Fujairah Cement Industries PJSC.

Accumulated Losses Recovery Plan

Date: 28 August 2024.

1. **Description of the company's status**

1.1 Information on the main activities of the company, and related sectors.

Fujairah Cement Industries (FCI) is a Public Joint Stock Company was established in the Emirate of Fujairah, on 20th December 1979, with the paid capital of AED 555 million, according to Govt. of Fujairah Decree No: 3/79 issued by His Highness Sheikh Hamad Bin Mohammed Al Sharqi, the member supreme council of UAE and the Ruler of Fujairah. FCI is listed on Abu Dhabi Securities Exchange (ADX).

FCI is one of the largest cement and clinker manufacturer in United Arab Emirates. over the last 4 decades, the company's product brand 'FUJAIRAH CEMENT' has developed a premium status and has been the market leader in the UAE and neighbouring GCC, Middle East, African countries, Bangladesh, India and Sri Lanka.

FCI is engaged in manufacturing of Ordinary Portland Cement (OPC), Sulphate Resisting Portland Cement (SRC), Moderate Sulphate Resisting Portland Cement (MSRPC) and clinker suitable for manufacturing OPC, SRC and MSRPC. FCI is also holding license for extracting and exporting of steel grade limestone.

1.2 Summary of company's financial information for last three years.

Income Statement

Particulars	FY 2021 (AED)	FY 2022 (AED)	FY 2023 (AED)
Revenue	419,977, 908	374,577,222	343,808,673
Cost of Sales	(410,658,137)	(423,076,247)	(399,485,321)
Gross Profit	**9,319,771**	**(48,499,025)**	**(55,676,648)**
Gross Profit Margin	**2.22%**	**(12.95)%**	**(16.19)%**
Written down of inventories to net realizable value	(5,568,397)	(18,275,313)	(23,834,830)
Other income	1,651,339	4,054,947	2,229,984
Selling and distribution expenses	**(53,577,550)**	(12,103,939)	(28,113,168)
General and administrative expenses	(14,279,639)	(12,153,679)	(14,510,932)
Provision for Inventory		(6,114,492)	(83,699,924)
Provision for bad debts	(15,095,491)	(11,212,052)	(5,325,409)
Factory cost during stoppage	--	(9,460,660)	--
Impairment Loss on PPE			(13,123,545)
Finance cost	(25,188,562)	(30,082,885)	(43,478,456)
Other comprehensive income	34,747,500	--	--
Net loss for the year	**(67,991,029)**	**(143,847,098)**	**(265,532,928)**
Net profit Margin	**(16.19)%**	**(38.40)%**	**(77.23)%**

Balance Sheet

Particulars	FY 2021 (AED)	FY 2022 (AED)	FY 2023 (AED)
Assets			
- Non-Current Assets	1,279,271,594	1,222,181,853	1,144,851,295
- Current Assets	390,646,524	322,652,549	196,412,904
Total	**1,669,918,118**	**1,544,834,312**	**1,341,264,199**
Equity			
- Share Capital	355,865,320	355,865,320	355,865,320
- Statutory Reserve	161,750,412	161,750,412	161,750,412
- Voluntary Reserve	222,536,002	135,012,205	
- Revaluation Reserve	34,747,500	34,747,500	34,747,500
- Retained Earnings	56,323,301	--	(130,520,723)
Total	**831,222,535**	**687,375,437**	**421,842,509**
Liabilities			
- Non-current Liabilities	387,414,843	389,797,053	418,133,102
- Current Liabilities	451,280,740	467,661,822	501,288,588
Total	**838,695,583**	**857,458,875**	**919,421,690**
Total Equity & Liabilities	**1,669,918,118**	**1,544,834,312**	**1,341,264,199**

1.3 Risks affecting the company and related sectors.

Lower selling prices & demand: Even though cement prices in the local market has marginally increased during 2024, the existing price level is not sufficient for the company to generate positive margins. Clinker prices in the export market has further declined compared to the previous years due to decreased international demand and intense competition.

Addressable markets & location disadvantages: Majority volume of cement sold in UAE are in the emirates of Abu Dhabi, Dubai and Sharjah. Currently, the Company is unable to explore these market opportunities due to longer distance, road toll charges and lack of enough transportation facilities. Cement manufactures located in RAK and Sharjah etc. are having shorter distance to the main markets and they can use alternative routes to avoid the toll charges. Additional transportation cost due to longer distance and inter emirates toll charges reduced / eroded the opportunities & margins.

Higher debt in capital structure & associated borrowing cost: Company is heavily funded by debt and poses a greater risk to investors. Company's debt to equity ratio 2.6x as on Q2 2024. Company's bank borrowing stands at AED. 533 million and associated borrowing costs increased drastically due to the increase in the EIBOR.

