ADMINISTRATIVE AND FINANCIAL ORGANIZATION OF THE NATIONAL VETERINARY INSTITUTE, DEBRÉ-ZEIT, ETHIOPIA

by

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1. MISSION TO THE NVI IN DEBRE ZEIT, 19.11.94 - 3.12.94

The purpose of this third mission was to study the administrative, financial and accounting organization to be set up. The mission's aim was to finalize the NVI's organization in the context of the management autonomy proposed in the previous report. The current administrative and accounting organization is really not suited to the needs of an independent industrial enterprise. As we recommended in the last report, we must therefore progressively set up an organisation allowing the managers to run the NVI's activities in full knowledge of the necessary facts.

The terms of reference are as follows:

- Establishment of the administrative, financial and accounting organization.
- Management control: implementation of the necessary computer systems.
- Budgeting control: at the request of Dr. Mebratu, priority was given to the study of the current cost price of the various vaccines produced at Debré-Zeit. It is necessary to compare the cost price with the international selling prices in order to ensure that the NVI is competitive.

Because of the limited time available, we modified the planned program. In particular, we considered that the implementation of management control could be delayed, especially since nobody working at the NVI has currently received sufficient training to take part.

With the help of two employees from the Accounting Department, we studied the following aspects:

- the accounting plan
- budget estimates
- cost prices

Lastly, we studied with Dr. Mebratu the profile of the person to be recruited for the job of Administrative and Financial Director.
2. ACCOUNTING PLAN - DETAILS OF THE ACCOUNTS

The accounting plan was studied in two phases. First, we analyzed the NVI's requirements in order to choose the accounts necessary to establish the profit and loss account. In the second phase, we studied the requirements for drawing up the balance sheet. The initial basis for this work was the French accounting plan with its numbering scheme, which we retained. Obviously, in comparison with the French plan, which is relatively complex and has to take into account restrictive fiscal legislation, the number of accounts was considerably reduced. The choice was made with the help of two employees from the Accounting Department.
### Profit and Loss Account
#### Details of the Items

<table>
<thead>
<tr>
<th>6th Class</th>
<th>Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>601</td>
<td>Purchase of raw materials</td>
</tr>
<tr>
<td></td>
<td>6011 Chemical products</td>
</tr>
<tr>
<td></td>
<td>6012 Biological products</td>
</tr>
<tr>
<td></td>
<td>6013 Other raw materials</td>
</tr>
<tr>
<td></td>
<td>6014 Bottles</td>
</tr>
<tr>
<td>602</td>
<td>Purchase of consumable materials</td>
</tr>
<tr>
<td></td>
<td>6021 Products for cleaning bottles</td>
</tr>
<tr>
<td></td>
<td>6022 Other products</td>
</tr>
<tr>
<td>603</td>
<td>Consumable purchases</td>
</tr>
<tr>
<td></td>
<td>6031 Labels and gums</td>
</tr>
<tr>
<td></td>
<td>6032 Maintenance products</td>
</tr>
<tr>
<td></td>
<td>6033 Stationery</td>
</tr>
<tr>
<td>604</td>
<td>Packaging</td>
</tr>
<tr>
<td></td>
<td>6041 Wooden boxes</td>
</tr>
<tr>
<td></td>
<td>6042 Polystyrene boxes</td>
</tr>
<tr>
<td>605</td>
<td>Small equipment</td>
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<tr>
<td></td>
<td>606</td>
</tr>
<tr>
<td></td>
<td>6061 Water</td>
</tr>
<tr>
<td></td>
<td>6062 Electricity</td>
</tr>
<tr>
<td></td>
<td>6063 Fuel generator cost</td>
</tr>
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<td>61</td>
<td>External Purchases</td>
</tr>
<tr>
<td></td>
<td>611 Subcontracts</td>
</tr>
<tr>
<td></td>
<td>612 Rent of houses and offices</td>
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<tr>
<td></td>
<td>613 Maintenance</td>
</tr>
<tr>
<td></td>
<td>6131 Maintenance of buildings</td>
</tr>
<tr>
<td></td>
<td>6132 Maintenance of equipment</td>
</tr>
<tr>
<td></td>
<td>6133 Maintenance of cars</td>
</tr>
<tr>
<td></td>
<td>6134 Maintenance of office equipment and furniture</td>
</tr>
<tr>
<td></td>
<td>6135 Maintenance of gardens including labor cost</td>
</tr>
</tbody>
</table>
614 Insurance
   6141 Insurance for fire, storm, flood
   6142 Insurance for cars
   6143 Other insurance

