



# Directors' Report - 2007

## General

1. The Directors of Fauji Cement Company Limited (FCCL) are pleased to present the 15th Annual Report together with audited financial statements of the Company for the year ended 30 June 2007 and the Auditors' Report.

## Market Overview

2. The Cement Industry witnessed an unprecedented demand for its product during Fiscal Year 2006-07. Total cement despatches stood at 24.22 million tons which is the highest figure ever achieved by the Cement Industry. It reflected a record growth of 31.56 percent over 18.4 million tons of sales during last Fiscal Year. Whereas, local demand grew by 24.4 percent over last year, the exports witnessed a strong and healthy growth of 112 percent to an all-time high level of 3.188 million tones in the wake of rising international demand, as compared to 1.5 million tons during the last year.

3. During the year under review, the capacity utilization stood at 80% as compared to 88% of last year. The reduction was mainly attributed to start up of new lines of production which had increased the capacity from 24 mtpa to 33.4 mtpa. At the end of Fiscal Year 07, per capita cement consumption in Pakistan increased by 11.961 % to 131 Kg as compared to 117 Kg in Fiscal Year 06.

4. Comparing with industry, capacity utilization of FCCL stood at 98.00 %, which was higher by 6.6% over last year. The highlights of the performance of the Company vis-à-vis the Industry are as under:-

### COMPARISON OF DESPATCHES

#### a. FCCL Comparison

	<u>2006-07</u>	<u>2005-06</u>	<u>Difference (%)</u>
(1) Domestic Despatches (tons)	990,823	952,771	3.99%
(2) Exports (tons)	152,268	113,410	34.26%
(3) Total Despatches (tons)	1,143,091	1,066,181	7.21%
(4) Capacity Utilization (%)	98.08%	91.48%	7.21%
(5) Clinker Production (tons)	1,098,019	1,058,368	3.75%
(6) Cement Production (tons)	1,153,711	1,064,649	8.37%
(7) Sales (tons)	1,143,091	1,066,181	7.21%

#### b. Industry Comparison

	<u>2006-07</u>	<u>2005-06</u>	<u>Difference (%)</u>
(1) Domestic Despatches (tons)	21,034,278	16,907,138	24.41%
(2) Exports (tons)	3,188,424	1,505,159	111.83%
(3) Total Despatches (tons)	24,222,702	18,412,297	31.56%
(4) Capacity Utilization	80.07%	87.93%	-8.94%



### Production Review

5. Performance of the plant remained above satisfactory level with an overall efficiency exceeding 98.9%. Efficiency in terms of fuel, power and raw material consumption at our plant is among the best.
6. Project for 6MW Captive Power Plant has been successfully completed .

### Financial Performance

7. **Profitability.** The Company earned a Profit After Tax of Rs. 646 Million as compared to last year's profit of Rs. 1,204 Million. The profit from operations decreased from Rs. 2,042 Million to Rs. 995 Million depicting a decrease of 51.26 % owing to reduction in cement prices and higher manufacturing cost.
8. **Contribution to National Exchequer.** The Company has contributed a sum of Rs. 1,383 Million to the national exchequer in the form of taxes and duties during the year. Concurrently, Fauji Cement earned USD 7.428 Million through export of cement.
9. **Presentation of Financial Statements.** The financial statements prepared by the Management present the Company's state of affairs, the results of its operations, cash flows and changes in equity in a fair and accurate manner.
10. **Books of Account.** Proper books of account have been maintained.
11. **Accounting Policies.** Appropriate accounting policies have been consistently applied in preparation of financial statements except for the change in accounting policy as stated in note 2.8 to the financial statements and accounting estimates are based on reasonable and prudent judgement.
12. **Compliance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).** International Accounting Standards and International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
13. **Internal Control System.** The system of internal control is sound in design and has been effectively implemented and monitored.
14. **Going Concern.** There is no doubt that the Company has the ability and strength to operate as a going concern.
15. **Best Practices of Corporate Governance.** There has been no material departure from the best practices of corporate governance, as given in the listing regulations.