Liquidity crisis: Company has accumulated heavy losses from the year 2019 due to which the company is having serious liquidity crisis to meet its short-term obligations. Current ratio is 0.3 and quick ratio is 0.08 as of Q2 2024. Companies credit facilities from the vendor and banking lines are fully exhausted. Both vendors and banks are not willing to extend further support to Company's business due to non-settlement of their dues.

Higher cost of production: Production cost of clinker and cement are still high even after decrease in coal prices. Generation of positive margins can be expected only with further reduction in coal to its historical averages as well as increased demand and prices of cement and clinker.

Capacity utilization: Full utilization of the installed capacity is extremely important for the cost optimization, but lower demand and lower selling price are challenging.

Additional Capital Investment for Improving efficiency and profitability: Improving the productivity and cost optimization required capital investment for implementation of alternative fuel, upgradation of thermal power plant boilers, modification of kiln to increase outputs, use of solar energy, in house transportation, explore the opportunities of steel grade limestone export etc. Fund sourcing for such efficiency improvement drives are impossible during the current liquidity crisis of the company.

1.4 Changes in the members of the Board of Directors, senior executives and major shareholder in the last year.

- **Changes in board of directors:**

Sr No	Board Members Replaced	New Members Appointed in 2023
1.	MR. MOHAMED GHAITH KHALFAN AL MOHAIRBI	MR. KHALID ABDULWAHAB YOUSEF AHMED ALMUHAIDIB
2.	MR. WALID ABDALAZIZ FAKIEH	MR. DHARI SELFEEQ ALSHAMMARY
3.	MR. FAHAD AHMED ABDULLA AL SHAER	MR. SALEM MOHAMED ABDULLA MOHAMED ALZAHMI
4.	MR. SAEED MOBARAK OBAID AL ZAHMY	MS. MARYAM ABDULLA ALMATROOSHI
5.	MR. KHALED ABDALLA ALFADHALAH	MR. YAGOUB ALBUIJAN

- **Changes in senior executives:**

  Mr. Saeed Ahmed Ghareib Howaishil Alsereidi appointed as General Manager in July 2023

  Mr. Khaleil Saeed Obaid Mohamed Alnuaimi (Deputy General Manager – Readymix) resigned with effect from 31.12.2023

- **Changes in major shareholders:**

  No changes in the major shareholders during 2023

1.5 A summary of the company's commitment to corporate governance during past three years from 2021 to 2023.

Fujairah Cement Industries PJSC conducted the following procedures to implement the Chairman of Authority's Board of Directors' resolution no. (3 R.M) of 2020 and its amendments in respect of the Governance Control addressing the following:

- Amend the Company's Articles of Association to comply with the governance rules.
- Appointing the Independent Board Members,
- Appointing the Audit Committee by the Board,
- Appointing the Nomination & Remuneration Committee,
- Appointing the Risk Committee, and
- Appointing the Internal Control Department & Compliance Officer.

Further, Fujairah Cement Industries PJSC is compliant with the standards & procedures as set out by resolution no. (3. R.M) of 2020 and its amendments. The Company will continue to comply with the Securities & Commodities Authority requirements, particularly the new requirements approved by the new Commercial Companies Law No. 32 of 2021.

The Company continues to apply the governance rules effectively and transparently, based on the responsibility of the Board of Directors towards the Shareholders of the Company, in a manner that protects and enhances the value of Shareholders' rights through implementing the following procedures:

- The Board of Directors' commitment to hold at least four meetings on an annual basis.
- The Board of Directors' commitment to disclose their independence annually.
- The Board of Directors' commitment to disclose their trading and the trading of their first-degree relatives of Fujairah Cement Industries PJSC shares.
- Holding at least four meetings of the Audit Committee and holding at least one meeting of the Nominations & Remunerations Committee and holding at least four meetings of the Risk Committee and carrying out the tasks assigned to these Committees.
- Submitting a summary report to the Board of Directors with the results and recommendations reached by the committees and following up on the implementation of results.
- The Management's commitment to disclose the quarterly and annual financial statements within the legal timeframe.
- Disclose the most important decision taken by the Company's Board of Directors and share these results and decisions with the SCA and the ADX; and
- The Company continues to review its internal systems to introduce the procedures required by the aforementioned resolution for full and continuous compliance with circulars issued by SCA.

2. Detailed information about the causes of the company's accumulated losses

2.1 Detailed explanation of the reasons for the accumulated losses reaching the declared rate, including operational, financial and other reasons.

