Pumps ▪ Valves ▪ Service

KSB Pumps Company Limited
Annual Report 2012

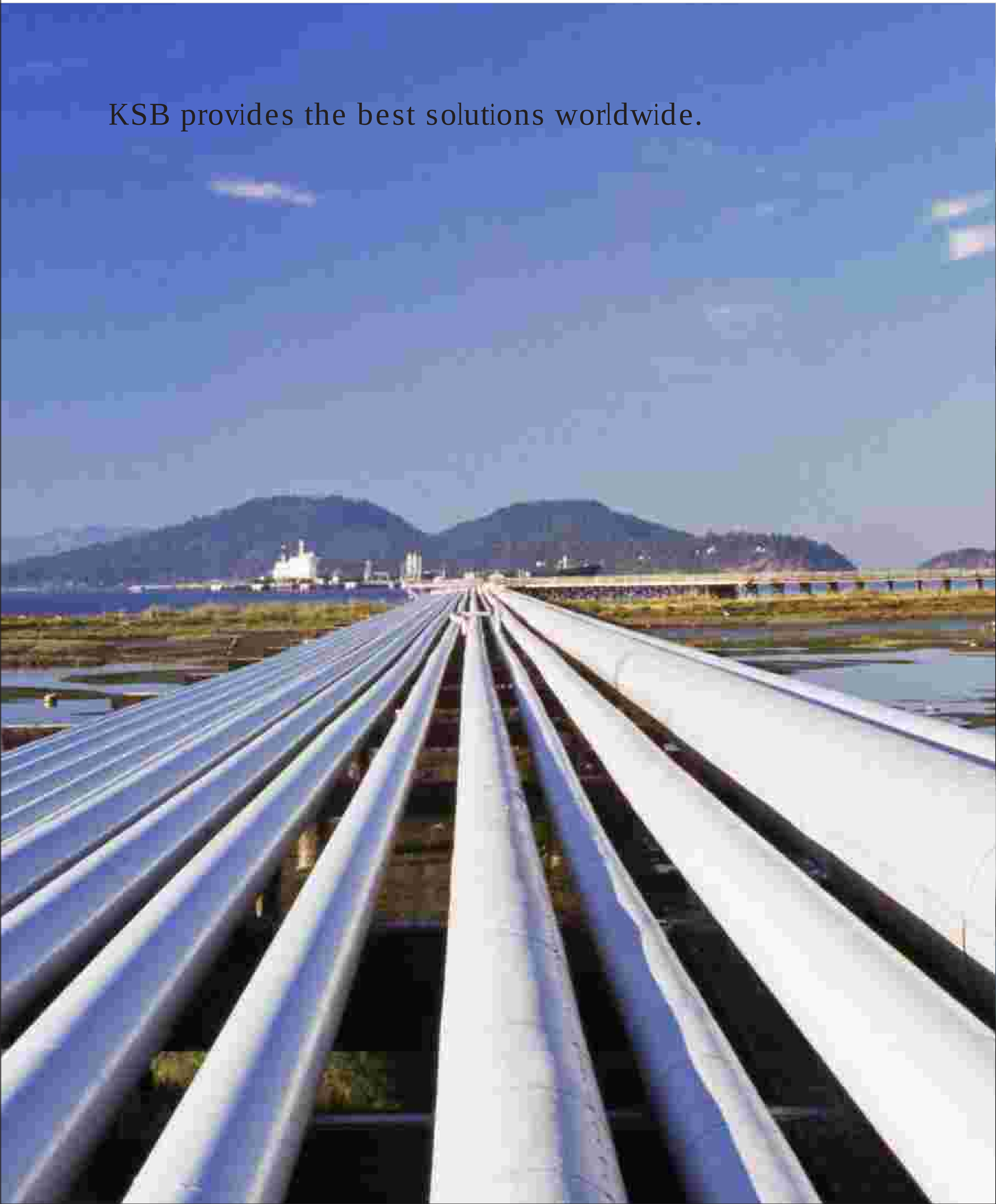
Technology that drives success

KSB

Contents

Vision

KSB provides the best solutions worldwide.



Mission Statement

We manufacture and market a wide range of standard and engineered pumps and castings of world class quality. Our efforts are directed to have delighted customers in the water, sewage, oil, energy, industry and construction sectors.

In line with the Group's strategy, we are committed to develop into a center of excellence in water application pumps and be a strong regional player. We want to market valves, complete system solutions and foundry products including patterns for captive, automotive and other industries. We will develop a world class human resource with highly motivated and empowered employees.

The measure of our success is, being a clear market leader, achieving quantum growth and providing attractive returns to stakeholders.

Strategic Objectives

Focus business lines

1. We grow more strongly than the market
2. We achieve above average profitability
3. We gain or build on a leading competitive position

Further business lines

1. We continue our business profitability
2. We make the most of sales potential
3. We contribute to the revenue and profitability of the group

Values

Trust – Trust has to be earned. It requires a level of credibility, which each of us should seek to achieve and actively develop through reliability and professionalism in our day – to – day work.

Honesty – The overall interest of the Company has top priority in our work and ranks ahead of departmental and individual interests. What we do therefore should not serve to gain advantage at the expense of others. Integrity and appropriate level of modesty are defining elements of the way we present ourselves.

Responsibility – Responsibility means accepting the consequences of one's actions. This especially applies to each and every one of us in our work. And it also applies to our Company in its business and social relations.

Professionalism – We have a good command of the techniques and methods we need for our work, and seek to continually acquire further knowledge to improve our effectiveness and efficiency. In the search of solutions to problems we apply due care and act with foresight.

Appreciation – We are attentive to others and further our cooperation by showing respect and appreciation. Remaining receptive and open to other people and ideas enables us to learn from each other and develop together.

Quality Principles

Achieving maximum customer satisfaction

- Our customers set the standards for the quality of our products and services. We satisfy their wishes in full and on time.

Promoting quality consciousness

- We ensure that all our employees are highly qualified by providing them with ongoing training and comprehensive information. Each of our managers is an example in putting quality - mindedness into practice.

Every employee meets the customer's wishes

- The principle of customer - supplier relations also applies internally. The next in line during the work process is a customer; he/she receives impeccable work results.

Avoiding mistakes instead of remedying them

- We establish causes so that we can prevent errors and put a stop to them.

Improving quality

- The steady improvement of work processes, methods of work and the work environment ensures that every employee is successful and satisfied. At the same time, this helps to secure our leading position in the market.

Involving suppliers

- In fair and open partnership we support our suppliers in the pursuit of shared quality objectives.

Principles for Environment, Occupational Health & Safety

Informing about relevance to the environment

- We inform our customers about the environmental relevance of our products, processes and services.

Promoting awareness of environmental issues, occupational health and safety

- To protect the environment and our employees we undertake measures that go beyond what is required by law. Our employees are trained and informed by us.

Strengthening our employees' sense of responsibility

- Our employees help to shape our operational processes. This enables them to recognize early on any situations that could have an impact on the environment or on safety and to make sure people are informed about these situations.

Recognizing and avoiding risks

- We constantly and systematically review the impact of our production on people and the environment. By recognizing risks, we can take any preventive action that may be necessary. In the case of new production processes and products, we consider the environmental impact in the development stage. This impact is kept to a minimum, as far as technically and economically feasible. In the process, we take account of both occupational health and safety.

Compliance with regulations

- Using the procedures defined in the Integrated Management System, we monitor our activities to ensure compliance both with national legislation and with our own EHS rules.

Commitment of outside companies

- We ensure that outside companies working on our sites are also committed to compliance with national legislation and our own rules for protection of the environment, occupational health and safety.

KSB - the brand standing for quality, expertise, reliability and a global perspective

KSB is a leading international supplier of pumps, valves and related systems for the Industrial applications, building services, process engineering, energy conversion, water treatment, water transport, solids transport and other areas of application. KSB combines innovative technology and excellent service to provide intelligent solutions. This approach means that KSB employees are close to customers on all continents, providing them with pumps, valves and systems for almost all applications involving the transportation of liquids. A comprehensive range of services rounds off this customer-focused portfolio.

KSB has been growing continuously since it was founded in 1871. Today the Group has a presence in all continents with its own sales and marketing companies, manufacturing facilities and service operations. KSB Pumps Company Limited, established in July 1959 in Lahore, Pakistan, is also a proud subsidiary of KSB Group.

KSB Pakistan runs the largest state of the art manufacturing facility in the country in Hassanabdal and a full-fledged Foundry. The Company is ISO 9001 certified since 1994 and lately has added ISO-14001 and 18001 certifications for complete Integrated Management System certified by TUV, Germany. A range of global certifications of the company's products and locations is a proof of KSB's work in all areas is in compliance with the very latest quality standards - from energy engineering to building services.

Over the years KSB Pakistan has developed a diversified and motivated pool of human resources and today the Company employs more than 400 proficient people and operates through its Sales offices in Lahore, Karachi, Rawalpindi, Hassanabdal and Multan. To enable easy access to its customers, KSB Pakistan has started operating through a Franchise network, KSB Partners, across the country and a widespread dealer network alongside. In addition, the Company has full-fledged Service Department comprising qualified and experienced personnel: KSB's comprehensive service includes bespoke solutions for all customer applications, and ensures that pumps and systems are running efficiently. Repair, maintenance, service through its service centers, KSB offers professional services at a global scale, for products by KSB but also other manufacturers. The main advantage in this is our widespread network of easy-to-reach service centre.

KSB pumps are produced strictly in accordance with the design and specifications of KSB AG, Germany, in order to maintain standards of the highest quality. Comprehensive inspection and latest test bed facilities are available at Works, Hassanabdal to ensure compliance with the global quality standards. The production facilities are also being regularly modernized and extended to cope with the challenges of new product technology. Foundry is capable of producing sophisticated automotive components apart from pump and valves castings and is a leading supplier of tractor/automobile castings in the country. During the last thirty years, the Company has rapidly expanded its product portfolio to include a large number of pumps and valves according to the changing market needs in various segments. KSB believes in continuous innovation; adding new products and business ideas to strengthen the portfolio and help to open up new markets.

