

2nd Quarter & Half Yearly Report

(Un-Audited)

December 31, 2011



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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COMPANY INFORMATION

Board of Directors

Mr. Aizaz Mansoor Sheikh
Chief Executive

Mr. Nadeem Atta Sheikh
Mrs. Ghazala Amjad
Mrs. Hafsa Nadeem
Mr. Omer Aizaz Sheikh
Mr. Ibrahim Tanseer Sheikh
Mr. M. Atta Tanseer Sheikh

Audit Committee

Mr. Ibrahim Tanseer Sheikh
Chairman

Mr. Omer Aizaz Sheikh
Mr. M. Atta Tanseer Sheikh

Company Secretary

Mr. Usman Khalil

Legal Advisor

Qazi Waheed-ud-Din

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

Shares Registrar

AZM Computers (Pvt.) Limited
24-Ferozepur Road,
Mozang Chungi, Lahore.
Tel: (042) 37500131
Fax: (042) 37500030

Registered Office and Works

Kohat Cement Company Limited
Rawalpindi Road, Kohat.
Tel: (0922) 560990
Fax: (0922) 560405
E-mail: finance@kohatcement.com

Head Office

37 - P, Gulberg - II, Lahore.
Tel: (042) 11 111 5225
Fax: (042) 3575 4990
E-mail: mis@kohatcement.com

Bankers of the Company

Standard Chartered Bank (Pak) Ltd.
The Bank of Khyber
Askari Bank Limited
Soneri Bank Limited
National Bank of Pakistan
KASB Bank Limited
The Bank of Punjab
Bank Alfalah Limited
MCB Bank Limited
Allied Bank Limited
United Bank Limited



DIRECTORS' REVIEW

It gives us pleasure to present the interim financial information of your company duly reviewed by the auditors for the half year ended 31st December 2011.

Market Review

During the first half of FY 2011-12 local dispatches of cement have increased by 8% while exports have declined by 5% compared to the corresponding period last year. Overall growth in sales volume for the period has been recorded at 4%, which is far below the desired volumes. Sales volumes of your company during the half year have, however, increased by 19%, which is well above the industry average.

Production and Sales Volumes

The new grey cement line remained operative during the period while the old grey cement line remained closed due to lack of demand. Limited quantities of white cement were produced and sold due to reduced demand. Production and sales volumes of the Company during the period were as follows:

	October-December		July-December	
	2011	2010	2011	2010
	(Quantities in Tons)		(Quantities in Tons)	
Clinker Production	371,522	514,800	712,788	701,671
Cement Dispatches	431,918	397,691	784,633	659,036

Financial Performance

Increased volumes and improved prices helped increase the sales revenue by 62%. Your Company earned a net profit of Rs.554.723 million after accounting for depreciation of Rs. 169.2 million and provision for taxation of Rs. 83.8 million. This represents an EPS of Rs. 4.31 during the period. Financial results are summarized below:

	October-December		July-December	
	2011	2010	2011	2010
	(Rupees in Thousands)		(Rupees in Thousands)	
Net Sales Revenue	2,372,677	1,581,749	4,074,167	2,515,897
Gross Profit	709,412	186,943	1,048,696	307,310
Net Profit / (Loss)	426,639	8,234	554,723	(74,714)
Earnings / (Loss) per share (Rs.)	3.31	0.06	4.31	(0.58)

Debt Obligations

The Company is current with its debt obligations. In addition to the scheduled payments, Company has also pre-paid long term debts to the extent of Rs. 250 million during the period under review.

On Going Projects

In order to reduce dependence on imported coal, the management is working on alternate fuel project, which will help reduce the energy cost. This project will hopefully be implemented in one year.

Future outlook

The future outlook is positive as the domestic demand for cement is expected to grow. The management will remain focused on efficient operations, control of costs and expeditious implementation of alternate energy project

Acknowledgments

While placing on record our thanks to all the stakeholders, we look forward to their continued support in future. The employees of the Company deserve a special vote of thanks for their hard work, dedication and commitment.

For and on behalf of the Board



Aizaz Mansoor Sheikh
Chief Executive

Lahore : February 25, 2012



Independent Auditors Report on Review of Condensed Interim Financial Information to the Members

Introduction

We have reviewed the accompanying condensed interim balance sheet of **Kohat Cement Company Limited** ("**the Company**") as at 31 December 2011 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim statement of changes in equity and notes to the condensed interim financial information for the six-months period then ended (here-in-after referred as the "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of Interim Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting.