Increased coal / energy cost: Significant increase in the coal prices during the year 2022-2023 due to lockdown of coal mines globally to prevent the spread of Covid and geopolitical dynamics arising out of Russia-Ukraine war and the ominous recession in the US and EU countries. Coal being the primary energy source for clinker manufacturing, such drastic increase in the coal prices resulted in higher production cost during these periods. Moreover, company is largely depending on its captive thermal power plant for the electricity therefore increase in the coal price resulted in higher power cost also.

Lower demand and selling prices: Cement industry has strong linkages with other sectors, such as, infrastructure, construction, housing, transportation etc. The Russia-Ukraine conflict, elevated inflation, and high energy prices continued to hurt logistics and production costs, which have negatively impacted the global economy and the construction industry. Net average selling prices of clinker decreased by 23% during the year 2023 due to the price decrease in the export markets. Oman as one of the main markets for FCI's clinker and cement, in the year 2020 conformity charges of AED.1729 per truck was imposed at Oman border challenged the viability of selling products in this region also resulted in reduction in sales. Increase in the production cost due to the coal cost increase not resulted in the cement and clinker prices due to the supply and demand gap globally as well as in the local market.

High selling & distribution cost: Selling & distribution cost of clinker and cement increased due to increase in fuel prices, inter emirates road toll charges, conformity charges in Oman border during the year 2020 - 2021etc. resulted in higher cost of transportation. In the year 2022 most of the clinker exports were at ex-factory terms and in the year 2023 all the clinker shipments were at FOB terms.

Net realizable value: Due to the increase in energy cost and lower selling price, production cost of clinker and cement were more than the selling price therefore company write down the inventory value to its net realizable value during these periods as per IAS. Inventory of clinker and cement written down by AED 5.5 million, AED 18.28 million and 23.83 million in the year 2021, 2022 & 2023 respectively.

Provision for inventory: In the year 2022 a provision for AED.6.1million was booked against spare parts inventory. The Company's operations were ceased at the beginning of 2024 therefore in consideration of the economic obsolescence of the inventory, AED. 83.7 million provision was created during Q4 2023. In the 6 months' period ended June 2024, AED. 10.02 million provision was created against the clinker and cement inventory.

Increased Finance cost: Increase in finance cost due to increase in the EIBOR rates resulted in significant increase in the finance cost of the company. Finance cost for the year 2021, 2022 and 2023 are AED.25.19 million, AED. 30.08 million and AED.43.48 million respectively.

Factory Idle Cost: Company's operations were suspended from 01.01.2024 due to major refurbishment activities initially and the suspension extended due to financial liquidity constraints thus the factory idle cost during the period also resulted in accumulating losses. Factory idle cost for the year 2024 is AED.48.54 million.

Impairment loss of the subsidiary company: The Board of Directors, at the meeting held on 09 January 2024, decided to terminate the operations of the subsidiary "Fujairah Cement Industries PJSC FZE (Ready-mix Operations) with effect from 01 February 2024 therefore provision towards impairment of its current and non-current assets were booked in Q4 2023.

2.2 An explanation of the measures taken by the company to address or deal with the accumulated losses.

Termination of ready-mix operations: Board of Directors of the company decided to terminate the operations of the subsidiary Fujairah Cement Industries PJSC FZE (Ready-mix Division) which was continuously accumulating losses since inception.

Reduction of manpower and other overheads: Reduced manpower by 150 nos. and decided to maintain the overhead cost at the bare minimum levels. Vacated the villas hired by the company for its staff and relocated some of the senior staff to company owned camps and rest are provided with allowance.

Ceased Cement and Clinker Production and Sales: Board of Directors of the company decide to cease the production and sales activities considering the fact of negative contribution margins, liquidity crisis etc.

Appointment of financial advisor: Appointed EY Consulting LLC as financial advisor to assist in accessing the options and support in the restructuring & turnaround process. Management along with newly appointed financial consultant EY Consultant LLC undertaking strategic review of options for addressing the accumulated losses and related working capital requirements to assess resumption of company's operations.

Adjusting accumulated losses against the reserves: The Board of Directors resolved to offset the losses and/or the accumulated losses of the Company against the voluntary reserve as at 31 December 2022 and thereafter in the future in the event that the Company is reporting losses. Board of directors further recommended to sett of the accumulated losses as on 30.06.2024 against the statutory reserve of the company which is subject the general assembly approval.

3. Detailed explanation of the plan

3.1 Detailed information about the committee formed to implement the plan.

Mr. Saad Abdula Al Hanyan – Chairman of the committee
Mr. Mohamed Sharief Habib Alawadhi – Committee member
Mr. Mohammad Saeed Aldowaisan - Committee member

Mr. Hani Bishara – Financial Expert (EY Consulting LLC)

The above committee has been formed to supervise, accelerate and ensure the timely accomplishment of the investor search plans.