16. **Financial Data of Last Six Years.** Key operating and financial data of last six years is given below:-

Description	2007	2006	2005	2004	2003	2002
<b>Operating Results</b> (Rs. in Million)						
Net Sales	3,463.283	4,286.138	2,845.143	2,296.231	1,510.738	1,586.606
<b>Gross Profit</b>	1,091.495	2,191.111	1,081.576	740.824	175.605	398.707
Operating Profit	995.285	2,041.984	988.673	723.084	122.213	317.023
Financial Charges	207.105	264.297	229.634	204.223	463.409	416.732
Profit/(Loss) after taxation	646.323	1,203.735	510.490	314.148	(531.381)	(110.480)
<b>Balance Sheet</b>						
Shareholder's Equity	3,735.206	3,282.617	2,449.624	1,939.134	1,624.986	2,156.367
Fixed Assets	4,392.450	4,563.115	4,658.272	4,729.254	4,659.449	4,854.117
Long Term Loans including Current portion	1,425.000	1,975.000	3,075.000	3,645.347	4,325.878	4,412.582
<b>EPS (Rs)</b>						
Basic	1.74	3.25	1.38	0.85	(1.43)	(0.64)
Diluted	1.54	2.87	1.22	0.75	(1.27)	(0.63)

17. **Outstanding Statutory Dues.** The Company does not have any outstanding statutory dues.

18. **Value of Investment of Employees.** Value as on 30 June 2007 is given below:-

	<b><u>Management Staff</u></b>	<b><u>Non-Management Staff</u></b>
Provident Fund	Rs. 43,370,276	Rs. 28,383,705

19. **Salient Aspects of Company's Control and Reporting Systems.** The Company complies with all the requirements of the Code of Corporate Governance as contained in the listing regulations of the Stock Exchanges. The Board's primary role is the protection and enhancement of long term shareholders' value. To fulfil this role, the Board is responsible to implement overall corporate governance in the Company including approval of the strategic direction as recommended by the Management, approving and monitoring capital expenditure, appointing, removing and creating succession policies for the Senior Management, establishing and monitoring the achievement of Management's goals and ensuring the integrity of internal control and Management Information Systems. It is also responsible for approving and monitoring financial and other reporting. The Board



has delegated responsibility for operation and administration of the Company to the Chief Executive / Managing Director. Responsibilities are delineated by formal authority delegations. The Board has constituted the following committees which work under the guidance of Board of Directors:-

- a. Audit Committee.
- b. Technical Committee.
- c. Human Resources Committee.

### **Attendance of Meetings**

20. During the year under review, the Board of Directors and Audit Committee held five meetings each. Attendance by each director is as follows:-

a.	<b><u>Board of Directors</u></b>	-	<b><u>No of Meetings Attended</u></b>
	(1) Lt Gen Syed Arif Hasan, HI (M), (Retired)	-	5
	(2) Maj Gen Malik Iftikhar Khan, HI (M) (Retired)	-	5
	(3) Mr. Qaiser Javed	-	5
	(4) Mr. Riyaz H. Bokhari, IFU	-	3
	(5) Brig Munawar Ahmed Rana, SI (M) (Retired)	-	5
	(6) Brig Arif Rasul Qureshi, SI (M) (Retired)	-	5
	(7) Brig Rahat Khan, SI (M) (Retired)	-	5
	(8) Dr. Nadeem Inayat	-	5
	(9) Ms Tine Bremholm Kokfelt, FLS	-	Nil
b.	<b><u>Audit Committee</u></b>	-	<b><u>No of Meetings Attended</u></b>
	(1) Mr. Qaiser Javed	-	5
	(2) Mr. Riyaz H. Bokhari, IFU	-	2
	(3) Brig Rahat Khan, SI (M) (Retired)	-	3
	(4) Dr. Nadeem Inayat	-	4

**Note:** Chief Financial Officer (CFO) and Internal Auditor were invariably invited to attend the meetings of Audit Committee. External Auditors were also invited to attend two meetings of Audit Committee, wherein, issues related to annual and half year's financial statements were discussed.

### **Disclosures**

21. To the best of our knowledge, the Directors, CEO, CFO, Company Secretary, Company Auditors, their spouses and their minor children have not undertaken any trading in Company's Shares during the FY 2006-07.



### **Pattern of Share-holding**

22. Pattern of share-holding as on 30 June 2007 is attached.

### **Relations With Personnel and Locals**

23. Relations between the Management and the Workers continued to be extremely cordial based on mutual respect and confidence contributing to the optimal efficiency. The Company has allocated funds for Provident Fund and Profit Participation Fund for its employees.

24. Concurrently, the Company continues to enjoy a high degree of goodwill and cooperation with local community as it respects their environment through responsible business practices. The Company runs a free dispensary for the locals and also provides good education facilities up to secondary school level at reasonable fee.