At KSB Pumps Company Limited, Pakistan, we see Corporate Social Responsibility as the link that joins the Organization, including internal and external stakeholders to a brighter future of Pakistan. Working under the name of KSB Care, our Corporate Social Responsibility program is focused to provide a sustainable infrastructure and basic amenities to underprivileged students at schools in the rural areas of Pakistan. Our commitment towards our Country shines through the efforts we put in our business and our corporate social responsibility.

KSB Pakistan has received Merit Trophies for exports of the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and Top Company Award for exemplary payment to the shareholders by Karachi Stock Exchange. Corporate & Environmental Excellence Awards have also been bestowed on the Company.

With a 54 years journey of successful operations in the country, today KSB Pakistan stands as a market leader in its line of business and is a benchmark today for new entrants. The Company's products, quality standards, people, business partners and leadership have all contributed to imprint this company's score in the history of Pakistan.

Board of Directors

Mr. Tonjes Cerovsky
Chairman Board of Directors

Mr. Tonjes Cerovsky has been working for KSB since 32 years. During this time he held different managerial positions in KSB's overseas companies. He has a degree in mechanical engineering from the University of Cologne in Germany and a Masters degree in Business Administration (MBA) from the Business School of the University of Birmingham, UK. He is Senior Vice President Sales - Region Middle East & Africa for KSB and Managing Director KSB Middle East FZE Dubai. He is the Chairman of the Board of Directors of KSB Pakistan.

Mohammad Masud Akhtar
Managing Director

Mr. Akhtar is the Chief Executive Officer of KSB Pakistan. He is an Electrical Engineer by profession and has a Masters degree in Manufacturing Systems Engineering from Pennsylvania USA. He has an extensive and diversified experience in Sales, Marketing, Operations and Manufacturing areas. He is certified director from PICG, Pakistan. He is Director Pak German Business Forum, Member of National Management Foundation (LUMS) and Vice President of Foundry Association of Pakistan.

Mr. Hasan Aziz Bilgrami
Director

Mr. Bilgrami is a Director and the Chairman of the Audit Committee of KSB Pakistan. He is the President and CEO of BankIslami Pakistan Limited. His other engagements include Director BankIslami Modaraba Investments Limited.

Mr. R. D. Ahmad
Director

Mr. Ahmad is a Senior Consultant with Orr Dignam & Co. He has previously served as the Chairman for Islamabad Stock Exchange (G) Limited. He is also on the Board of Directors of Sigma Motors Ltd. and Pakistan Poverty Alleviation Fund.

Mr. Sajid Mahmood Awan
Director

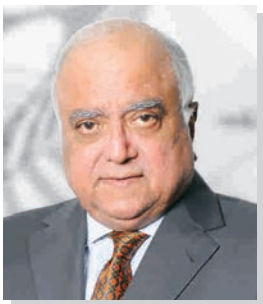
Mr. Awan is the Director Finance and Company Secretary of KSB Pakistan. He has more than 19 years of professional experience in multinational environments in Pakistan, Middle East & Africa. He is a fellow member of ICMAP and ICSP, and certified director from PICG, Pakistan.

Mr. Werner Spiegel
Director

Mr. Werner Spiegel is a BE - Mechanical having more than 42 years of experience in KSB: 38 years in the group, 10 years as Managing Director of KSB Venezuela, 4 years as Managing Director, KSB Spain, 2 years in Germany, 6 years as Head of Sewage and Industrial Division, KSB Group, and for 11 years as Managing Director, KSB India. In addition, he is the President, Operations, KSB Region Asia Pacific.

Engr. M. Abdul Jabbar
Director

Engr. M. Abdul Jabbar is an Engineer by profession & has a diversified experience of 31 years. He is Director of six other institutions & member of many trade bodies.



Mr. Aizaz Sarfraz
Director

Mr. Aizaz Sarfraz is Masters in Business Administration from the School of Business Columbia University NYC-NY. He has vast Experience of working with and for Multinational, foreign and large Pakistani Business Groups.

Mr. Tonjes Cerovsky
Chairman Board of Directors

Management Committee

Mr. Mohammad Masud Akhtar
Chief Executive Officer /
Managing Director

Mr. Sajid Mahmood Awan
Director Finance &
Company Secretary

Mr. Nadeem Hamid Butt
Director Projects

Mr. Tariq Ali
Director Production

Mr. Saeed Zafar
GM Customer Services

Syed Kamran Hassan
GM Materials

Mr. Matraf Rasul
GM Manufacturing

Mr. Mamoon Riaz
GM Projects

Mr. Imran Malik
GM Sales & Strategic Marketing

Kh. Faisal Rasheed
Head of Internal Audit

Mr. Shahzad Umer
DGM QHSE

Mr. Shahzad Saleem
Manager Human Resource

Sales Offices

Lahore
16/2 Sir Aga Khan Road Lahore.
Ph: (042) 111 572 786, 36304173
Fax: (042) 36366192, 36368878
Email: info@ksb.com.pk

Rawalpindi
309, A3 Peshawar Road, Westridge 1,
Opp. Valley Clinic, Rawalpindi.
Ph: (051) 111 572 786. Fax: (051) 5472612
Email: ksbrwp@ksb.com.pk

Multan
Golden Heights, Nusrat Road, Multan.
Ph: (061) 111 572 786 Fax: (061) 4541784
Email: ksbmul@ksb.com.pk

Karachi
307 & 308, 3rd Floor Parsa Tower, Block 6,
PECHS Shahrah-e-Faisal, Karachi
Ph: (021) 111 572 786 Fax: (021) 34388302
Email: ksbkhi@ksb.com.pk

KSB Partners

No.	FRANCHISE	ADDRESS	LOCATION	Cell #	Tele #	Fax	EMAIL
1	Standard Engineering Concern	25-Empress Road	Lahore	0321-4001255	0423- 63673881	042-36368011	kamran.razi@ksbpartners.com.pk
2	Industrial Development & Engineering Associates	20-C Mezzanine Floor, Indus Center, 14th Com st. PH-II, DHA	Karachi	0300-8203077	021-35390481-2	021-35390483	saquib@idea.com.pk
3	Ghani Enterprises	3rd Floor , Mall Tower , 35 The Mall	Peshawar	0300-5895289	091-5285679	091-5278919	franchise.kpk@ksb.com.pk
4	Wali Muhammad & Co.	Zonkiram Road near mellennium Mall,	Quetta	0300- 8387668	081-2829635	081-2839721	gulistanmachinery@yahoo.com

Company Information

Board of Directors

Tonjes Cerovsky	Chairman
Mohammad Masud Akhtar	Managing Director
Werner Spiegel	
R. D. Ahmad	
Sajid Mahmood Awan	
Hasan Aziz Bilgrami	
Aizaz Sarfraz	
Engr. M. Abdul Jabbar	(Nominee NIT)

Company Secretary

Sajid Mahmood Awan

Management

Mohammad Masud Akhtar	Chief Executive Officer
Sajid Mahmood Awan	Finance &Administration
Nadeem Hamid Butt	Projects
Syed Tariq Ali	Production

Auditors

A.F. Ferguson & Co. Chartered Accountants

Legal Advisors

Mandviwala & Zafar

Bankers

Habib Bank Limited
MCB Bank Limited
Bank Alfalah Limited
NIB Bank Limited
National Bank Of Pakistan
Deutsche Bank AG
United Bank Limited

Audit Committee

Hasan Aziz Bilgrami	Chairman
R. D. Ahmad	Member
Werner Spiegel	Member

Secretary Audit Committee

Kh. Faisal Rasheed

Registered Office

16/2 Sir Aga Khan Road, Lahore - 54000.
Ph: (042) 36304173, 36370969
Fax: (042) 36368878, 36366192
Email: info@ksb.com.pk

Works

Hazara Road, Hassanabdal
Ph: (057) 2520236
Fax: (057) 2520237
Email: info@ksb.com.pk

Share Registrar

Central Depository Company of Pakistan Limited
CDC House, 99-B, Block B, SMCHS
Shahra-e-Faisal, Karachi-74000
Tel: (021) 111-111-500
Fax: (021) 34326053

Notice of Annual General Meeting

55th AGM, held on April 25, 2012

Notice is hereby given that the 56th Annual General Meeting of the members of KSB Pumps Company Limited will be held on Wednesday, the 24th April, 2013, at 4.00 p.m. at Hotel Hospitality Inn, 25-26 Egerton Road, Lahore, to transact the following business:

1. To confirm the minutes of the Annual General Meeting held on April 25, 2012.
2. To consider and adopt the audited accounts of the Company for the year ended December 31, 2012 and report of Auditors and Directors thereon.
3. To approve and declare dividend of 40 % for the financial year ended December 31, 2012 as recommended by the Directors.
4. To appoint auditors and fix their remuneration for the year ending 31.12.2013. M/s. A.F. Ferguson & Co., Chartered Accountants, the retiring auditors, offer themselves for re-appointment as auditors of the Company.

Special Business

5. To consider and if thought fit to pass the following resolution as a "Special Resolution": RESOLVED "that Article 84 of the Articles of the Association of the Company be amended to read as follows:

Remuneration of Directors

84. The remuneration of each Director (other than a regularly paid Managing Director or full time working Director) for attending meetings of the Board of Directors shall be Rs. 20,000/- (Rupees twenty thousand only) per meeting attended by him.