615 Research and development
   6151 Purchase of animals
   6152 Feed for animals
   6153 Labor cost
   6154 Other expenses

616 Miscellaneous (sundry expenses)
   6161 Library and documentation
   6162 Others

62 Other external services

621 External temporary contracts (labor)

622 Commissions and fees
   6221 Commissions on purchases
   6222 Commissions on sales
   6223 Transit expenses for export
   6224 Fees
   6225 Fees for municipalities on purchase of land or buildings

623 Advertising
   6231 Advertising in magazines
   6232 Samples
   6233 Catalogs and printed documents
   6234 Tips and gifts

624 Transportation (external organization)
   6241 Transportation of purchases
   6242 Transportation of sales
   6243 Transportation of workers

625 Travel
   6251 Travel - Ticket fares (commercial business)
   6252 Hotel / restaurant
   6253 Missions (travel expenses for management and technicians)
   6254 Reception of visitors
626 Postage and telephone
  6261 Postage
  6262 Telephone, fax, telex

627 Miscellaneous external services
  6271 Subscriptions
  6272 Recruitment

63 Taxes
  631 Taxes on properties
  632 Taxes on sales

64 Salaries
  641 Salaries for technical work (cleaning of laboratories included)
  642 Salaries of administrative staff
  643 Provision for vacations
  644 Bonuses
  645 Indemnities - allowances
  646 Social charges

65 Other expenses
  651 Patent fees
  652 Provision for bad debts

66 Financial charges
  661 Long-term loans interest
  662 Bank overdraft interest
  663 Loss on foreign currencies
  664 Other financial expenses

67 Extraordinary charges
Depreciation

681 Depreciation of fixed assets
   6811 Depreciation of buildings
   6812 Depreciation of equipment
      68121 Depreciation over 3 years
      68122 Depreciation over 5 years
      68123 Depreciation over 8 years
      68124 Depreciation over 10 years
   6813 Depreciation of cars
   6814 Depreciation of furniture and office fittings
   6815 Depreciation of office equipment (computers)
   6816 Other depreciation

682 Depreciation of current assets
   6821 Depreciation of inventory
   6822 Depreciation of bad debts (unpaid invoices)
Sales and receipts

Sales

Sales of finished products
  Domestic sales
  Export

Sales of scraps or unuseful materials

Studies

Sales of purchased finished products

Other sales

Discount and rebates

Variation of inventory

Variation of inventory of work in progress

Variation of inventory of finished products

Production of fixed assets

Reimbursement of extra charges

Received subsidies

Other receipts (royalties, etc.)

Financial products

Profit on foreign currencies

Other financial products (received interest)

Extraordinary profits

Profit from sales of fixed assets

Other extraordinary profits

Recovery of provision for bad debts
Balance Sheet Account - Classes 1 to 5

Class 1 - Equity

10

101 Share capital

102 Reserves

11 Reported Earnings

12 Net profit

13 Subsidies

131 Subsidies for purchase of equipment

14 Regimented provisions

15 Provisions

151 Provision for disputes at law

152 Provision for loss on foreign currency

153 Provision for taxes

154 Provisions for expensive repairs

16 Loans and debts

161 Loans from banks

162 Loans from State

163 Other loans

1631 Interest due
Class 2 - Fixed Assets

20  Intangible properties
   201  Initial expenses
   202  Expenses for research and development

21  Tangible properties and assets
   211  Land
      2111  Undeveloped land
      2112  Developed land
      2113  Built land and sites
   212  Development of land
   213  Buildings
      2131  Buildings
      2132  Fittings of buildings
   214  Technical fixed assets
      2141  Industrial equipment
   215  Other tangible fixed assets
      2151
      2152  Cars and lorries
      2153  Office equipment
      2154  Computer hardware
      2155  Software
      2156  Office furniture
      2157  Cattle
      2158  Recovered packaging

23  Assets in progress
   231  Land
   232  Buildings
   233  Equipment
   234  Account on orders of fixed assets
24 Other financial assets