### **Election of Directors**

25. During the year under review, election of Directors of the Company was held and the present Board of Directors was unanimously elected for a term of three years.

### **Directors**

26. There has been no change in the composition of Board during the year.

### **Auditors**

27. The present Auditors M/s KPMG Taseer Hadi & Co; Chartered Accountants will stand retired at the conclusion of the 15th Annual General Meeting. However, they have expressed their willingness for re-appointment. They have also been recommended by the Audit Committee, subject to compliance with clause (xli) of Code of Corporate Governance.

### **Product Quality**

28. FCCL has always endeavoured to produce the best quality cement in Pakistan, which is amply reflected in its high demand, both inside and outside the Country. As a company, FCCL is focused on customers' satisfaction, employees' morale and fair deal to its partners in the business. It strictly adheres to the following:-

- a. **Quality Policy.** Customers' satisfaction through quality assurance.
- b. **Objectives**
  - (1) To be a cost effective and efficient organisation.
  - (2) Continuous improvement through well planned training.
  - (3) Commitment to leadership and team-work.
  - (4) To maintain quality culture within FCCL.
  - (5) To remain a leading manufacturer of high quality Portland Cement in Pakistan.



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29. The Company, by grace of Almighty ALLAH, is an ISO 9001-2000 Certified Company and also recommended for ISO-14001-2004 for Environmental Management System.

### **Future Outlook**

30. Keeping in view the growing demand of cement in future, Fauji Cement has decided to enhance its production capacity. For this purpose a complete new line of 7200 tons per day clinker will be installed parallel to the existing line. The salient aspects of the Project are given below:-

- a. Agreements for supply of engineering and equipment have been signed with German Firms Polysius, Haver & Boecker, Loesche and Swiss Firm ABB.
- b. The plant will be the biggest ever single line in Pakistan, and the equipment will comprise of the latest state of the art technology developed by leading foreign companies.
- c. For the purpose of civil works, erection and local fabrication a contract has been awarded to M/s DESCON Engineering Lahore, who have a wide experience in such tasks.
- d. Local fabrication and procurement have been encouraged to the maximum extent to utilise local sources to save on cost and foreign exchange.
- e. The plant will start commercial production in early 2010 Insha Allah.

### **Acknowledgment**

31. The Directors express their deep appreciation of our valued customers, the dedication of Company's employees to their professional obligations and the cooperation extended by financial institutions / government agencies, which have enabled the Company to display excellent performance both in operational and financial fields.

### **Conclusion**

32. With profound gratitude to the blessings of Allah Almighty, the Board is of the opinion that the Company remains on its way to success.

For and on behalf of the Board

Lt Gen Syed Arif Hasan, HI(M) (Retd)  
Chairman

Rawalpindi  
21 August 2007



## **Statement of Compliance with the Code of Corporate Governance For the Year Ended 30 June 2007**

This Statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby, a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:-

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present, the Board comprises nine directors, out of whom only one is an executive director. Remaining eight (including the Chairman) are non-executive directors.
2. The directors have confirmed that none is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred during the period under review.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision and mission statement, overall corporate strategy and significant policy guidelines for the Company. The Management has further elaborated these guidelines into detailed control systems. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained. The same are being updated.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. All the Directors of the Board are fully conversant with their duties and responsibilities as Directors. Orientation course for Directors and officials of the Company was conducted during the fiscal year 2005.
10. The Board has approved the appointment of CFO and Company Secretary including their remuneration and terms and conditions of employment as determined by the CEO. The Head of Internal Audit has the access to the chair of Audit Committee, whenever necessary.



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11. The Directors' Report for FY 2006-2007 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval by the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company, other than that disclosed in pattern of share-holding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises four members and all of them are non-executive directors including the President of the Committee.
16. The meetings of the Audit Committee were held at least once a quarter prior to approval of interim and annual results of the Company as required by the Code. The Committee is following the terms of reference as given in the Code of Corporate Governance.
17. The Board has set up an effective internal audit function. The officials conducting internal audit are considered suitably qualified and experienced for the purpose; and are conversant with the policies and procedures of the Company and they are involved in internal audit function on full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review Programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been appropriately complied with to ensure transparency, accountability and efficiency.

Rawalpindi  
21 August 2007

Lt Gen Syed Arif Hasan, HI (M) (Retd)  
Chairman  
NIC No 37405-6648041-1