BY ORDER OF THE BOARD

SAJID MAHMOOD AWAN
Company Secretary
Lahore : April 03, 2013

Notes

Participants of 55th AGM

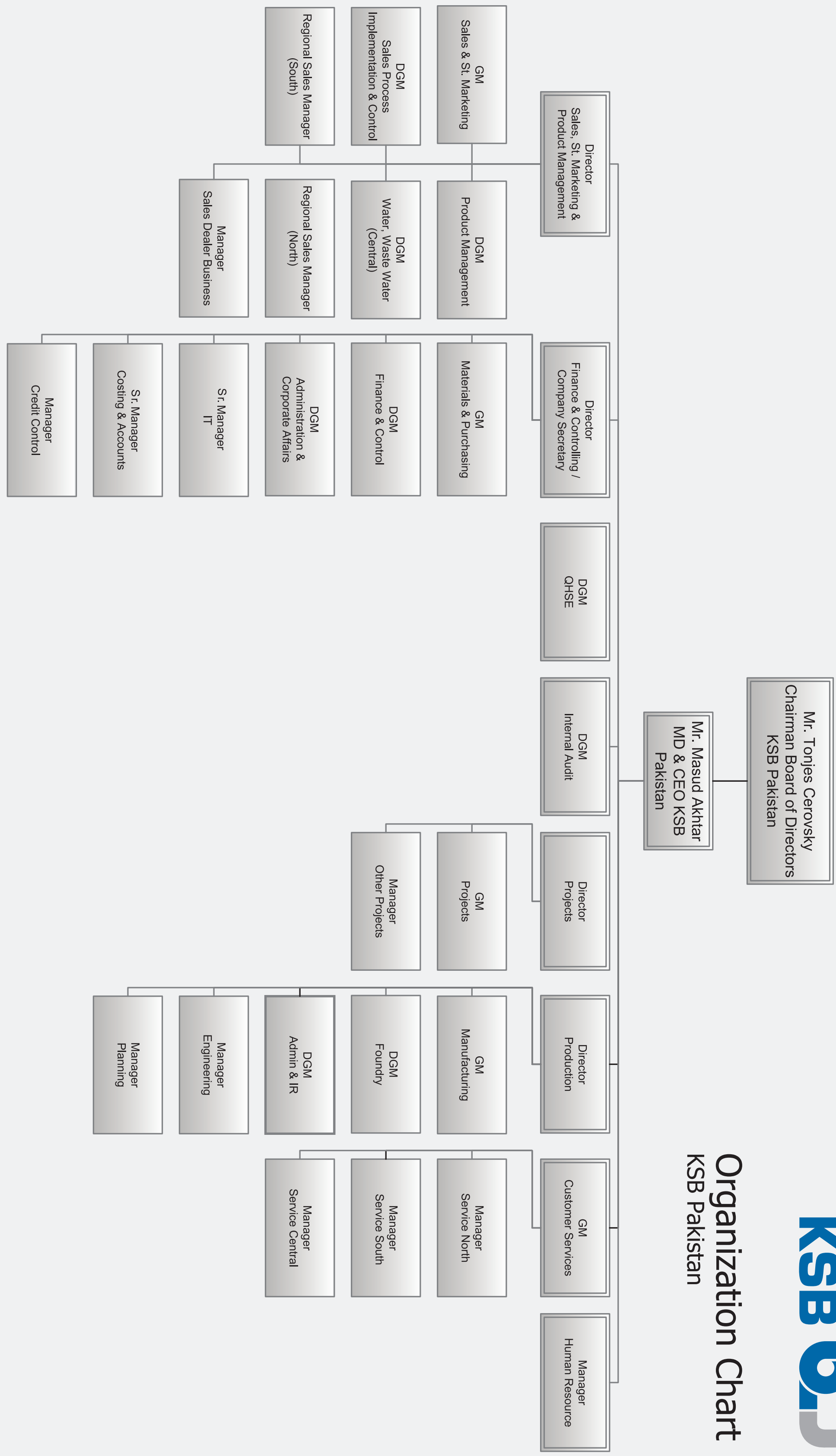
1. A member entitled to attend and vote at this meeting is entitled to appoint another member as proxy. Proxies in order to be effective must be received not later than 48 hours before the time appointed for the meeting. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid. Every proxy shall have the right to attend, speak and vote in place of the member appointing him/her at the meeting.
2. The Share Transfer Books of the Company will remain closed from 17th April, 2013 to 24th April, 2013 (both days inclusive). Transfers received in order at Company's Registrar, M/s. Central Depository Company of Pakistan Limited, CDC House, 99-B, Block B, S.M.C.H.S., Main Shahrah-e-Faisal, Karachi-74000, by the close of business on 16th April, 2013 will be in time to be passed for payment of dividend to the transferees.
3. The CDC account/sub account holders and/or the persons whose securities are in group account and their registration details are up-loaded as per the regulations, shall for identification purpose have to produce their original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.

   In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the meeting.

   Statement under Section 160 (I) (b) of the Companies Ordinance, 1984 in regard to Special Business

   Item 5 of the agenda
   Amendment is being proposed to increase the fee of the Directors for attending Board Meeting to a reasonable limit. The Directors interest in the aforesaid special business is to the extent of the amount of increased fee only.

Organization Chart
KSB Pakistan



Mohammad Masud Akhtar
Chief Executive Officer & MD KSB Pakistan

Directors' Report to the Shareholders

The Directors are pleased to present the Annual Report along with the Audited Financial Statements for the year ended December 31, 2012 together with Auditor's report thereon.

THE ECONOMY

Global Economy

During the year, global economic growth slowed down, the European sovereign debt crisis made it difficult for some countries in Euro-zone to repay their government debt, world trade remain sluggish and banks boosted their gold reserves. Many parts of the world moved towards political changes which adversely impacted the economic situation.

Global GDP growth was estimated 2.3 percent in the year 2012 and it is expected to remain unchanged in the year 2013. The World Bank annual report 2012 states, "for the first time, in every region of the developing world, the number of poor declined and despite recent crises, global poverty overall continued to fall".

Pakistan's Economy

Pakistan faced a challenging environment in the year 2012. Volatile security environment, deteriorating law and order, structural imbalances in the economy, low savings and investment constrained GDP growth rate.

Energy shortages are perhaps the largest impediment to higher economic growth. Industrial sector is being subjected to daily load shedding which is adversely impacting production capacities and loss of export earnings.

CPI Inflation increased by 7.9% on year-on-year basis in December 2012. Pakistan's GDP growth rate was 3.7% in the year 2012 as against 3.0 percent in 2011.

THE COMPANY

FINANCIAL RESULTS

The comparative financial results for the year 2012 as against 2011 are as follows:

Rupees in '000'

	2012	2011
Sales	2,630,402	1,944,764
Gross Profit	542,589	316,621
Operating Profit/(Loss) from operations	232,421	(139,886)
Profit/(Loss) for the year	162,923	(106,121)
Earnings per share	12.34	(8.04)

Your Company has recovered from difficult economic situation faced in the year 2011 and has achieved excellent results for the year 2012.

- Sales increased by 35% as compared to last year.
- Gross profit has shown remarkable growth of 71% as compared to last year.
- Operating profit for the year increased by 266% as compared to corresponding period last year.

SALES

Year 2012 has recorded an exponential increase in sales revenue for KSB Pakistan. Our core activities, Pumps, Valves and Services were the main contributors to this exceptional growth. All market segments performed very well and experienced growth: 20% in Industry & Energy, 70% in Construction, 27% in Water & Waste Water.

Etanorm: our Best Global Seller

Quality at its best at KSB

Our strategy to improve our penetration in the market through Alternate Channel brought excellent dividends for the company. Through KSB Partners and Dealers, the alternate channel achieved tremendous growth of 90%.

We aim further expansion of alternate channels to enhance our Standard business. Our focus remains the high-end engineered market for industry, energy, construction and water & waste water. Despite anticipated moderate growth in the global economy, KSB Pakistan expects to achieve increase in order intake and sales revenue once again in 2013.

Considering changing market dynamics with an increasing need of direct communication with our customers, we have simultaneously conducted a number of product exhibitions and segment-focused seminars in 2012. 'Kamyaab Kisaan' has been a major campaign for agricultural sector featuring BTL, outdoor and direct promotional activities throughout Pakistan. We have concentrated exclusively on delivering marketing measures generating high-potential businesses.

Standard product and corporate communications has been implemented for all segments. Furthermore, KSB Pakistan's newly launched website has played an integral part in uplifting our corporate image and has proved an excellent tool for customers requiring detailed information on our product offering.

PROJECTS

Pursuing its strategic focus of achieving healthy returns on sales, the jobs in-hand were completed efficiently to record sales figure which is 17% above as compared to the year 2011 with double digit profitability of the division.

The Government of Punjab diverted most of the development funds to Metro Bus Service project in Lahore, and further by putting on hold the release of funds for PM Package, Multan, resulted in slowdown of activity, thus allowing KSB Projects to maintain its Order Intake figure of 2011.

Despite the above, KSB Projects made new breakthroughs in the field of membrane based filtration technology by winning order of 92 UF plants for the city of Lahore, and introduced its RO solution to the textile and sugar industries as well. We have diversified the Project's clientele by obtaining a strategic order from PINSTECH. KSB Projects won a strategic project for the construction of disposal station at Kattaar Bund. Collection from customers was remarkably high in the year 2012 as compared to last year and has positive impact on cash flow.

The situation with CDWA project appears to be improving, as KSB's case of settlement with the provincial government has made certain positive advances.

PRODUCTION

As part of the lean drive, Inventory Optimization and Quality improvements are being followed aggressively. The Inventory Optimization has helped to reduce material variances and to increase operational efficiency. 5S Philosophy has been implemented in Operations with enormous improvements in housekeeping, storage capacity and maintaining safe work environment.

Further, operations developed new MIS for monitoring the Production progress, synchronizing all supply chain activities, resulting in improvement of delivery performance. Our Product Management Team has added different sizes in our product range.

Foundry

As a result of operational excellence program and optimization of process, Foundry has achieved ever highest

turnover. Deployment of Total Productive Maintenance and induction of new machines, Sand Cooler & Grader System, in Foundry contributed to achieving the target. Foundry developed around 50 new patterns for local requirements and export. Business Development activities also led to ever highest order intake.