The figures for the quarters ended 31 December 2011 and 31 December 2010 in the condensed interim profit and loss account and condensed interim statement of comprehensive income have not been reviewed and we do not express a conclusion thereon.

Lahore: February 25, 2012

KPMG Taseer Hadi & Co.
KPMG Taseer Hadi & Co.
Chartered Accounts
(Bilal Ali)



**Condensed Interim Balance Sheet (Un-audited)
As at December 31, 2011**

	Note	(Un-audited) Dec. 31, 2011 (Rupees)	(Audited) June 30, 2011 (Rupees)
Share capital and reserves			
Authorized share capital		<u>1,500,000,000</u>	<u>1,500,000,000</u>
Issued, subscribed and paid up capital		1,287,572,410	1,287,572,410
Reserves		80,018,625	129,409,009
Accumulated profit		<u>1,240,557,948</u>	<u>685,834,718</u>
		<u>2,608,148,983</u>	<u>2,102,816,137</u>
Non-current liabilities			
Long term finances - secured	4	<u>2,289,675,412</u>	3,536,870,000
Long term security deposits and retention money		165,193,720	163,656,829
Derivative financial liabilities	5	-	187,420,429
Deferred liabilities	6	<u>925,441,661</u>	<u>323,097,976</u>
		<u>3,380,310,793</u>	<u>4,211,045,234</u>
Current liabilities			
Trade and other payables		<u>1,213,302,257</u>	973,628,527
Accrued mark up on secured loans		87,744,139	433,182,170
Short term finances - secured		<u>1,145,347,985</u>	1,363,678,773
Derivative financial liabilities	5	<u>221,636,728</u>	-
Current portion of non-current liabilities		<u>575,324,588</u>	<u>40,050,000</u>
		<u>3,243,355,697</u>	<u>2,810,539,470</u>
Contingencies and commitments			
	7	<u>-</u>	<u>-</u>
		<u>9,231,815,473</u>	<u>9,124,400,841</u>
Non-current assets			
Operating fixed assets	8	<u>6,974,330,950</u>	7,140,840,908
Capital work-in-progress		22,200,000	-
Intangible assets		2,185,894	2,355,963
Long term loans and advances		23,582,930	23,706,054
Long term deposits		<u>3,879,440</u>	<u>3,879,440</u>
		<u>7,026,179,214</u>	<u>7,170,782,365</u>
Current assets			
Stores, spares and loose tools	9	<u>991,106,881</u>	850,571,198
Stock in trade		551,804,526	507,527,333
Trade debts		22,405,130	12,567,298
Investments		<u>25,668,000</u>	<u>36,156,000</u>
Advances, deposits, prepayments and other receivables		<u>437,867,645</u>	<u>506,114,913</u>
Cash and bank balances		<u>176,784,077</u>	<u>40,681,734</u>
		<u>2,205,636,259</u>	<u>1,953,618,476</u>
		<u>9,231,815,473</u>	<u>9,124,400,841</u>

The attached notes 1 to 15 form an integral part of these condensed interim financial statements.



Chief Executive



Director

**Condensed Interim Profit and Loss Account (Un-audited)
For the Half Year and Quarter ended December 31, 2011**

	2011		2010	
	July to December (Rupees)	October to December (Rupees)	July to December (Rupees)	October to December (Rupees)
Note				
Sales - net	4,074,167,523	2,372,677,711	2,515,897,330	1,581,749,852
Cost of goods sold	3,025,470,624	1,663,265,412	2,208,586,349	1,394,806,667
Gross profit	1,048,696,899	709,412,299	307,310,981	186,943,185
Selling and distribution cost	21,362,046	12,492,805	15,885,333	9,089,924
Administrative and general expenses	30,677,599	16,210,892	22,167,813	11,162,923
Other operating expenses	34,555,903	27,240,579	6,694,752	(185,175)
Other operating income	(16,934,795)	(6,818,065)	(16,549,700)	(15,383,873)
	69,660,753	49,126,211	28,198,198	4,683,799
Operating profit	979,036,146	660,286,088	279,112,783	182,259,386
Finance cost	340,523,996	160,765,094	329,348,863	164,750,213
Profit/(loss) before taxation	638,512,150	499,520,994	(50,236,080)	17,509,173
Taxation	10 83,788,920	72,881,365	24,478,298	9,275,130
Profit/ (loss) after taxation	554,723,230	426,639,629	(74,714,378)	8,234,043
(Loss)/earning per share (basic and diluted)	4.31	3.31	(0.58)	0.06

The attached notes 1 to 15 form an integral part of these condensed interim financial statements.



