

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 stake-holders, inclusive of employees, in an optimal manner.



Mission Statement

Achieve profitability as soon as possible but not later than 30 September 2004; and maintain it thereafter.

Report of the Directors

General

1. The Directors are pleased to present their Eleventh Annual Report along with Company's audited accounts for the financial year ended 30 June 2003 and Auditors' Report thereon.

Market Overview

2. Cement industry in Pakistan is still underutilized at 67.29% of its rated capacity (which is 16.925 million tons per year). However the capacity utilization in year 2002-2003 has increased by 6.41% which signals a positive trend for the future. It is encouraging to note that besides negative indicators like low per capita consumption, slow pace of development and instability of prices for most of the year, Fauji Cement has shown good resilience.

3. During the period of intense competition (November 2002 to May 2003), with the limitation of Not having converted to Coal / Gas, Fauji Cement was at a disadvantage of using high cost Furnace Oil while its competitors enjoyed a significant edge in the production cost due to use of 100% coal. Despite this, we have been able to maintain reasonable market share with considerable increase in capacity utilization even though we continued to charge the premium price:-

Particulars	2002-2003	2001-2002	Difference
Domestic Sales (tons)	616,620.74	582,644.50	+5.83 %
Exports (tons)	26,150.00	15,205.00	+71.98 %
Total Despatches	642,770.74	597,849.50	+7.51%
Capacity Utilization	68.02%	63.26%	+4.76
Market Share (North Zone)	7.06%	7.83%	-0.77
Export Share	6.07%	14.26%	-8.19
Net Sales (Rs. 000)	1,510,738,009	1,586,605,728	-4.78 %
Operating Profit (Rs. 000)	122,212,790	317,023,389	-61.45 %

4. During the FY 2003-2004 growth is expected to rise due not only to decrease in excise duty by 25% but also various other incentives for construction industry and other government projects as already announced in Federal and Provincial Budgets. Additional factors like growth in road infrastructure and acceleration of development in Afghanistan shall also expand capacity utilization. Therefore, under projected market environments we are well poised to expand our domestic sales as well as exports.

Production Aspects

5. Performance of the plant remained satisfactory with an overall efficiency exceeding 100 percent. Efficiency in terms of fuel, power and raw material consumption at our plant is still among the best, while our labour cost is one of the lowest in the cement industry. Due to suppressed demand for cement, plant operations had to be curtailed. Comparative production figures are as under:-

			2002-2003	2001-2002
a.	Clinker	(tons) =	583,796.00	582,956.00
b.	Cement	(") =	643,218.42	606,607.00
c.	Average cost of sales per ton (Rs)	=	2077.15	1986.95

6. High cost of furnace oil, packing material and electricity during the year forced us to implement extra-ordinary measures. In furtherance of the economy drive initiated, the fuel cost is curtailed through partial conversion of the furnace oil fired system to coal fired system. We, therefore, have installed 02 Nos of local coal pulverizers, and have successfully achieved feeding upto 225 tons of coal per day, equivalent to approximately 45% of furnace oil consumption. The savings thus generated have helped us remain competitive in the market.

7. Total conversion to coal requires major changes in firing system. After thorough evaluation, M/s CEMAG, Germany have been contracted to supply the complete coal plant for 100% conversion to coal. M/s MEM-BAU have been engaged for execution of civil works alongwith local equipment and M/s GFT for supervision of erection and overall integration. Work is in progress and is expected to be completed by the end of the current financial year.

8. To curtail the cost during the interim period, conversion to Gas Fired System was undertaken. All infra-structure including the installation of Burner and Gas Station has been completed and the plant can now use 40% gas. Dependence on Furnace Oil has thus been reduced to about 15%.

Financial Overview

9. **Financial Results.** The profit and loss account for the year ended June 30, 2003 shows a decline as compared to last year i.e the net loss before taxation has increased to Rs. 523.731 million for the year ended June 30, 2003 as compared to Rs. 92.947 million last year. This is mainly due to the following factors:

- a. As a result of intense competition between cement manufacturers, the average retention price per ton of cement decreased to Rs. 2,350 per ton during this year as compared to Rs. 2,654 per ton last year. Concurrently, the average cost of sales per ton of cement during this year increased to Rs. 2,077 as compared to Rs. 1,987 last year mainly because of increase in Furnace oil price. Thus the gross margin decreased to 11.62% from 25.13%.
- b. The financial charges during the year ended 30 June 2003 have increased to Rs. 463.409 million as compared to Rs. 416.732 million last year. As reflected in the Last Annual Report the financial charges in FY 2001-2002 had fallen due to refund of FERI charges of Rs. 210 million obtained from the SBP.
- c. Amortization of deferred cost has been charged for the complete year amounting to Rs. 191.061 million.

10. Re-profiling and Re-pricing of Loans

- a. In order to reduce the impact of financial charges, the management of the Company vigorously pursued the local lenders to reduce the mark-up rates and increase the repayment terms with

appropriate grace period. Except for the Standard Chartered Bank with whom the negotiations are under process, all the local lenders have agreed to reduce the mark-up rates from 16-17% p.a to 6% p.a and rescheduled their facilities for a period of nine years inclusive of two years grace period. This will generate considerable savings for the company.

- b. In addition thereto, the mark-up rates of the guaranteed refinanced loans amounting to Rs. 2,661.610 million have also been revised from SBP Discount rate + .70% to 6 month T-Bill rate + 1%. Also, the floor of 9.25 % has been removed. This has resulted in substantial reduction of financial charges.
- c. MOUs have been signed with foreign lenders in August 2003 by which Foreign lenders have agreed to the following:
 - Prepayment of foreign loan through refinancing arrangement
 - Utilization of FERI benefits to the extent of Rs 100 million to pay their outstanding liabilities.
 - Utilization of Rs 50 million out of FERI proceeds for the partial financing of coal conversion project
 - Deferment of principal installments due between July 2003 and December 2004 to the last installment of the respective loan.
- d. Fauji Foundation has agreed to provide Rs. 50 Million as a scheduled loan carrying mark-up equal to local lenders.