Unigraphics NX-7.5-SAP PLM Implementation at KSB Pakistan: Leading-edge technology from Siemens PLM software delivers greater power for today's design challenge increasing speed, performance, and ease of use. With NX, efficiency and cost savings extend beyond the design process to all phases of product development. NX dynamically integrates CAD with planning, simulation, tooling, manufacturing and other processes to help ensure that design decisions can be made quickly, with detailed knowledge of product performance and manufacturability issues. With a fully integrated NX CAD, ECTR & SAP ERP system internal communication is improved; which means saving time and costs and assisting organization to speed up time-to-market and improve the products.

QUALITY, ENVIRONMENT, OCCUPATIONAL HEALTH AND SAFETY

Our customers set the standards for the quality of our products and services. We satisfy their wishes in full and on time. KSB aims to make its customers' plants safer, more energy efficient and more cost - effective by providing first class products and excellent service.

KSB Pumps Company Limited is the first foundry based engineering company in Pakistan which has been certified for the Integrated Management System (ISO 9001, ISO 14001 & OHSAS 18001).
Your Company has maintained its legacy of environment excellence in the year 2012 as well by winning the Environment Excellence Award. This award was initiated by National Forum for Environment & Health and is designed to recognize and promote organizations which are making outstanding contributions to environment sustainability and development based on strict criteria.

Environmental Excellence Performance Award 2012

SERVICE *fast & efficient*

An important part of our business does not start until a product we sell has been handed over to the customer. This is true of our services offering, the delivery of spare parts and potential retrofits. Aligned with the Group strategy, now all aftermarket business will come under the umbrella of "Business Unit Service".

Our Business Unit Service provides complete solution to our valued customers as well as maintenance of the system. Our Service Department has successfully completed diversified projects by providing services for fire fighting system, rehabilitation of disposal system, Electro Mechanical works and water transportation system in the year 2012.


Service Team with Chairman Board of Directors KSB Pakistan Mr. Tonjes Cerovsky

Innaugration of Service Workshop in Lahore

HUMAN RESOURCE

In compliance with revised Code of Corporate Governance 2012, Human Resources & Remuneration Committee was formed in the year 2012. Leave Fare Assistance Policy was re-introduced in the company to motivate employees. A batch of Management Trainees was inducted in human capital as well. Training & development of employees was focused during the year. More than 125 employees participated in thirty six trainings (national and international) in the year 2012.

Participants of 'Strategy in to Actions' Meeting

ENTERPRISE RISK MANAGEMENT

We define risk as:
"a potential damage-causing event"
It is the policy of KSB to anticipate and avoid risk, wherever possible, rather than dealing with the consequences. Risk Management Policy is directed towards avoiding risk, as management understands that risks cannot be totally eliminated. Only decision taken in uncertainty (whether to do or not to do something) results in a risk.

Mohammad Masud Akhtar receiving the recognition trophy at the 'Germany on the Road' Event in Lahore

Risk management is carried out by the Finance Department under the principles and policies approved by the Board of Directors (the Board). The Board provides principles for overall risk management as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of these policies.

Financial Risk Factor

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Liquidity Risk

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the Company's businesses, the Company's Finance Department keeps flexibility in funding by maintaining availability under committed credit lines.
Management monitors the forecasts of the Company's cash and cash equivalents on the basis of expected cash flow. This is generally carried out in accordance with practice and limits set by the Company. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Company's liquidity management policy involves projecting cash flows in each quarter and considering the level of liquid assets necessary to meet its liabilities; monitoring balance sheet liquidity ratios against internal and external regulatory requirements; and maintaining debt financing plans.

Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as an on going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. As the Company is a wholly equity financed corporation, with working capital lines, capital comprises all components of equity (shares capital, general reserve, and retained earnings) as mentioned on the face of balance sheet, and is raised as required, through the approval of the Board of Directors.

CORPORATE SOCIAL RESPONSIBILITY - KSB Care

Our Corporate Social Responsibility (CSR) program works under the umbrella of KSB Care. KSB duly realizes its role in empowerment of underprivileged communities.

Mohammad Masud Akhtar distributing scholarships under KSB Care Programme

Our program is focused on rehabilitation of educational infrastructure, provision of clean and safe drinking water, construction of class rooms, provision of furniture and fixtures and installation of electric water coolers and fans in the educational institutions in the rural areas around our production facility at Hassanabdal. KSB is also contributing by offering internship, apprentice ship, training opportunities, educational visits and study projects to students.

Our initiatives have received a very encouraging response from the beneficiaries. The enthusiasm and cooperation that they have shown has strengthened our belief in our efforts for raising the bar of education.

KSB Scholarship program provides financial assistance to the deserving students who are bright and good performers but poverty barred them from completing their education. KSB awards merit based scholarship to students of various schools and colleges situated in the vicinity of our works at Hassanabdal.

During the year 2012 furniture consisting of chairs ,tables and desks were provided to four schools and scholarships were awarded to 126 brilliant students ranging from primary to graduation level of different schools and colleges.

In addition donations were also made to hospitals and welfare institutions.

FUTURE OUTLOOK

SALES

We have a strong sales organization and well-functioning processes in different areas of our business; we aim to look beyond the present horizon and have strategic objectives for the expansion and promotion of our general business and operations.
KSB Pakistan expects to increase order intake and sales revenue once again in 2013. Standard and high-end engineered market for Industry, Energy, Construction and Water & Waste Water will remain a major focus for us during this year along with further expansion of alternate channels.

We have planned to expand our Partners and Dealers' network to further penetrate the market and explore new avenues.

Projects

The Projects Division has set itself an ambitious target for order intake in 2013. Although the first half of the year is expected to remain slow due to general elections, some of the ripe opportunities under commitments from ADB in development of Northern Sindh (SCIP-NSUSC), USAID in energy efficiency improvement projects, French grant for Faisalabad, JICA grant for Lahore and Faisalabad etc. and Water Supply and Sanitation Schemes in Punjab, KPK and in Karachi (CPS, K-I, S-III, K-IV), offer promising prospects for turnkey job.

With its growing experience in the newly acquired filtration technology, and strengthening of its construction business, KSB Projects shall be aggressively penetrating the Industry and Energy segments, alongside its conventional area of expertise. The year 2013 awaits new heights for KSB Projects to scale.

APPROPRIATION

RESULT FOR THE YEAR	Rupees '000'
Profit for the year before providing for taxation	202,016
Provision for taxation	(39,093)
Profit after taxation	162,923
Un-appropriated profit/(loss) brought forward	(106,021)
Available for appropriation	56,902
Appropriated as under	
- Transfer to general reserve	4,000
- Proposed dividend @ Rs. 4.00 per share	52,800
	56,800
Un appropriated profit/(loss) carried forward	102

AUDITORS

The present auditors, A.F. Ferguson & Co., Chartered Accountants, retire and offer themselves for reappointment. As suggested by the Audit Committee the Board of Directors has recommended their reappointment as auditors of the Company for the year ending December 31, 2013.

CODE OF CONDUCT

The Board of Directors has already adopted a Code of Conduct. The compliance with the Code of Conduct is compulsory for all employees at all levels. The Code has also been placed on the Company's website.

MATERIAL CHANGES

There have been no material changes since December 31, 2012 and the company has not entered into any commitment, which would affect its financial position at the balance sheet date.

HOLDING COMPANY

The Company's holding company is KSB Aktiengesellschaft, Germany.

BOARD OF DIRECTORS

Since the last report there has been no change in the composition of the Board. The Board of Directors presently comprises of eight individuals out of which six are non-executive.

The Chairman of the Board is other than the CEO and non-executive Director.

BOARD OF DIRECTORS MEETING

During the year, four Board Meetings were held and the number of Meetings attended by each Director is given hereunder:

S. No.	Name of Director	No. of Meetings Attended
01.	Mr. Tonjes Cerovsky	4
02.	Mr. M. Masud Akhtar	4
03.	Mr. Sajid Mahmood Awan	4
04.	Mr. R. D. Ahmad	3
05.	Mr. Werner Spiegel	2
06.	Engr. M. Abdul Jabbar	2
07.	Mr. Aizaz Sarfraz	2
08.	Mr. Hasan Aziz Bilgrami	1

Leave of absence was granted to Directors who could not attend the Board Meetings.

AUDIT COMMITTEE

An Audit Committee of the Board has been in existence since the enforcement of the Code of Corporate Governance which comprises of three non-executive Directors. The Members of the Board Audit Committee were as follows:

1.	Mr. Hasan Aziz Bilgrami	-	Chairman	Non Executive Director.
2.	Mr. R. D. Ahmad	-	Member	Non Executive Director.
3.	Mr. Werner Spiegel	-	Member	Non-Executive Director.

During the year four meetings of the Committee were held. The Committee has its terms of reference which were determined by the Board of Directors in accordance with the guidelines provided in the listing regulations.

HUMAN RESOURCE & REMUNERATION COMMITTEE

The Board of Directors has constituted the Human Resource and Remuneration Committee (HR&R), which comprises of two non-executive Directors and one executive Director. The Chairman of the Committee is an independent Director. The members of the HR&R Committee were as follows:

1.	Mr. Aizaz Sarfraz	-	Chairman
2.	Mr. Mohammad Masud Akhtar	-	Member
3.	Mr. R. D. Ahmad	-	Member

CORPORATE AND FINANCE REPORTING FRAME WORK

- The financial statements together with the notes thereon have been drawn up by the Management in conformity with the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, the results of its operations, cash flow and changes in equity.

- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- The International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departures therefrom has been adequately disclosed and explained.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the Best Practices of Corporate Governance, as detailed in the Listing Regulations.
- There has been no departure from the best practices of transfer pricing.
- The key operating and financial data for the last six years is annexed.
- The value of investments including accrued interest based on respective audited accounts of funds are as follows:

1.	Provident Fund 31.12.2011	:	Rs. 123.4 million.
2.	Gratuity Fund 31.12.2011	:	Rs. 55.2 million.

- No trading of shares of the Company by CEO, Directors, Company Secretary, CFO, their spouses and minor children has been carried out.

PATTERN OF SHAREHOLDING

The statement of pattern of the shareholding of the Company as at December 31, 2012 is annexed with the report.