Chief Executive



Director



Condensed Interim Statement of Comprehensive Income (Un-audited)
For the Half Year and Quarter ended December 31, 2011

	2011		2010	
	July to December (Rupees)	October to December (Rupees)	July to December (Rupees)	October to December (Rupees)
Profit/ (loss) after taxation	554,723,230	426,639,629	(74,714,378)	8,234,043
Other comprehensive income				
Available for sale financial assets				
Change in fair value	(10,488,000)	1,150,000	-	-
Cash flow hedge				
Fair value adjustment of cash flow hedge	(34,216,300)	(7,816,212)	6,171,617	19,116,407
Re-pricing settlement received from cash flow hedge	28,152,259	-	25,056,572	-
Deferred tax on cash flow hedge	(32,838,343)	(47,404,118)	(1,910,342)	(6,364,029)
	(38,902,384)	(55,220,330)	29,317,847	12,752,378
Other comprehensive (loss)/ income - net of tax	(49,390,384)	(54,070,330)	29,317,847	12,752,378
Total comprehensive income/ (loss) for the period	505,332,846	372,569,299	(45,396,531)	20,986,421

The attached notes 1 to 15 form an integral part of these condensed interim financial statements.



Chief Executive



Director

**Condensed Interim Cash Flow Statement (Un-audited)
For the Half Year ended December 31, 2011**

	Note	2011 (Rupees)	2010 (Rupees)
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	11	1,265,960,327	187,283,606
Finance cost paid		(154,067,561)	(191,148,248)
Re-pricing settlement received from cash flow hedge		28,152,259	25,056,572
Dividend paid		-	(2,295)
Retirement benefits paid		(7,064,425)	(440,008)
Compensated absences paid		(537,661)	(336,188)
Income tax paid		(43,835,400)	(31,031,217)
Net cash inflow/ (outflow) from operating activities		1,088,607,539	(10,617,778)
Cash flow from investing activities			
Fixed capital expenditure		(25,240,365)	(26,754,205)
Sale proceeds of property, plant and equipment		579,500	2,055,224
Profit on bank deposits		2,283,333	1,232,629
Decrease in long term loans and advances		123,124	99,341
Net cash generated from/ (used in) investing activities		(22,254,408)	(23,367,011)
Cash flow from financing activities			
Repayments of long term finances		(711,920,000)	(25,849,998)
(Repayment of)/ proceeds from import finances		(202,822,355)	103,868,760
Proceeds from export refinance		200,000,000	-
Repayment of finance lease liabilities		-	(969,451)
Net cash used in financing activities		(714,742,355)	77,049,311
Net increase/ (decrease) in cash and cash equivalents		351,610,776	43,064,522
Cash and cash equivalents at the beginning of the period		(722,174,684)	(914,486,523)
Cash and cash equivalents at the end of the period	12	(370,563,908)	(871,422,001)

The attached notes 1 to 15 form an integral part of these condensed interim financial statements.



Chief Executive



Director



Condensed Interim Statement of Changes in Equity (Un-audited) For the Half Year ended December 31, 2011

	Share Capital	Share Premium	General Reserve	Fair Value Reserve Rupees	Hedging Reserve	Accumulated Profit	Total
Balance as at 30 June 2010	1,287,572,410	49,704,951	70,000,000	-	(68,426,237)	622,118,747	1,960,969,871
Total comprehensive income/(loss) for the half year ended 31 December 2010	-	-	-	-	29,317,847	(74,714,378)	(45,396,531)
Balance as at 31 December 2010	1,287,572,410	49,704,951	70,000,000	-	(39,108,390)	547,404,369	1,915,573,340
Balance as at 30 June 2011	1,287,572,410	49,704,951	70,000,000	15,987,900	(6,283,842)	685,834,718	2,102,816,137
Total comprehensive income/(loss) for the half year ended 31 December 2011	-	-	-	(10,488,000)	(38,902,384)	554,723,230	505,332,846
Balance as at 31 December 2011	1,287,572,410	49,704,951	70,000,000	5,499,900	(45,186,226)	1,240,557,948	2,608,148,983

The attached notes 1 to 15 form an integral part of these condensed interim financial statements.



