



Vision Statement

To turn around the Company with a view to making it a profitable concern through its life while contributing to National Development and benefiting all stakeholders, inclusive of employees, in an optimal manner.



Mission Statement

FCCL to optimise profitability in order to ensure fair return to shareholders, as soon as possible, on a continuous basis while ensuring product quality and in the process contribute towards national development.



Report of the Directors - 2004

General

1. The Directors of Fauji Cement Company Limited (FCCL) are pleased to present the Twelfth Annual Report alongwith Company's audited accounts for the financial year ended 30 June 2004 and Auditors' Report thereon. With His utmost kindness and beneficence, Allah has made it possible for the Company to report an all-round betterment and progress.

Market Overview

2. Cement industry in Pakistan has shown excellent recovery in the year 2003-2004. Although the capacity is still underutilized, the overall industry-wise cement sales (including exports) were 13,634,463 tons i.e 19.49% higher than the year 2002-2003. In the backdrop of this industrial rebound, FCCL has shown comparatively strong growth i.e 29.51 % higher than last year. Despite occasional ups and downs in the industry and low rates of some brands, your company has increased its domestic market share as compared to last year. Our export profile has been equally impressive at a premium rate. Highlights are as under:-

a.	Fauji Cement's Performance	2003-2004	2002-2003	Difference
	Domestic dispatches (tons)	719,165	616,621	+16.63%
	Exports (tons)	113,314	26,150	+333.32%
	Total Dispatches (tons)	832,479	642,771	+29.51%
	Capacity Utilization (%)	88.09%	68.02%	+20.07
	Market Share (North Zone)	7.45%	7.06%	+ 0.39
	Export Share	10.13%	6.07%	+ 4.06
	Net Sales (Rs. In Millions)	2,296.231	1,510.738	+51.99%
	Operating Profit (Rs. In Millions)	680.339	122.213	+456.68%
b.	Overall Industrial Data			
	Local Dispatches (tons)	12,516,355	10,979,816	+13.99%
	Exports (tons)	1,118,108	430,322	+159.83%
	Total Dispatches (tons)	13,634,463	11,410,138	+19.49%
	Capacity Utilization (%)	80.70%	67.42%	+13.28



Annual Report 2004
FAUJI CEMENT COMPANY LIMITED

3. It is expected that during the next three years demand of cement will grow by about 10% per annum, thus achieving full utilization of present capacity. This has encouraged most of the cement plants to undertake expansion/ optimization. Accordingly FCCL has also to undertake capacity enhancement. Our dealers' network and institutional selling (projects) are well poised to absorb the additional business.

Production Aspects

4. Performance of the plant remained satisfactory. In terms of fuel, power, raw material consumption and human resources cost, our plant is still among the best. Due to improved demand of cement our production has shown a remarkable increase over the previous year. Comparative production figures are given hereunder:-

			2003-2004	2002-2003	Difference
a. Clinker	(tons)	=	799,617	583,796	+36.97%
b. Cement	(")	=	826,203	643,218	+28.45%
c. Average cost / ton	(Rs)	=	1,868.40	2,077.15	(-)10.05%

5. To reduce the fuel cost, FCCL installed gas firing system in the main burner in October 2003. However the gas was not available for about three months in winter. Combined with the indigenized coal firing system for calciner already working, the average fuel consumption at the plant during 2003-2004 came to 49% coal, 21% gas and only 30% furnace oil as compared to 32% coal and 68% furnace oil in 2002-2003.

6. The coal grinding plant supplied and installed by M/s CEMAG of Germany is in the process of being commissioned and once completed it will result in saving of cost.

7. To guard against non-availability of good quality coal and maintain flexibility in face of rising coal prices, an order for calciner burners and gas station has been placed with M/s CEMAG.

8. A contract for up-grading of the plant from present rated capacity of 3000 tpd to 3700 tpd has been signed with M/s F.L. Smidth of Denmark, the original suppliers of plant. This project will, Insha-Allah, be completed by June 2005.