241 Loans
   2411 Loans to shareholders
   2412 Loans to employees
   2413 Other loans

242 Deposits and guarantees

243 Others

28 Depreciation of fixed assets

280 Amortization of intangible assets
   2801 Amortization of initial expenses
   2802 Amortization of research and development expenses

281 Depreciation of tangible assets
   2811 Development of land
   2812 Buildings
   2813 Industrial equipment
      28131 Depreciation over 3 years
      28132 Depreciation over 5 years
      28133 Depreciation over 8 years
      28134
      28135
   2814 Depreciation of fittings
   2815 Depreciation of office equipment
   2816 Depreciation of computer hardware
   2817 Depreciation of software
   2818 Depreciation of office furniture
   2819 Depreciation of cattle
   2820 Depreciation of recovered packaging
   2821 Depreciation of other fixed assets
Class 3 - Inventory

31  Raw materials

32  Other suppliers

321  Consumable materials

3221  Energy - fuel
3222  Cleaning supplies
3223  Other consumable materials
3224  Stationery

322  Packaging

3221  Lost packaging
3222  Recovered packaging

33  Semi-finished products

34  Finished products

35  Waste to be sold

36  Finished products bought for resale

37  Provision for depreciation of inventory

371  Provision for depreciation of raw materials

372  Provision for depreciation of other supplies

373  Provision for depreciation of semi-finished products (in progress)

374  Provision for depreciation of finished products

375  Provision for depreciation of products for resale
Class 4 - Current Assets

40  Trade creditors
    401 Suppliers
    402 Suppliers of fixed assets
    403 Payment in advance to suppliers

41  Trade debtors
    411 Customers
    412 Doubtful debts
    413 Progress payments
    414 Amount due on recovered packaging
    415 Rebates and discount

42  Employees
    420 Salaries to be paid
    425 Advances on salaries

43  Social organization

44  State and others
    441 Subsidies to be received for capital expenditure
    442 Subsidies to be received for production
    444 Tax on profit
    445 Other taxes

46  Sundry debtors and creditors
    461 Sundry debtors
    462 Sundry creditors

48  Provision for depreciation of current assets
Class 5

50  Banks

501  Checks to be paid

502  Bank no. 1

   5021  National currency
   5022  Foreign currency

503  Bank no. 2

   5031  National currency
   5032  Foreign currency

510  Other financial organizations

515  Interest due

520  Bank overdraft

53  Cash
3. DESCRIPTION OF THE SOFTWARE REQUIRED FOR ACCOUNTING

There are a large number of general accounting software packages on the market. To facilitate the accountant's job, however, this software must have the following features:

1. It must be capable of double-entry accounting

2. It must be capable of automatically posting the contra of each entry without requiring the code to be reindicated.

3. It must provide automatic balancing and reconciliation.
   It must also enable totalization of the accounts under the major headings (see accounting plan).

4. It must be possible to set up a link with the cost accounting system.

5. It must also be possible to set up the link with the inventory management system (kept by the raw materials store or the finished products store) and to view the store data directly on the screen.

6. It must be possible to manage the cash flow accounts with the software.
4. DEFINITION OF THE FUNCTION OF THE ADMINISTRATIVE AND FINANCIAL ACCOUNTING DIRECTOR

The person recruited for this job must have the following qualities:

1. **Thorough training in accountancy.** He/she will be responsible for:

   - ensuring that the daily book-keeping entries are made correctly and that there are no delays.
   - ensuring that the software is used correctly.
   - complementary training of the staff under his/her management
   - sharing out the work so that it is done under the best possible conditions.

   The accounts department must be capable of:
   a) supplying the general management with an income statement every month, including an analysis of any deviations from the budget.
   b) drawing up a full balance sheet at least once a year.

   The accounts department must therefore have a link with the stores for inventory management. This means implementing inventory management software.

   The accounts department must also keep the fixed assets accounts up to date.

   The accounts department is responsible for sending reminders concerning overdue customer invoices.

   The Accounting Director will be responsible for ensuring that all these tasks are performed regularly.

   The Accounting Director should not hesitate to contact the General Management to ensure that he/she receives the necessary documents on time.

   - Preparation of the operating budgets
   - Calculation and checking of the cost prices in collaboration with the production departments
   - Drawing up tax declarations.