Salient Aspects of Company's Control and Reporting Systems

11. The Company is working transparently and efficiently as per laid-down guidelines. The views of directors 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; 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.
 - d. **Compliance with International Accounting Standards (IAS).** International Accounting Standards as applicable in Pakistan, have been followed in preparation of financial statements.
 - e. **Internal Control System.** The system of internal control is sound in design, has been effectively implemented and is being monitored continuously. The review will continue in future for further improvement in controls.
 - f. **Going Concern.** There are no significant doubts upon the company's ability 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 applicable to the Company for the year ended June 30, 2003.

- h. **Deviations from Last Years Operating Results.** Covered in Paras 2 to 10.
- j. **Financial Data of Last Six Years.** Key operating and financial data of last six years is given below:-

Description	2003	2002	2001	2000	1999	1998
Operating Results (Rs)						
Net Sales	1,510,738,009	1,586,605,728	1,575,603,958	1,696,580,698	1,340,410,509	811,277,389
Gross Profit	175,605,225	398,707,035	307,202,483	522,887,271	222,338,795	(37,534,713)
Operating Profit	122,212,790	317,023,388	237,677,234	482,080,655	178,600,750	(61,425,308)
Financial Charges	463,409,114	416,731,834	807,855,665	763,905,578	745,565,033	452,520,523
Profit/(Loss) before taxation	(523,730,995)	(92,946,630)	(562,455,468)	(273,973,767)	(555,701,016)	(506,996,167)
Profit/(Loss) After taxation	(531,380,995)	(110,479,980)	(570,455,468)	(282,973,767)	(562,901,016)	(511,244,937)
Balance Sheet						
Shareholder's Equity	1,624,986,187	2,156,367,182	228,673,802	799,129,270	1,082,103,037	1,645,004,053
Fixed Assets	4,659,449,494	4,854,116,699	5,210,006,909	5,139,739,707	5,376,742,492	5,446,979,865
Working Capital	249,005,576	223,735,009	(3,342,226,983)	(2,646,993,968)	(1,845,043,362)	(819,016,518)
Long Term Loans including Current portion	4,325,877,564	4,412,581,780	4,588,028,411	3,723,455,627	3,755,551,522	3,696,745,950

- k. **Dividend.** As the Company has incurred losses during the year under review and keeping in view the accumulated losses of the company, it is not in a position to declare any dividend.
- l. **Outstanding Statutory Dues.** The Company does not have any outstanding statutory dues except those disclosed in Note No. 7 to Annual Accounts of 2002-2003.
- m. **Significant Plans and Decisions.** Paras 7, 8, 10 & 11 refer.
- n. **Value of Investment of Employees.** As on 30 June 2003, based on the last audited accounts the value is given below:-

	Management Staff	Non-Management Staff
Pension Fund :	Nil	Nil
Provident Fund :	17,146,308	12,855,748

- o. **Attendance of Meetings.** During the year (1 July 2002 to 30 June 2003) the Board of Directors held eight meetings. Attendance of each director is as follows:-

* Lt Gen (Retd) Syed Muhammad Amjad, HI, HI (M)	- 8 Meetings
* Maj Gen (Retd) Rehmat Khan, HI (M)	- 8 Meetings
* Maj Gen (Retd) Sayeed Ul Hasan Zaidi, HI(M), Ex MD	- 1 Meeting
* Brig (Retd) Ghulam Hussain, SI (M)	- 7 Meetings
* Mr. Qaiser Javed	- 7 Meetings
* Mr. Riyaz H. Bokhari, IFU	- 6 Meetings
* Mr. Muhammad Raza Mirza, CDC	- 4 Meetings
* Mr. Shabbir Hashmi, CDC, Ex Director	- 1 Meeting

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|-----------------------------------|--------------|
| * Mr. Erling Frandsen, FLS | - Nil |
| * Brig (Retd) Aftab Ahmad, SI (M) | - 5 Meetings |
| * Brig (Retd) Arshad Shah, SI (M) | - 5 Meetings |
| * Mr. Salim Batla, Ex Director | - 3 Meetings |

p. **Disclosures.** To the best of our knowledge, the Directors, CEO, CFO, Company Secretary, their spouses and their minor children have not undertaken any trading of Company's shares during the year 2002-2003.

Pattern of Share-holdings

12. Pattern of share-holdings as on 30 June 2003 is attached.

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. On retirement of Mr. Salim Batla, Brig (Retd) Arshad Shah, SI (M), has been appointed as Director of the Company wef 29 January 2003, The Board places on record its appreciation for the valuable advice and services rendered by the retired Director and welcomes the new Director on the Board.

Auditors

15. The present auditors M/s Taseer Hadi Khalid & Co, Chartered Accountants, will retire at the conclusion of the 11th Annual General Meeting and, being eligible, have offered themselves for re-appointment on the same terms and conditions, as for the Last year, with additional Rs. 100,000/- for half yearly review. They are also recommended by the Audit Committee.

Acknowledgements

16. The Directors express their deep appreciation for the constant support and encouragement of Fauji Foundation, the dedication of its employees and the cooperation of foreign lenders and national financial institutions / government agencies, which has enabled the company to display good performance both in operational and financial fields.

Conclusion

19. With gas fired system in place, conversion to coal proceeding smoothly, financial re-profiling having materialized, and enhancement of Cement demand in sight, the Board is fairly confident that the Company is on it's way to recovery.

For and on behalf of the Board



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

Rawalpindi
11 November, 2003