Financial Overview

9. We are happy to report that the company has been able to fulfill its mission of achieving profitability well before the deadline set last year. The profit and loss account for the year ended June 30, 2004 shows the net profit after tax of Rs. 314.148 million as compared to last year's loss of Rs. 531.381 million despite amortising the deferred cost of Rs. 762.152 Millions during this year. This is mainly due to the following factors:-

- a. The average cost of sales per ton of cement has decreased to Rs. 1,868 as compared to Rs. 2,077 last year due to better capacity utilization of 88 % as compared to 68 % last year, partial use of gas / coal and some other cost cutting measures. Consequently there is an increase in gross profit margin from 12% of last year to 32% this year.



Annual Report 2004
FAUJI CEMENT COMPANY LIMITED

- b. Financial charges during the year ended 30 June 2004 have decreased to Rs. 204 million as compared to Rs. 463 million last year as a result of re-profiling and rescheduling of refinanced local loans at lower interest rate, prepayment of secured foreign loans and settlement of certain local loans at softer terms.
- c. In line with the requirements of International Accounting Standard 12 "Income Taxes", Net Deferred Tax Asset of Rs 570.039 million has been recognized as explained in notes 12 and 24 of the financial statements.

Re-profiling and Re-pricing of Loans

- 10. In order to reduce financial charges, the Company took the following steps:
 - a. Prepaid local loans of Rs 499.323 million.
 - b. Refinanced all outstanding foreign loans as on January 30, 2004 by less costly guaranteed local loans.
 - c. Reduced mark-up rate of the guaranteed local loans from 6 Month T Bill rate + 1% to 6 Month T Bill rate + 0.8% with effect from January 2004.
 - d. FCCL is in the process of signing an agreement with a consortium of local banks for refinancing of guaranteed loans of Rs. 3.3 Billions against the first charge on all present and future assets. This will further reduce financial charges.

Salient Aspects of Company's Control and Reporting Systems

- 11. The Company is working transparently and efficiently as per laid-down guidelines of the Regulatory Authorities. The views of the Board on various aspects are as under:-
 - a. **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 and future prospects fairly and accurately.
 - b. **Books of Account.** Proper books of accounts have been maintained.
 - c. **Accounting Policies.** Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment (except for accounting policy in respect of gratuity as explained in note 2.14 of the financial statements).
 - d. **Compliance with International Accounting Standards (IAS).** International Accounting Standards as applicable in Pakistan, have been followed in preparation of financial statements.



Annual Report 2004
FAUJI CEMENT COMPANY LIMITED

- e. Internal Control System.** The system of internal control is sound in design, has been effectively implemented and is being monitored continuously. The Company is in the process of installing a modern MIS to streamline analysis, planning, control and coordination. Frequent review of procedures is also undertaken.
- f. Going Concern.** The company has a sound potential to continue as a going concern.
- g. Best Practices of Corporate Governance.** There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations and other guidelines applicable to the Company for the year ended June 30, 2004.
- h. Deviations from Last Year's Operating Results.** The company has done better due to stable market environment, enhanced efficiency and re-profiling of debt.
- j. Financial Data of Last Six Years.** Key operating and financial data of last six years is given below:-

Description	2004	2003	2002	2001	2000	1999
Operating Results (Rs) in Millions)						
Net Sales	2,296.231	1,510.738	1,586.606	1,575.604	1,696.581	1,340.411
Gross Profit	740.824	175.605	398.707	307.202	522.887	222.339
Operating Profit	680.339	122.213	317.023	237.677	482.081	178.601
Financial Charges	204.223	463.409	416.732	807.856	763.906	745.565
Profit/(Loss) after taxation	314.148	(531.381)	(110.480)	(570.455)	(282.974)	(562.901)
Balance Sheet						
Shareholder's Equity	1,939.134	1,624.986	2,156.367	228.674	799.129	1,082.103
Fixed Assets	4,729.253	4,659.449	4,854.117	5,210.007	5,139.740	5,376.742
Working Capital (1,845.043)	202.344	249.006	223.735	(3,342.227)	(2,646.994)	
Long Term Loans including Current portion	3,645.347	4,325.878	4,412.582	4,588.028	3,723.456	3,755.552

- k. Dividend.** Keeping in view the accumulated losses of the Company it is not yet in a position to declare any dividend.