The short-term plan of covering the accumulated losses by statutory reserve was approved at board level on 31.07.2024 which is subject to the General Assembly approval. Senior management, with the support of EY, is currently searching for investors. Once investors are identified, they will be responsible for developing a recovery plan. The current search for investors is just the initial step toward creating the recovery plan. Please note, the Company will be seeking an exemption from SCA to disclose the intention of acquisition with the market.

3.2 A detailed explanation of the changes in each of the following:

- **Company strategies and directions.**
- **Company policies and operating procedures.**
- **The organizational structure of the company.**
- **The company's financial position.**
- **The company's assets.**
- **Future expectations for the financial statements for the next three years.**
- **Suggested solutions to avoid market risks, operational risks, and other risks that may affect the plan.**

Financial Crisis and Operational Halt: FCI is in a critical state, with operations halted due to severe liquidity issues. While the statutory reserve is currently addressing and covering the accumulated losses, this is not a sustainable long-term solution. The company urgently needs external funding to restart its business activities and achieve operational breakeven.

Funding Requirement for Restart: FCI requires approximately AED 200 million to cover immediate working capital, startup costs, and initial capital expenditures necessary to resume operations for the next six months.

Main Shareholders Opt for Strategic Investment: The board's consensus is that revitalizing the business requires the involvement of a "strategic investor," as additional support solely from current shareholders may not suffice. Therefore, while the existing main shareholders concur on the necessity of a turnaround, they believe the optimal path forward does not involve further capital infusion from their end at this juncture. This stance necessitates FCI to explore external funding options.

Immediate Requirement for External Financing: In light of the shareholders' reasoned stance and FCI's current financial limitations, it is imperative for the company to promptly seek investment from third-party sources. Securing this funding is crucial to avert the risk of liquidation, which would likely have adverse consequences for the existing creditors.

Current Plan is short-term solution: The current plan of covering the accumulated losses by statutory reserve is only a short-term solution. FCI must secure a strategic investor. This is the cornerstone for the company's long-term recovery and the preservation of stakeholder interests.

Strategic Investor as the Optimal Solution: Attracting a strategic investor is the most viable option for FCI. Such an investor would not only provide the necessary capital but also bring valuable expertise that could enhance FCI's operational efficiency and strengthen its competitive position in the market. The overall aim of securing a strategic investor is to improve FCI's equity position, deleverage its balance sheet, increase operational efficiencies, and ultimately boost profitability. Additionally, FCI would benefit from being integrated into the investor's broader strategic framework.

Uncertainty of Investor's Impact on FCI: The future strategies and organizational structure of FCI under a new investor are currently unclear. The investor could choose various paths, including full integration with their existing operations, maintaining FCI as a standalone entity, or focusing on specific segments of the business. Hence, we cannot provide detailed explanation of the expected changes as requested.

3.3 Information regarding Schedule or Time frame for implementing and completing the Recovery Plan.

We are unable to provide specific details about the future recovery plan at this time, as it will be contingent upon the proposals received from potential investors. However, we have already initiated our investor outreach efforts and are in the process of gathering non-binding offers. The original deadline for these offers was 9 August 2024, but due to requests from interested parties, we have extended it to 6 September 2024. With the emergence of additional bidders, it is likely that this deadline may be extended further. Consequently, the first round of the sales process has experienced significant delays. As a result, we are now aiming to generate momentum by the end of the year, to identify and advance discussions with prospective bidders.

Once we have received the non-binding offers, we will move forward with the Confirmatory Financial Due Diligence (DD) process. This stage is expected to take approximately 3 to 4 weeks and will include management presentations and site visits. Following due diligence, we anticipate receiving binding offers, which will lead us into the negotiation phase. Given the tight timelines and the need for comprehensive discussions and agreement finalizations, we recognize that the process may remain fluid.

We are committed to keeping all stakeholders informed as the situation evolves and will provide updates on the progress of the sales process and the anticipated closing timeline as more information becomes available.

4. <u>Ratifications</u>

We, the members of the company's board of directors and executive management, acknowledge that this plan contains information presented according to the procedures and instructions of the companies whose shares are listed in the market and whose accumulated losses reached 61.58% of its capital, issued by the Securities and Commodities Authority (SCA). Collectively and individually, we bear full responsibility for the accuracy of the contents of this plan and the information contained therein. The SCA or Market does not bear any responsibility for the contents of this plan, nor does it give any assurances regarding its accuracy or completeness.

The name of the chairman of the company or the authorized signatory	**Mohamed Bin Hamad Bin Saif Alsharqi**
Signature and Date	
Company's Seal	