PERFORMANCE REVIEW OF CHIEF EXECUTIVE OFFICER

The performance of CEO is assessed through the evaluation system developed by the KSB Group. The evaluation is conducted on financial and non-financial parameters including the KSB Values.

Acknowledgement

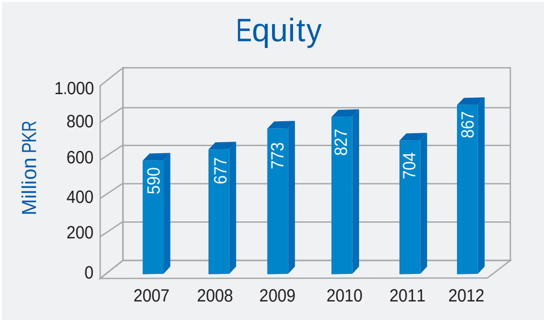
The Board of Directors acknowledge & appreciate the efforts of dedicated team for achieving excellent results in the year 2012.

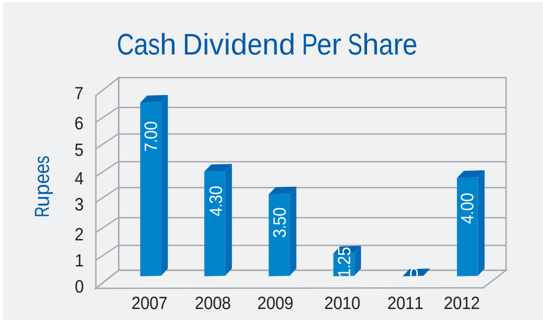
On behalf of the Board

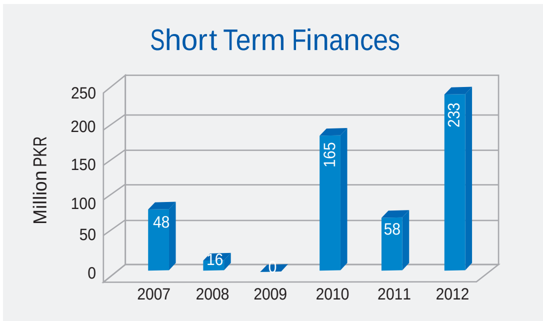
Mohammad Masud Akhtar
Chief Executive

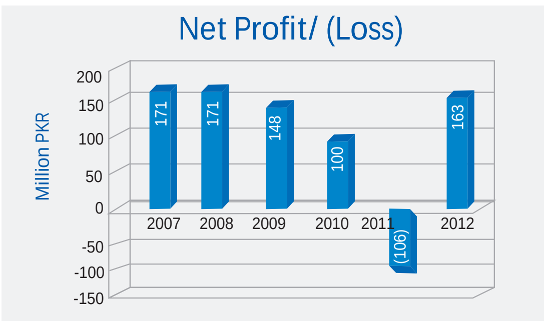
March 20, 2013
Lahore.

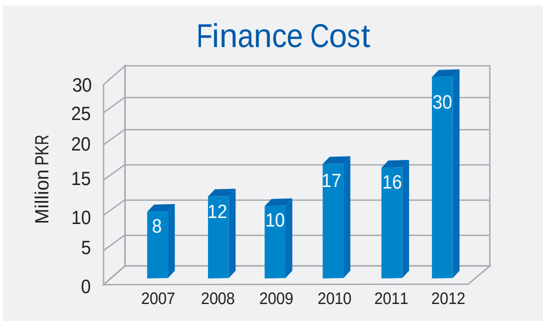
Highlights 6 Years

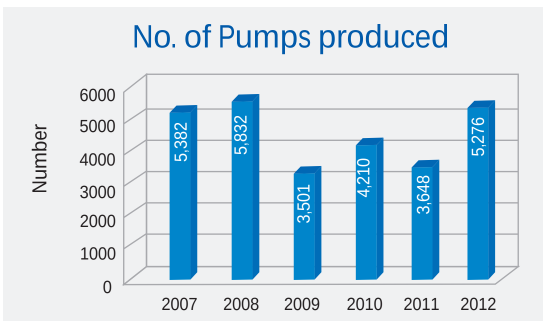












Vertical Analysis

	2012 Rs. in '000'	%age	2011 Rs. in '000'	%age
Balance Sheet				
Net worth / shareholders equity	866,902	38.18%	703,979	35.24%
Non - current liabilities	36,498	1.61%	35,446	1.77%
Short term running finances/bank borrowings	233,370	10.28%	57,791	2.89%
Creditors, accrued and other liabilities	1,133,858	49.94%	1,200,382	60.09%
Total liabilities and equity	2,270,628	100.00%	1,997,598	100.00%
Fixed Assets	311,014	13.70%	316,471	15.84%
Long Term Loans and Deposits	10,552	0.46%	12,946	0.65%
Deferred Taxation	24,599	1.08%	36,814	1.84%
Current Assets	1,924,463	84.75%	1,631,367	81.67%
Total Assets	2,270,628	100.00%	1,997,598	100.00%
Profit and Loss Account				
Sales	2,630,402	100.00%	1,944,764	100.00%
Cost of sales	(2,087,813)	-79.37%	(1,628,144)	-83.72%
Gross Profit / (Loss)	542,589	20.63%	316,621	16.28%
Distribution and marketing costs	(222,183)	-8.45%	(180,096)	-9.26%
Administrative expenses	(133,121)	-5.06%	(119,023)	-6.12%
Other operating expenses	(22,952)	-0.87%	(199,706)	-10.27%
Other operating income	68,089	2.59%	42,319	2.18%
Operating Profit / (Loss)	232,421	8.84%	(139,886)	-7.19%
Finance Cost	(30,405)	-1.16%	(16,235)	-0.83%
Profit / (Loss) before tax	202,016	7.68%	(156,121)	-8.03%
Taxation	(39,094)	-1.49%	50,000	2.57%
Profit / (Loss) for the year	162,923	6.19%	(106,121)	-5.46%

2010 Rs. in '000'	%age	2009 Rs. in '000'	%age	2008 Rs. in '000'	%age	2007 Rs. in '000'	%age
826,600	45.69%	773,021	48.49%	676,832	55.28%	590,143	54.54%
63,843	3.53%	52,273	3.28%	42,302	3.46%	32,602	3.01%
164,927	9.12%	171	0.01%	16,421	1.34%	47,795	4.42%
753,738	41.66%	768,645	48.22%	488,731	39.92%	411,413	38.03%
1,809,108	100.00%	1,594,110	100.00%	1,224,286	100.00%	1,081,953	100.00%
313,502	17.33%	251,639	15.79%	219,108	17.90%	152,303	14.08%
11,685	0.65%	6,196	0.39%	7,885	0.64%	8,336	0.77%
-	0.00%	-	0.00%	-	0.00%	-	0.00%
1,483,920	82.02%	1,336,275	83.83%	997,293	81.46%	921,314	85.15%
1,809,108	100.00%	1,594,110	100.00%	1,224,286	100.00%	1,081,953	100.00%
2,047,989	100.00%	2,024,248	100.00%	1,876,445	100.00%	1,664,543	100.00%
(1,564,429)	-76.39%	(1,522,737)	-75.22%	(1,368,835)	-72.95%	(1,198,453)	-72.00%
483,560	23.61%	501,511	24.78%	507,610	27.05%	466,090	28.00%
(214,023)	-10.45%	(183,402)	-9.06%	(192,937)	-10.28%	(161,898)	-9.73%
(128,520)	-6.28%	(118,321)	-5.85%	(110,034)	-5.86%	(90,562)	-5.44%
(13,387)	-0.65%	(17,282)	-0.85%	(15,368)	-0.82%	(18,654)	-1.12%
42,867	2.09%	41,704	2.06%	56,287	3.00%	41,429	2.49%
170,498	8.33%	224,210	11.08%	245,558	13.09%	236,405	14.20%
(17,248)	-0.84%	(10,421)	-0.51%	(11,639)	-0.62%	(8,413)	-0.51%
153,251	7.48%	213,789	10.56%	233,919	12.47%	227,992	13.70%
(53,471)	-2.61%	(66,000)	-3.26%	(63,231)	-3.37%	(57,313)	-3.44%
99,779	4.87%	147,789	7.30%	170,688	9.10%	170,680	10.25%