Chief Executive



Director

Notes to the Condensed Interim Financial Statements (Un-audited) For the Half Year ended December 31, 2011

1 Basis of preparation

These condensed interim financial information comprises the balance sheet of Kohat Cement Company Limited ("the Company"), as at 31 December 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof.

The condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 - Interim Financial Reporting and is being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984. This condensed interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements as at and for the year ended 30 June 2011.

2 Statement of consistency in accounting policies

The accounting policies and methods of computation adopted for the preparation of this condensed interim financial information are the same as those applied in preparation of financial statements for the preceding year ended 30 June 2011.

3 Significant estimates

The preparation of these condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense and related disclosures at the date of financial statements. Actual results may differ from these estimates. In preparing these condensed interim financial statements, the significant judgments made by management in applying accounting policies, key estimates and uncertainty includes:

- Depreciation method, residual values and useful life of depreciable assets
- Taxation
- Staff retirement benefits
- Provisions and Contingencies
- Derivative financial instruments

4. LONG TERM FINANCES - SECURED	Note	Dec. 31, 2011 Rupees	June 30, 2011 Rupees
Standard Chartered Bank (Pakistan) Limited	4.1	-	62,600,000
Redeemable capital - Sukuk Certificates	4.2	1,765,000,000	2,414,320,000
Consortium of financial institutions led by Standard Chartered Bank (Pakistan) Limited		<u>1,100,000,000</u>	<u>1,100,000,000</u>
		<u>2,865,000,000</u>	<u>3,576,920,000</u>
Less: Current maturity shown under current liabilities		<u>(575,324,588)</u>	<u>(40,050,000)</u>
		<u>2,289,675,412</u>	<u>3,536,870,000</u>

4.1 This has been fully repaid during the period.

4.2 This facility has been restructured during the period. According to the revised terms four quarterly installments starting 20 September 2011 and ending on 20 June 2012 aggregating to PKR 760 million are to be adjusted towards principal only whereas markup for the said period has been deferred. The Company has repaid PKR 649.3 million upto 31 December 2011. Entire facility shall now be paid off by 20 September 2016. Deferred markup on installments due by 19 June 2012 shall be paid in eight quarterly installments commencing from 20 September 2014. This includes the markup amounting to PKR 401 million deferred during the previous year. Further, the markup rate has been reduced from 3 month kibar plus 1.8% to 3 month kibar plus 1.5%. All other terms shall remain the same.

5 Derivative financial liabilities

The derivative financial instrument (Cross Currency Swap) shall mature on 20 September 2012.



6	Deferred liabilities - secured	Note	Dec. 31, 2011 Rupees	June 30, 2011 Rupees
	Staff retirement benefits		-	6,730,932
	Compensated absences		4,069,442	2,120,361
	Deferred Taxation		77,981,708	2,750,638
	Deferred markup	6.1	<u>843,390,511</u>	<u>311,496,045</u>
			<u>925,441,661</u>	<u>323,097,976</u>
	6.1 Deferred markup on:			
	Sukuk Certificates	4.2	582,563,276	52,139,632
	Syndicated Term Finance		<u>260,827,235</u>	<u>259,356,413</u>
			<u>843,390,511</u>	<u>311,496,045</u>

7 CONTINGENCIES AND COMMITMENTS

7.1 Contingencies

An application has been filed by some shareholders and one director of the Company before the Securities and Exchange Commission of Pakistan (the "Commission") praying for investigation into the affairs of the Company and the Commission has issued a show cause notice to the Company and all its directors. Responding to the notice, the management has strongly denied all the baseless, false and frivolous allegations levelled in the application and has further challenged the said notice before the Honourable Lahore High Court, Lahore (LHC). The LHC has stayed the proceedings till the next date of hearing. As per legal counsel of the Company, the application has no financial exposure to the Company.

Other than the above mentioned matter, there is no material change in the contingent liabilities of the Company since the last annual balance sheet date.