Annual Report 2004
FAUJI CEMENT COMPANY LIMITED

l. Outstanding Statutory Dues. The Company does not have any outstanding statutory dues except Sales Tax appearing in Note No 7 to Annual Accounts 2003-2004.

m. Significant Plans and Decisions. Paras 3 to 10 refer.

n. Value of Investment of Employees. As on 30 June 2004 the value is given below:-

	Management Staff	Non-Management Staff
Pension Fund	: Nil	Nil
Provident Fund	: 21,416,432	16,168,357

o. Attendance of Meetings. During the year (1 July 2003 to 30 June 2004) the Board of Directors held three meetings. Attendance of each director is as follows:-

*	Lt Gen (Retd) Syed Muhammad Amjad, HI, HI (M)	-	3 Meetings
*	Maj Gen (Retd) Rehmat Khan, HI (M)	-	3 Meetings
*	Brig (Retd) Ghulam Hussain, SI (M)	-	3 Meetings
*	Mr. Qaiser Javed	-	3 Meetings
*	Mr. Riyaz H. Bokhari, IFU	-	3 Meetings
*	Mr. Muhammad Raza Mirza, CDC	-	1 Meeting
*	Mr. Erling Frandsen, FLS	-	Nil
*	Brig (Retd) Aftab Ahmad, SI (M)	-	3 Meetings
*	Brig (Retd) Arshad Shah, SI (M)	-	2 Meetings
*	Brig (Retd) Ghazanfar Ali, SI (M)	-	1 Meeting

p. Disclosures. To the best of our knowledge, the Directors, CEO, CFO, Company Secretary, Company's Auditors, their spouses and their minor children have not undertaken any trading of Company's shares during the year 2003-2004.

Pattern of Share-holdings

12. Pattern of share-holdings as on 30 June 2004 is attached.



Annual Report 2004
FAUJI CEMENT COMPANY LIMITED

Relations With Personnel and Locals

13. Relations between the management and the workers continue to be extremely cordial based on mutual respect and confidence contributing to the optimally high efficiency of the Company. Concurrently the company continues to enjoy a high degree of good-will and cooperation from locals in the Area.

Directors

14. After approval by the shareholders in the 11th AGM to increase the number of Directors from 9 to 10 ; Brig (Retd) Ghazanfar Ali has been elected and appointed as 10th Director of the company.

15. On retirement of Brig (Retd) Arshad Shah, Mr Nadir Rahman has been appointed as Director of the Company with effect from 27 July 2004. The Board places on record its appreciation for the valuable advice and services rendered by the retired director and welcomes the new directors on the Board.

Auditors

16. a. The present auditors M/s Taseer Hadi Khalid & Co, Chartered Accountants, will retire at the conclusion of the 12th Annual General Meeting and, being eligible, have offered themselves for re-appointment at a total fee of Rs. 500,000/- for annual audit and half yearly review.
- b. They are also recommended by the Audit Committee.

Acknowledgments

17. The Directors express their deep appreciation for the constant support and encouragement of Fauji Foundation, the dedication of company's employees and the cooperation of financial institutions / government agencies, which has enabled the company to display good performance both in operational and financial fields and make a financial turn-around giving the glimpse of a bright future.

Conclusion

18. With profound thanks for the blessings of Allah Almighty, the Board is of the firm opinion that the Company is on its way to lasting success.

For and on behalf of the Board

Rawalpindi
17 September 2004

Lt Gen (Retd) Syed Muhammad Amjad, HI, HI(M)
Chairman