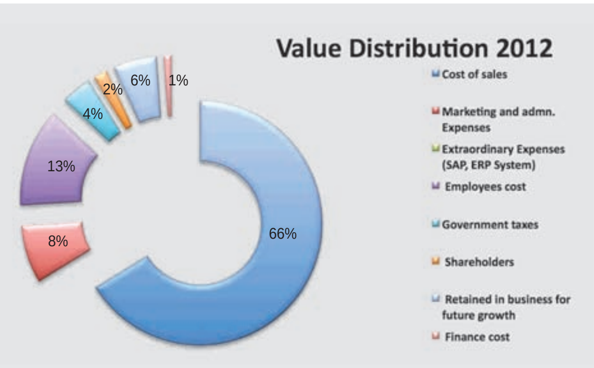
Horizontal Analysis

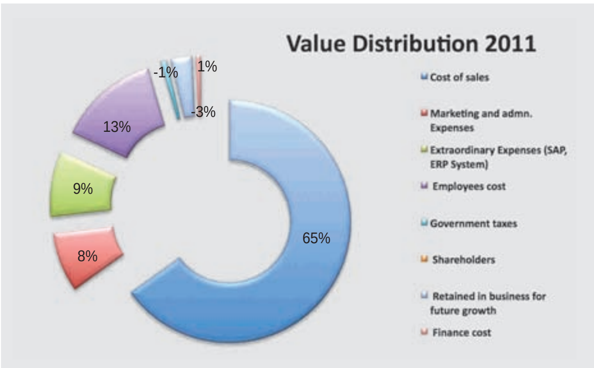
	2012 Rs. in '000	2011 Rs. in '000	"Change %	2011 Rs. in '000	2010 Rs. in '000	"Change %	2010 Rs. in '000
Balance Sheet							
Net worth / shareholders equity	866,902	703,979	23.14%	703,979	826,600	-14.83%	826,600
Non - current liabilities	36,498	35,446	2.97%	35,446	63,843	-44.48%	63,843
Short term running finances/bank borrowings	233,370	57,791	303.82%	57,791	164,927	-64.96%	164,927
Creditors, accrued and other liabilities	1,133,858	1,200,382	-5.54%	1,200,382	753,738	59.26%	753,738
Total liabilities and equity	2,270,628	1,997,598	13.67%	1,997,598	1,809,108	10.42%	1,809,108
Fixed Assets	311,014	316,471	-1.72%	316,471	313,502	0.95%	313,502
Long Term Loans and Deposits	10,552	12,946	-18.49%	12,946	11,685	10.79%	11,685
Deferred Taxation	24,599	36,814	-33.18%	36,814	-		-
Current Assets	1,924,463	1,631,367	17.97%	1,631,367	1,483,920	9.94%	1,483,920
Total Assets	2,270,628	1,997,598	13.67%	1,997,598	1,809,108	10.42%	1,809,108
Profit and Loss Account							
Sales	2,630,402	1,944,764	35.26%	1,944,764	2,047,989	-5.04%	2,047,989
Cost of sales	(2,087,813)	(1,628,144)	28.23%	(1,628,144)	(1,564,429)	3.29%	(1,564,429)
Gross Profit / (Loss)	542,589	316,621	71.37%	316,621	483,560	-34.52%	483,560
Distribution and marketing costs	(222,183)	(180,096)	23.37%	(180,096)	(214,023)	-15.85%	(214,023)
Administrative expenses	(133,121)	(119,023)	11.84%	(119,023)	(128,520)	-7.39%	(128,520)
Other operating expenses	(22,952)	(199,706)	-88.51%	(199,706)	(13,387)	1391.82%	(13,387)
Other operating income	68,089	42,319	60.89%	42,319	42,867	-1.28%	42,867
Operating Profit / (Loss)	232,421	(139,886)	266.15%	(139,886)	170,498	-182.05%	170,498
Finance Cost	(30,405)	(16,235)	87.28%	(16,235)	(17,248)	-5.87%	(17,248)
Profit / (Loss) before tax	202,016	(156,121)	229.40%	(156,121)	153,251	-201.87%	153,251
Taxation	(39,094)	50,000	178.19%	50,000	(53,471)	-193.51%	(53,471)
Profit / (Loss) for the year	162,923	(106,121)	253.53%	(106,121)	99,779	-206.36%	99,779

2009	"Change	2009	2008	"Change	2008	2007	"Change	2007	2006	"Change
Rs. in '000	%	Rs. in '000	Rs. in '000	%	Rs. in '000	Rs. in '000	%	Rs. in '000	Rs. in '000	%
773,021	6.93%	773,021	676,832	14.21%	676,832	590,143	14.69%	590,143	467,464	26.24%
52,273	22.13%	52,273	42,302	23.57%	42,302	32,602	29.75%	32,602	15,071	116.32%
171	96153.82%	171	16,421	-98.96%	16,421	47,795	-65.64%	47,795	47	101591.49%
768,645	-1.94%	768,645	488,731	57.27%	488,731	411,413	18.79%	411,413	347,362	18.44%
1,594,110	13.49%	1,594,110	1,224,286	30.21%	1,224,286	1,081,953	13.16%	1,081,953	829,944	30.36%
251,639	24.58%	251,639	219,108	14.85%	219,108	152,303	43.86%	152,303	92,630	64.42%
6,196	88.59%	6,196	7,885	-21.42%	7,885	8,336	-5.41%	8,336	2,798	197.93%
-		-	-		-	-		-	-	
1,336,275	11.05%	1,336,275	997,293	33.99%	997,293	921,314	8.25%	921,314	734,516	25.43%
1,594,110	13.49%	1,594,110	1,224,286	30.21%	1,224,286	1,081,953	13.16%	1,081,953	829,944	30.36%
2,024,248	1.17%	2,024,248	1,876,445	7.88%	1,876,445	1,664,543	12.73%	1,664,543	1,401,145	18.80%
(1,522,737)	2.74%	(1,522,737)	(1,368,835)	11.24%	(1,368,835)	(1,198,453)	14.22%	(1,198,453)	(973,920)	23.05%
501,511	-3.58%	501,511	507,610	-1.20%	507,610	466,090	8.91%	466,090	427,225	9.10%
(183,402)	16.70%	(183,402)	(192,937)	-4.94%	(192,937)	(161,898)	19.17%	(161,898)	(159,195)	1.70%
(118,321)	8.62%	(118,321)	(110,034)	7.53%	(110,034)	(90,562)	21.50%	(90,562)	(82,505)	9.77%
(17,282)	-22.54%	(17,282)	(15,368)	12.45%	(15,368)	(18,654)	-17.62%	(18,654)	(19,286)	-3.28%
41,704	2.79%	41,704	56,287	-25.91%	56,287	41,429	35.86%	41,429	30,394	36.31%
224,210	-23.96%	224,210	245,558	-8.69%	245,558	236,405	3.87%	236,405	196,633	20.23%
(10,421)	65.51%	(10,421)	(11,639)	-10.46%	(11,639)	(8,413)	38.35%	(8,413)	(5,790)	45.30%
213,789	-28.32%	213,789	233,919	-8.61%	233,919	227,992	2.60%	227,992	190,843	19.47%
(66,000)	-18.98%	(66,000)	(63,231)	4.38%	(63,231)	(57,313)	10.33%	(57,313)	(64,450)	-11.07%
147,789	-32.49%	147,789	170,688	-13.42%	170,688	170,680	0.00%	170,680	126,393	35.04%

Statement of Value Addition

	2012	%age	2011	%age
	Rs. in '000'		Rs. in '000'	
Value Addition				
Net sales	2,630,402	97.48	1,944,764	97.87
Other income	68,089	2.52	42,319	2.13
	2,698,491	100.00	1,987,083	100.00
Value Distribution				
Cost of sales (excluding employees' cost & Depreciation/Amortization)	1,787,176	66.23	1,397,447	70.33
Marketing, admin. & other expenses (excluding employees' cost, Depreciation, & Extraordinary Expenses)	210,304	7.79	173,259	8.72
Extraordinary Expenses (SAP, ERP System)	-	0.00	189,625	9.54
Employees cost				
- Salaries, wages, amenities and staff welfare	340,978	12.64	290,901	14.64
- Workers' profit particiaption fund	10,781	0.40	-	0.00
	351,759	13.04	290,901	14.64
Government				
- Taxes & Duties	106,460	3.95	(18,546)	-0.93
- Workers' welfare fund	2,819	0.10	-	0.00
	109,278	4.05	(18,546)	-0.93
Shareholders				
- Dividend	52,800	1.96	-	0.00
- Bonus shares	-	0.00	-	0.00
	52,800	1.96	-	0.00
Retained in business for future growth				
- Depreciation & Amortization	46,647	1.73	44,283	2.23
- Retained profit/(loss)	110,123	4.08	(106,121)	-5.34
	156,769	5.81	(61,838)	-3.11
Finance cost	30,405	1.13	16,235	0.82
	2,698,491	100.00	1,987,083	100.00





Key Financial Data for 6 Years

Rupees in '000'

	2012	2011	2010	2009	2008	2007
Balance sheet						
Paid up capital	132,000	132,000	132,000	132,000	120,000	120,000
Reserves	734,902	571,979	694,600	641,021	556,832	470,143
Net worth / shareholders equity	866,902	703,979	826,600	773,021	676,832	590,143
Non - current liabilities	36,498	35,446	63,843	52,273	42,302	32,602
Short term running finances/ bank borrowings	233,370	57,791	164,927	171	16,421	47,795
Creditors, accrued & other liabilities	1,133,858	1,200,382	753,738	768,645	488,731	411,413
Current liabilities	1,367,228	1,258,173	918,665	768,817	505,152	459,208
Total liabilities	1,403,726	1,293,618	982,508	821,090	547,454	491,810
Total Liabilities & Equity	2,270,628	1,997,598	1,809,108	1,594,110	1,224,286	1,081,953
Fixed assets	311,014	316,471	313,502	251,639	219,108	152,303
Long term loans and deposits	10,552	12,946	11,685	6,196	7,885	8,336
Deferred taxation	24,599	36,814	-	-	-	-
Current assets	1,924,463	1,631,367	1,483,920	1,336,274	997,293	921,314
Total assets	2,270,628	1,997,598	1,809,108	1,594,110	1,224,286	1,081,953
Inventory	638,231	436,319	504,449	414,139	394,488	288,347
Debtors	920,735	866,753	632,844	526,560	388,555	250,061
Trade and other payables	1,086,064	1,173,173	710,812	732,617	455,121	359,893
Material consumption	1,401,889	1,053,942	1,047,964	1,011,436	965,555	841,499
Profit and loss						
Sales	2,630,402	1,944,764	2,047,989	2,024,248	1,876,445	1,664,543
Cost of goods sold	(2,087,813)	(1,628,144)	(1,564,429)	(1,522,737)	(1,368,835)	(1,198,453)
Gross Profit	542,589	316,621	483,560	501,511	507,610	466,090
Distribution and marketing cost	(222,183)	(180,096)	(214,023)	(183,402)	(192,937)	(161,898)
Administrative expenses	(133,121)	(119,023)	(128,520)	(118,321)	(110,034)	(90,562)
Other operating expenses	(22,952)	(199,706)	(13,387)	(17,282)	(15,368)	(18,654)
Other operating income	68,089	42,319	42,867	41,704	56,287	41,429
Operating Profit	232,421	(139,886)	170,498	224,210	245,558	236,405
Finance Cost	(30,405)	(16,235)	(17,248)	(10,421)	(11,639)	(8,413)
Profit before tax	202,016	(156,121)	153,251	213,789	233,919	227,992
Taxation	(39,094)	50,000	(53,471)	(66,000)	(63,231)	(57,313)
Net Profit	162,923	(106,121)	99,779	147,789	170,688	170,680