2. **Administrative training:**

   As Administrative Director, the person recruited will have to handle:

   a) the monitoring of the insurance policies
   b) reporting to the local or state authorities concerning the administrative regulations. He/she must be familiar with the legislation governing companies and business law.
   c) supervision of the administrative departments (secretaries, switchboard, purchasing of stationery).
3. Financial training:

- Cash management - forecasting - financing plan
- Relations with the banks
- Supervision of tax and duty
- Study of return on investments
- Payment of supplier invoices
- Supervision of loans

The audit department must be under the direct responsibility of the General Manager.

4. Personnel management:

- Supervision of the personnel departments
- Monitoring of correct use of the payroll software
- Familiarity with the social laws and labor regulations and monitoring of their application.
5. **CASH MANAGEMENT**

1. In order to facilitate cash management, it is useful to draw up a budget in accordance with the operating budget.

   The calculation of the operating revenues and expenditures will take into account the monthly variations in activity and the payment dates.

   Investment expenditure (purchase of equipment, etc.), reimbursements and interest on loans must be included in the expenditures.

   Similarly, any new loans must be included in the revenues, as must government aid.

2. The cash budget must be divided into 12 periods. After comparing the real activity with the forecast activity, the forecast revenues and expenses must be recalculated in order to adjust them. The forecasts are usually recalculated for the next three months.

3. The table below shows the expenditures and revenues as the accounts system communicates them. Extra columns are provided for entering new forecasts taking into account actual performance. The table proposed is only a model and can be modified to suit the requirements of the NVI.
<table>
<thead>
<tr>
<th></th>
<th>Forecast</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments from customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social charges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw material suppliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other suppliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursement of loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post - Telephone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas</td>
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<td></td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income less expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Amount available at the beginning of the period</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Amount available at the end of the period</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6. DOCUMENTS NECESSARY FOR COST PRICE MONITORING

To work out the exact cost prices and to be capable of monitoring them regularly, the following organization must be set up:

To be able to manage the cost prices on a microcomputer, the following work must be done beforehand:

a) Coding of the different types of vaccines
b) Coding of the different products used to manufacture the vaccines

As the prices of the products will be automatically retrieved from the computer’s memory, it will be simple to calculate the consumption of materials.

The following documents will have to be used when a production run is launched:

- Launch order
- Inventory withdrawal form
- Production follow-up form.

The following example should help to make the process clearer:

- Launch of production of 500,000 doses of CBPP

A. A launch order is issued in accordance with the scheduling requirements. This launch order (drawn up in duplicate) must contain:

a) a reference number
b) the specification of the vaccine to be produced with the subcode CBPP
c) the quantities (500,000)
d) the production deadline

One copy of this launch order will be sent to the person responsible for the production of the CBPP vaccine. The other copy remains with the Scheduling Department.

B. When the head of the CBPP laboratory receives the launch order, he/she fills out an inventory withdrawal form in duplicate.

This document indicates the reference number of the launch order and gives details of the products and quantities required to produce the 500,000 CBPP doses (in compliance with the existing standards). The product codes will also be indicated.

One of the copies is sent to the raw materials store which then supplies the laboratory with the materials requested.

The withdrawals are recorded in the inventory system with the reference number of the launch order.

At the same time, on the microcomputer, a special account bearing the reference number from the launch order is opened. This account is used to enter the types of products delivered, the quantities and the prices.
The purchase prices of the raw materials are recorded on the microcomputer and the average price of the goods in stock is calculated automatically.

C. Should the quantities delivered prove insufficient, the laboratory fills out a complementary withdrawal form in duplicate bearing the reference number of the launch order.

D. When production has finished, the laboratory fills out four copies of a production follow-up form. This indicates:

a) the reference number of the launch order
b) the quantities launched and the quantities produced
c) the time spent by the various technicians.

The first copy is sent to the store, along with the flasks of vaccine, in order to enter them in the finished products inventory.

The second copy goes to the Scheduling Department to indicate that the requested production has been carried out.

The third copy is sent to Accounts (Cost Price Department). Using the salary data stored in its computer memory, the production run can be thoroughly costed, thus determining the Direct Manufacturing Cost.

The laboratory keeps the fourth copy of the production follow-up form.

