.

10. ABNORMAL NON-RECURRING FEATURES

(a) Features affecting production

NONE

(b) Special expenses

NONE

11. COST OF PRODUCTION

(As per Schedule-1 attached)

	2 0 1 6			2 0 1 5			Increase / (Decrease) % Rs. P/Ton
	Qty. in Tonne	Rs. in 000	Rs. Per Ton	Qty. in Tonne	Rs. in 000	Rs. Per Ton	
Cement							
OPC	1,723,868	7,210,724	4,183	1,688,248	7,744,188	4,587	(8.81)
SRC	152,194	687,842	4,520	152,454	762,700	5,003	(9.66)
FBC	91,329	367,830	4,028	36,448	158,683	4,354	(7.49)
Ground Slag	-	-	-	-	-	-	-
Sub-total		8,266,396			8,665,572		
Clinker	14,354	42,403	2,954	-	-	-	-
TOTAL		8,308,799			8,665,572		

Reasons for variances

- Cost per tonne decreased mainly due to decrease in per ton cost of fuel and power.

12. SALES

(As per Schedule-2 attached)

	2 0 1 6			2 0 1 5			Increase / (Decrease) % P/Ton
	Qty. in Tonne	Rs. in 000	Rs. Per Ton	Qty. in Tonne	Rs. in 000	Rs. Per Ton	
LOCAL							
OPC	1,187,625	8,944,000	7,531	999,489	7,722,683	7,727	(2.53)
SRC	151,036	1,155,592	7,651	36,767	877,346	23,862	(67.94)
FBC	90,932	639,000	7,027	106,286	275,912	2,596	170.70
Ground Slag	-	-	-	-	-	-	-
Sub-total		10,738,592			8,875,941		
EXPORT							
OPC	538,176	3,108,059	5,775	693,033	3,982,416	5,746	0.50
SRC	2,820	17,380	6,163	46,367	227,764	4,912	25.46
FBC	-	-	-	-	-	-	-
Ground Slag	-	-	-	-	-	-	-
Clinker	14,354	54,310	3,784	-	-	-	-
		3,179,748			4,210,180		
TOTAL		13,918,340			13,086,120		

- Export sales were made to regional markets of Srilanka, Yemen, India, other East African and Indian Ocean markets.

17/10/17

13. PROFITABILITY

(As per Schedule-3 attached)

	2016			2015			Increase / (Decrease) % P/Ton
	Qty. in Tonne	Rs. in 000	Rs. Per Ton	Qty. in Tonne	Rs. in 000	Rs. Per Ton	
LOCAL							
OPC	1,187,625	3,606,384	3,037	999,489	2,954,072	2,956	3
SRC	151,036	424,471	2,810	106,286	325,834	3,066	(8)
FBC	90,932	244,184	2,685	36,767	109,019	2,965	(9)
Ground Slag	-	-	-	-	-	-	-
Sub-total		4,275,039			3,388,925		
EXPORT							
OPC	538,176	(27,765)	(52)	693,033	(102,650)	(148)	(65)
SRC	2,820	(57)	(20)	46,367	(65,623)	(1,415)	(99)
Ground Slag	-	-	-	-	-	-	-
Clinker (OPC)	14,354	(11,512)	(802)	-	-	-	-
		(39,333)			(168,273)		
TOTAL		4,235,706			3,220,651		

The increase in net profit is mainly due to increase in local sales and decrease in cost of sales.

1/10/17

14 Cost Auditors' Observations and Conclusions**(a) *Matters which appear to him to be clearly wrong in principle or apparently unjustifiable***

No such matters have so far come to our notice during the year under review.

(b) *Cases where the company funds have been used in a negligent or inefficient manner.*

NONE

(c) *Factors which could have been controlled but have not been done resulting in increase in the cost of production.*

NONE

(d) (i) *The Adequacy or otherwise of Budgetary Control System, if any, in vogue in the company.*

The company prepares its budget on annual basis. A monthly report comparing actual results with budget is generated along with the reasons for major variances. On the basis of such variances corrective measures are initiated, implemented and followed up.

(ii) *The scope and performance of Internal Audit, if any.*

The Board has outsourced the internal audit function to M/s. Ernst & Young Ford Rhodes Sidat Hyder & Co., Chartered Accountants who are involved in the internal audit function on a full time basis.

(e) *Suggestion for improvements in performance.***(i) *rectification of general imbalance in production facilities***

Apparently, there is no general imbalance in production facilities.

(ii) *fuller utilization of installed capacity*

The plant has already utilized maximum capacity shown by Kiln # I. It has achieved 108% capacity utilization where as Kiln # II achieved 107% of capacity utilization which has yielded good production results.

(iii) *Comments on areas offering scope for:***(a) *Cost reduction***

In order to improve the plant efficiencies and cost reduction, the company is continuously making capital expenditures in terms of balancing, modernization and rehabilitation of plant.

(b) *Increased productivity*

The Company is installing a new production line of 4,000 Tons per Day at its existing Plant site.

(c) *Key limiting factors causing production bottle necks.*

NONE

(d) *Improved inventory policies*

Present inventory policies are satisfactory.

(e) *Energy conservancy*

The company has already switched over to 'COAL' as one of the cheapest source of energy.

(iv) *State of technology*

The company uses 'Dry Process' which is the latest technology in cement production.

(v) *Plant*

The plant was new when installed.

15 RECONCILIATIONS WITH FINANCIAL STATEMENTS

The cost accounts are reconciled with audited financial accounts for the year ended June 30, 2016 as per reconciliation statement annexed herewith.

16 COST STATEMENTS

Copies of all cost statements on the formats prescribed by Securities and Exchange Commission of Pakistan under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984, duly authenticated by the Chief Executive and Chief Financial Officer of the company, and verified by us are appended to the report.

17 MISCELLANEOUS

Figures have been rounded off to nearest thousand and rupee one. Previous year's figures have been re-arranged and regrouped where necessary to facilitate comparison.

Karachi

Dated: 17th OCT 2016


Naveed Zafar Ashfaq Jaffery & Co.
Chartered Accountants