Key Performance Indicators

		2012	2011	2010	2009	2008	2007
Gross Margin	%	20.63	16.28	23.61	24.78	27.05	28.00
Net profit to Sales	%	6.19	(5.46)	4.87	7.30	9.10	10.25
Return on equity	%	18.79	(15.07)	12.07	19.12	25.22	28.92
Return on capital employed	%	25.73	(18.92)	19.15	27.17	34.15	37.96
Return on assets	%	7.18	(5.31)	5.52	9.27	13.94	15.78
EBITDA	Rupees in '000	279,068	(95,604)	205,618	254,782	270,782	255,115
EBITDA margin	%	10.61	(4.92)	10.04	12.59	14.43	15.33
Inventory turnover ratio	Times	2.20	2.42	2.08	2.45	2.45	2.92
Inventory turnover in number of days	Days	166	151	176	149	149	125
Debtor Turnover ratio	Times	2.86	2.24	3.24	3.84	4.83	6.66
Collection period (Days)	Days	128	163	113	95	76	55
Creditor turnover	Times	1.92	1.39	2.20	2.09	3.01	3.33
Credit turnover in number of days	Days	190	263	166	175	121	110
Operating cycle	Days	104	51	123	69	103	70
Total assets turnover ratio	Times	1.16	0.97	1.13	1.27	1.53	1.54
Fixed assets turnover ratio	Times	8.46	6.15	6.53	8.04	8.56	10.93
Price earning ratio	Times	5.27	(3.02)	7.95	6.70	17.86	15.36
Cash dividend per share	Rupees	4.00	-	1.25	3.50	4.30	7.00
Bonus shares	%	-	-	-	-	10.00	-
Dividend yield ratio	Times	0.06	-	0.02	0.05	0.02	0.04
Dividend payout ratio	Times	0.32	-	0.17	0.31	0.33	0.54
Dividend cover ratio	Times	3.09	-	6.05	3.20	3.01	1.85
Earnings Per Share	Rupees	12.34	(8.04)	7.56	11.20	12.93	12.93
Number of Shares	Number in '000	13,200	13,200	13,200	13,200	13,200	13,200
Debt Equity Ratio		1.62 : 1	1.84 : 1	1.19 : 1	1.06 : 1	0.81 : 1	0.83 : 1
Interest Cover ratio	Times	7.64	(8.62)	9.89	21.52	21.10	28.10
Current Ratio	Times	1.41	1.30	1.62	1.74	1.97	2.01
Acid test ratio	Times	0.94	0.95	1.07	1.20	1.19	1.38
Break up value per share	Rupees	65.67	53.33	62.62	58.56	51.28	44.71
Market Value of shares - year end	Rupees	65.00	24.31	60.11	75.02	230.98	198.60
Market Value of shares - high	Rupees	73.18	62.11	60.11	230.98	230.98	294.95
Market Value of shares - low	Rupees	22.83	24.30	92.48	71.42	152.25	75.10
Summary of cash flow statement							
Operating activities	Rupees in '000	(130,902)	74,079	(92,165)	289,729	14,955	208,487
Investing activities	Rupees in '000	(38,549)	(43,347)	(95,326)	(65,321)	(91,583)	(77,500)
Financing Activities	Rupees in '000	(8)	(16,443)	(46,085)	(51,410)	(83,634)	(47,790)
Cash and cash equivalent closing balance	Rupees in '000	(156,796)	12,663	(1,626)	231,951	58,953	219,215

Pattern of Shareholding
as at December 31, 2012

Number of Shareholders	Shareholding			Total Shares Held
271	1	to	100	7,684
204	101	to	500	56,174
256	501	to	1000	158,782
146	1001	to	5000	329,771
24	5001	to	10000	172,744
10	10001	to	15000	131,950
5	15001	to	20000	96,349
2	20001	to	25000	43,626
2	25001	to	30000	57,600
1	30001	to	35000	31,703
1	35001	to	40000	36,000
1	55001	to	60000	56,000
1	80001	to	85000	82,376
1	95001	to	100000	99,500
1	140001	to	145000	143,863
1	245001	to	250000	250,000
1	270001	to	275000	272,373
1	330001	to	335000	331,178
1	335001	to	340000	336,575
1	1230000	to	1235000	1,230,766
1	1500001	to	1505000	1,502,011
1	7770001	to	7775000	7,772,975
933				13,200,000

Categories of Shareholders	Number	Shares Held	Percentage
Associated Companies	1	7,772,975	58.89
Modarabas & Mutual Funds	3	342,000	2.59
Insurance Companies	2	276,810	2.10
Directors, CEO and their spouse & minor children	-	-	-
National Bank of Pakistan Trustee Department (NIT)	1	1,502,011	11.38
Investment Corporation of Pakistan	-	-	-
Banks Development Financial Institutions, NBFI, Joint Stock Companies	17	1,391,391	10.54
General Public	908	1,883,110	14.26
Others	1	31,703	0.24
Trustees Mohammed Amin Wakf Estate			
	933	13,200,000	100.00

Information as required under the Code of Corporate Governance

Shareholders' Category	Number of Shareholders	Number of Shares Held
Associated Companies, Undertakings and Related Parties		
KSB AG, Germany.	1	7,772,975
Directors	Nil	Nil
Directors' spouses and minor children	Nil	Nil
CEO's spouse and minor children	Nil	Nil
Executives	Nil	Nil
Public Sector Companies and Corporations	4	3,005,341
Mutual Funds		
Golden Arrow Selected Stocks Fund Limited	1	250,000
CDC Trustee Nafa Stock Fund	1	36,000
Banks, Development Finance Institutions, Non Banking Finance Companies, Insurance Companies, Modarabas, Pension Funds and Joint Stock Companies	17	220,871
General Public	908	1,883,110
(a) Local 908		
(b) Foreign Nil		
Others	1	31,703
Total	933	13,200,000

Shareholders holding 5% or more voting interest	Number of Shareholders	Number of Shares Held
KSB AG, Germany	1	7,772,975
National Bank of Pakistan Trustee Deptt. (NIT)	1	1,502,011
National Bank of Pakistan	1	1,230,766

Statement of Compliance

with the Code of Corporate Governance for the year ended December 31, 2012

This statement is being presented to comply with the requirements of the Code of Corporate Governance as contained in the listing regulation No. 35 of Stock Exchanges of Pakistan for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non executive Directors and minority representation on its Board of Directors. At present the Board includes:

Category	Names
Independent Director	Mr. Aizaz Sarfraz
Executive Directors	Mr. Mohammad Masud Akhtar Mr. Sajid Mahmood Awan
Non-Executive Directors	Mr. Tonjes Cerovsky Mr. Werner Spiegel Mr. R.D. Ahmad Mr. Hasan Aziz Bilgrami Engr. M. Abdul Jabbar

The independent Director meet the criteria of independence under clause i(b) of the CCG

2. The Directors have confirmed that none of them is serving as a Director in more than seven listed companies, including this Company.

3. To the best of our knowledge all the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. No casual vacancy occurred in the Board of Directors during the year.

5. The Company has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions including appointment and determination of remuneration and terms & conditions of employment of the CEO and other executive and non-executive directors have been taken by the Board of Directors.

8. All the meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated within the statutory period.

9. The Company provided information to foreign Directors of their duties and responsibilities. Other Directors being professionals and Directors of other local companies are already aware of their duties and responsibilities, however, an in-house briefing and information on the Code of Corporate Governance 2012 has been provided.

10. The Board approved the remunerations and terms & conditions of employment of CFO, Company Secretary and Head of Internal Audit as per terms of Code of Corporate Governance 2012.

11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by the CEO and the CFO before approval of the Board.

13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the CCG.

15. The Board has formed an audit committee. It comprises of three members, who are non executive Directors including the chairman of the committee.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has formed an HR and Remuneration Committee. It comprises of three members, two of them are non-executive Directors and the Chairman of the Committee is an independent Director.

18. The Board has set out an effective internal audit function. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International

Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. The 'closed period' prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange(s).

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).

23. We confirm that all other material principles enshrined in the CCG have been complied with.

For and on behalf of the Board

Mohammad Masud Akhtar
Chief Executive Officer

March 20, 2013
Lahore.

Review Report to the Members
on Statement of Compliance with the Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of KSB Pumps Company Limited ('the company') to comply with the Listing Regulation No. 35 of the Karachi and Lahore Stock Exchanges, where the company is listed.

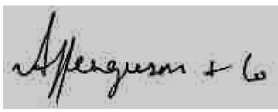
The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company personnel and review of various documents prepared by the company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Regulation 35(x) of Listing Regulations requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee.

We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended December 31, 2012.



Chartered Accountants

Name of audit engagement partner: Amer Raza Mir

Lahore: March 20, 2013

Auditors' Report to the Members

We have audited the annexed balance sheet of KSB Pumps Company Limited as at December 31, 2012 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, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

(b) in our opinion:

   (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   (ii) the expenditure incurred during the year was for the purpose of the company's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 2012 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and

(d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

A.F. Ferguson & Co

Chartered Accountants

Name of engagement partner: Amer Raza Mir

Lahore: March 20, 2013

Balance Sheet
As at December 31, 2012

	Note	2012 Rupees	2011 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital			
15,000,000 (2011: 15,000,000) ordinary shares of Rs 10 each		150,000,000	150,000,000
Issued, subscribed and paid up capital			
13,200,000 (2011: 13,200,000) ordinary shares of Rs 10 each	5	132,000,000	132,000,000
General reserve		678,000,000	678,000,000
Unappropriated profit		56,902,147	(106,020,640)
		866,902,147	703,979,360
NON-CURRENT LIABILITIES			
Employees' retirement and other benefits	6	23,694,398	21,687,924
Deferred liabilities	7	12,803,121	13,758,172
		36,497,519	35,446,096
CURRENT LIABILITIES			
Short term finances - secured	8	233,370,193	57,790,579
Trade and other payables	9	1,086,064,279	1,173,173,448
Provision for other liabilities and charges	10	41,560,872	25,312,081
Accrued finance cost		6,232,664	1,895,994
		1,367,228,008	1,258,172,102
CONTINGENCIES AND COMMITMENTS	11		
		2,270,627,674	1,997,597,558

The annexed notes 1 to 41 form an integral part of these financial statements.