7.2	Commitments in respect of:	Dec. 31, 2011 Rupees	June 30, 2011 Rupees
	Capital expenditure	60,356,997	-
	Other than capital expenditure	<u>36,269,412</u>	<u>78,603,606</u>

8 Property, plant and equipment

	Opening written down value	7,140,840,908	6,368,030,446
	Additions (cost)		
	Factory building	-	328,864,501
	Office and other building	-	228,440
	Plant, machinery and equipment	-	732,758,268
	Storage tanks and pipelines	-	12,961,202
	Power installations	-	742,400
	Furniture, fixtures and office equipment	1,354,877	2,248,358
	Computers and printers	1,212,241	2,805,076
	Light vehicles	199,500	5,713,201
	Heavy vehicles	-	155,440
	Laboratory equipments	-	1,689,298
	Weighing scales	32,000	-
		<u>2,798,618</u>	<u>1,088,166,184</u>
	Disposals (net book value)		
	Light vehicles	(104,787)	(2,252,359)
	Heavy vehicles	-	(2,086,198)
	Plant, machinery and equipments	-	(454,363)
	Furniture, fixtures and other office equipment	(5,073)	-
		<u>(109,860)</u>	<u>(4,792,920)</u>
	Depreciation charge for the period	<u>(169,198,716)</u>	<u>(310,562,802)</u>
	Closing written down value	<u>6,974,330,950</u>	<u>7,140,840,908</u>

9 Stores, spares and loose tools

This includes store in transit amounting PKR 562.7 million (30 June 2011: PKR 415.3 million).

	July to Dec. 2011 Rupees	July to Dec. 2010 Rupees
10 Taxation		
Current	41,396,194	25,953,400
Deferred	42,392,726	(1,475,102)
	<u>83,788,920</u>	<u>24,478,298</u>
11 Cash generated from operations		
Profit/ (loss) before taxation	638,512,150	(50,236,080)
Adjustments for non-cash expenses and other items:		
Depreciation on property, plant and equipment	169,198,716	152,343,965
Amortization on intangible assets	411,816	299,369
(Profit) on sale of property, plant and equipments	(469,640)	(446,857)
(Profit) on bank deposit	(2,283,333)	(1,232,629)
Staff retirement benefits	333,493	585,210
Compensated absences	2,486,742	123,492
Exchange fluctuation (gain)/ loss	(8,471,622)	2,962,502
Finance cost	340,523,996	329,348,863
	<u>501,730,168</u>	<u>483,983,915</u>
	1,140,242,318	433,747,835
(Increase)/decrease in current assets:		
Stores, spares and loose tools	(140,535,683)	(154,945,633)
Stock in trade	(44,277,193)	(411,297,272)
Trade debts	(9,837,832)	(9,209,245)
Advances, deposits, prepayments and other receivables	80,694,987	(24,972,988)
Increase/(decrease) in current liabilities		
Trade and other payables	239,673,730	353,960,909
	<u>125,718,009</u>	<u>(246,464,229)</u>
	<u>1,265,960,327</u>	<u>187,283,606</u>
12 Cash and cash equivalents		
Cash and bank balances	176,784,077	36,957,722
Short term running finances	(547,347,985)	(908,379,723)
	<u>(370,563,908)</u>	<u>(871,422,001)</u>
13 Transactions with related parties		
There are no significant transactions with related parties during the period.		
14 Date of authorization for issue		
These un-audited condensed interim financial statements were authorized for issue by the Board of Directors of the Company on February 25, 2012.		
15 General		
Figures have been rounded off to nearest rupee.		



Chief Executive



Director





HEAD OFFICE

37-P, Gulberg II, Lahore, Pakistan.

UAN # +92 42 111 115 225

TEL # +92 42 35874991, 35874992

FAX # +92 42 35874990, 35754084

EMAIL: marketing@kohatcement.com

sales@kohatcement.com

DISPATCH DEPARTMENT

TEL # +92 922 560089

FAX # +92 922 560983

EMAIL: dispatch@kohatcement.com

LOCAL & EXPORT INQUIRIES

EMAIL: marketing@kohatcement.com

sales@kohatcement.com

SALES OFFICES

KOHAT

Rawalpindi Road, Kohat.

TEL # +92 922 560984

FAX # +92 922 560813

EMAIL: kohatsales@kohatcement.com

RAWALPINDI

Unit 9, First Floor, Al – Amin Plaza,

The Mall, Rawalpindi.

TEL # +92 51 5701101

FAX # +92 51 5701102

EMAIL: pindisales@kohatcement.com

PESHAWAR

401 – A Block, City Towers,

University Road, Peshawar.

TEL # +92 91 5702246, 5841215

FAX # +92 91 5704690

EMAIL: peshawarsales@kohatcement.com