**Accounts - Cost Price Department**

To be able to process the documents from the various departments involved, the following are necessary:

1. Microcomputer equipment must be installed.

2. A simple program must be designed to meet the NVI's requirements.

3. The accounts microcomputer must be able to link up with the microcomputer managing the raw materials inventory in order to retrieve all the necessary information concerning the raw material withdrawals corresponding to the production run in question.

4. It must be possible to calculate the other elements contributing to the cost price:
   - bottle-washing
   - maintenance
   - storage
   - fuel and electricity consumption, etc.

5. The forecast depreciation of the equipment used must be calculated and stored in memory.

If all the documents are drawn up regularly and correctly and are sent promptly, calculation of the Direct Manufacturing Cost should not be a problem.
Monitoring the Cost of the Maintenance Department

To monitor the activity of the Maintenance Department and assess its cost, a simple but, hopefully, efficient organization must be set up:

When a laboratory or department requests a maintenance operation, the Maintenance Department must draw up a document (Job Form) in duplicate, indicating:

- the date and time of the operation
- the name of the department making the request
- the name of the employee(s) carrying out the maintenance

When the maintenance operation is finished, the Job Form will be completed by entering details of:

- the time spent
- the references of the spare parts used so that Accounts can cost the operation.

One of the copies is sent to Accounts, while the other is kept by the Maintenance Department.

If this form is filled in for every maintenance operation, it will be possible to determine the actual workload and real cost of the Maintenance Department.
7. MANAGEMENT CONTROL

Management control does not duplicate the general accounting system. It completes the information obtained from monitoring the cost prices by enabling assessment of the actual performance of the enterprise compared with the budget or, if it is not possible to define a budget, with performance during the previous financial year.

By adding together the cost prices of the different vaccine production runs during the period, it will be possible to calculate the total Direct Production Cost for the period. To assess the values obtained, they must be compared with standard values.

Activity

For 1994-95, the NVI has drawn up a quarter-by-quarter production program. This program can be treated as a budget. Monthly or quarterly assessments of actual performance compared with the budget are a good indicator of the NVI's level of activity. The evolution of the NVI's activity can be monitored by comparing the forecast selling prices used in the budget and the actual amount earned from sales.

Raw Materials

The quantities to be used have already been determined and, subject to verification, can be considered standard. It is important to analyze any differences between the quantities actually used in production and the quantities estimated, particularly if there has been an overrun.

An overrun may also be due to an increase in the price of raw materials. In both cases, the selling price must be revised. If this not possible, improved purchase prices should be sought.

Labor

It will be necessary to determine the time allocated for each operation in the production process. The time really spent, which can be assessed by correct production follow-up, will then be compared with the time allocated.

The same checks can be implemented for the other departments linked to production, particularly the Maintenance Department.

The NVI is used to drawing up an annual budget for expenditure and this will facilitate the implementation of management control.

The data obtained from the accounting system and the monitoring of the cost price can be used to draw up a Monthly Report (or Quarterly Report) (see model below).

If all the accounting entries are posted regularly, and there is no delay in calculating the cost prices, it should be possible to produce the monthly report 3 weeks after the end of the month or period in question.
## Monthly Report - Quantities

<table>
<thead>
<tr>
<th></th>
<th>Monthly Budget</th>
<th>Actual</th>
<th>Variance</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production of Vaccines</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rinderpest</td>
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<tr>
<td>CBPP</td>
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<tr>
<td>Combined</td>
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<tr>
<td>Anthrax</td>
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<tr>
<td>Black Leg</td>
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**TOTAL**

<table>
<thead>
<tr>
<th></th>
<th>Quant.</th>
<th>Unit price</th>
<th>Quant.</th>
<th>Unit price</th>
<th>Quant.</th>
<th>Unit price</th>
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<td><strong>Deliveries of Vaccines</strong></td>
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<tr>
<td>Rinderpest</td>
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<td>Anthrax</td>
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<td>Black Leg</td>
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**TOTAL**
## Monthly Report

<table>
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<tr>
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<th>Monthly Budget</th>
<th>Actual</th>
<th>Variance</th>
<th>%</th>
<th>Cumulative Budget</th>
<th>Cumulative Actual</th>
<th>Variance</th>
<th>%</th>
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<tbody>
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<td><strong>Sales (value)</strong></td>
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<td><strong>Home</strong></td>
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<td><strong>Export</strong></td>
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<td><strong>TOTAL</strong></td>
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<tr>
<td><strong>Production -</strong></td>
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