Chairman

	Note	2012 Rupees	2011 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	306,305,098	308,557,668
Investment property	13	1,439,205	1,652,421
Intangible assets	14	1,909,954	2,150,179
Capital work in progress	15	1,360,125	4,110,437
Long term loans and deposits	16	10,551,813	12,945,736
Deferred taxation	17	24,598,777	36,813,991
		346,164,972	366,230,432
CURRENT ASSETS			
Stores, spares and loose tools	18	53,455,480	37,133,567
Stock-in-trade	19	584,775,761	399,184,633
Trade debts	20	920,734,756	866,752,695
Advances, deposits, prepayments and other receivables	21	288,922,978	257,842,971
Cash and bank balances	22	76,573,727	70,453,260
		1,924,462,702	1,631,367,126
		2,270,627,674	1,997,597,558

Chief Executive

Profit and Loss Account
For the year ended December 31, 2012

	Note	2012 Rupees	2011 Rupees
Sales	23	2,630,402,405	1,944,764,151
Cost of sales	24	(2,087,813,298)	(1,628,143,648)
Gross profit		542,589,107	316,620,503
Distribution and marketing expenses	25	(222,183,463)	(180,095,836)
Administration expenses	26	(133,120,949)	(119,023,395)
Other operating expenses	27	(22,952,290)	(199,705,722)
Other operating income	28	68,088,845	42,318,855
Profit/(Loss) from operations		232,421,250	(139,885,595)
Finance cost	29	(30,404,837)	(16,235,120)
Profit/(Loss) before tax		202,016,413	(156,120,715)
Taxation	30	(39,093,626)	50,000,035
Profit/(Loss) for the year		162,922,787	(106,120,680)
Earnings/(Loss) per share - basic and diluted	37	12.34	(8.04)

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 41 form an integral part of these financial statements.

Chairman **Chief Executive**

Statement of Comprehensive Income / (Loss)
For the year ended December 31, 2012

	2012 Rupees	2011 Rupees
Profit / (loss) for the year	162,922,787	(106,120,680)
Other comprehensive income for the year	-	-
Total comprehensive income / (loss) for the year	162,922,787	(106,120,680)

The annexed notes 1 to 41 form an integral part of these financial statements.

Chairman **Chief Executive**

Cash Flow Statement
For the year ended December 31, 2012

	Note	2012 Rupees	2011 Rupees
Cash flows from operating activities			
Cash (used in)/generated from operations	32	(1,365,502)	169,227,406
Finance cost paid		(26,068,167)	(20,207,450)
Taxes paid		(93,276,082)	(61,110,331)
Payments for accumulating compensated absences		(3,110,883)	(2,481,246)
Employees' retirement and other benefits paid		(9,475,600)	(10,088,957)
Net (increase)/decrease in long term loans and deposits		2,393,923	(1,260,631)
Net cash (used in)/from operating activities		(130,902,311)	74,078,791
Cash flows from investing activities			
Fixed capital expenditure		(47,121,756)	(60,399,026)
Proceeds from sale of property, plant and equipment		8,572,635	17,052,181
Net cash (used in) investing activities		(38,549,121)	(43,346,845)
Cash flows from financing activities			
Dividend paid		(7,715)	(16,443,049)
Net cash (used in) financing activities		(7,715)	(16,443,049)
Net (decrease) / increase in cash and cash equivalents		(169,459,147)	14,288,897
Cash and cash equivalents at the beginning of the year		12,662,681	(1,626,216)
Cash and cash equivalents at the end of the year	33	(156,796,466)	12,662,681

The annexed notes 1 to 41 form an integral part of these financial statements.

Chairman

Chief Executive

Statement of Changes In Equity
For the year ended December 31, 2012

	Share capital	General reserves	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees
Balance as at December 31, 2010	132,000,000	594,000,000	100,600,040	826,600,040
1,200,000 ordinary shares of Rs.10 each issued as fully paid bonus shares	-	-	-	-
Final dividend for the year ended December 31, 2010 Rs 1.25 per share	-	-	(16,500,000)	(16,500,000)
Transfer to general reserve	-	84,000,000	(84,000,000)	-
Total comprehensive loss for the year	-	-	(106,120,680)	(106,120,680)
Balance as at December 31, 2011	132,000,000	678,000,000	(106,020,640)	703,979,360
Transfer to general reserve	-	-	-	-
Total comprehensive income for the year	-	-	162,922,787	162,922,787
Balance as at December 31, 2012	132,000,000	678,000,000	56,902,147	866,902,147

The annexed notes 1 to 41 form an integral part of these financial statements.

Chairman

Chief Executive

1. Legal status and nature of business

KSB Pumps Company Limited (a KSB group company) was incorporated in Pakistan on July 18, 1959 under the Companies Act, 1913 (now the Companies Ordinance, 1984) and is listed on the Karachi and Lahore Stock Exchanges. The Company is principally engaged in the manufacture and sale of industrial pumps, valves, castings and related parts. The registered office of the Company is situated at KSB Building, Sir Aga Khan Road, Lahore.

2. Basis of preparation

2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 (the ordinance). Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) as notified under the provisions of the ordinance. Wherever, the requirements of the ordinance or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the ordinance or the requirements of the said directives take precedence.

2.2 Initial application of standards, amendments or an interpretation to existing standards

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Standards, amendments to published standards and interpretations effective in current year

- Amendment to IFRS 7,'Financial instruments: Disclosures', on transfer of financial assets is effective for annual periods beginning on or after July 1, 2011. These amendments are as part the IASBs comprehensive review of off balance sheet activities. The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset. The Company has determined that there is no significant transfer of financial assets that require disclosure under the guidance above.

'The other new standards amendments and interpretations that are mandatory for accounting period beginning on or after January 01,2012 are considered not to be relevant or to have any significant impact on company's financial reporting and operations.

- Amendment to IAS 12, 'Income taxes', on deferred tax, is effective for annual periods beginning on or after January 1, 2012. Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn.

2.2.2 Standards, amendments to published standards and interpretations that are effective in current year but not applicable/relevant to the Company

Standards or Interpretation	Effective date (accounting periods beginning on or after)
Amendment to IFRS 1, a 'First time adoption', on hyperinflation and fixed dates	July 1, 2011
Amendment to IAS 12, 'Income taxes', on deferred tax	January 1, 2012

2.2.3 Standards, amendments and interpretations to existing standards that are not yet effective

Amendment to IAS 1, 'Financial statement presentation'	July 1, 2012
Amendment to IAS 19, 'Employee benefits'	January 1, 2013
Amendment to IAS 32,'Financial instruments: Presentation'	January 1, 2014
IFRS 9, 'Financial instruments	January 1, 2015

2.2.4 Standards, amendments and interpretations to existing standards that are not yet relevant to the Company's operations and not yet effective

Standards or Interpretation	Effective date (accounting periods beginning on or after)
- Amendment to IFRS 1, 'First time adoption', on government loans	January 1, 2013
- Amendment to IFRSs 10, 11 and 12 on transition guidance	January 1, 2013
- IFRS 10, 'Consolidated financial statements'	January 1, 2013
- IFRS 11, 'Joint arrangements'	January 1, 2013
- IFRS 12, 'Disclosures of interests in other entities'	January 1, 2013
- IFRS 13, 'Fair value measurement'	January 1, 2013
- IAS 27 (revised 2011), 'Separate financial statements'	January 1, 2013
- IAS 28 (revised 2011), 'Associates and joint ventures'	January 1, 2013
- IFRIC 20, 'Stripping costs in the production phase of a surface mine'	January 1, 2013
- Amendment to IFRS 7, 'Financial instruments: Disclosures'	January 1, 2013

3. Basis of measurement

These financial statements have been prepared under the historical cost convention, except for recognition of certain employee retirement benefits at present value.

The Company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

a) Retirement benefits

The Company uses the valuation performed by an independent actuary as the present value of its retirement benefit obligations. The valuation is based on assumptions as mentioned in note 4.2.

b) Provision for taxation

The Company takes into account the current income tax law and the decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its views on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

c) Useful life and residual values of property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

d) Cost to complete the projects

As part of application of percentage of completion method on contract accounting, the Company estimates the cost to complete the projects in order to determine the cost attributable to revenue being recognized. These estimates are based on the prices of materials and services applicable at that time, forecasted increases and expected completion date at the time of such estimation. Such estimates are reviewed at regular intervals. Any subsequent changes in the prices of materials and services compared to forecasted prices and changes in the time of completion affect the results of the subsequent periods.

e) **Stock-in-trade**

Stock-in-trade is carried at the lower of cost and net realizable value. The net realizable value is assessed by the Company having regard to the budgeted cost of completion, estimated selling price and knowledge of recent comparable transactions.

4. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

4.2 Employees' retirement and other benefits

The main features of the schemes operated by the Company for its employees are as follows:

4.2.1 Defined benefit plans

(a) The supervisory and managerial staff with minimum five years of continuous service with the Company are entitled to participate in an approved funded gratuity scheme. The actual return on the plan assets was Rs 11.905 million (2011: Rs 4.581 million). The actual returns on plan assets represent the difference between the fair value of plan assets at beginning of the year and end of the year after adjustments for contributions made by the Company as reduced by benefits paid during the year.

The future contribution rates of the scheme include allowances for deficit and surplus. Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme.

Expected rate of increase in salary level	10.00% per annum
Expected rate of return	12.50% per annum
Discount rate	11.00% per annum

Plan assets include long-term Government bonds and equity instruments. Return on Government bonds and debt is at fixed rates, however, due to increased volatility of share prices in recent months, there is no clear indication of return on equity shares therefore it has been assumed that the yield on equity shares would match the return on debt.

The Company is expected to contribute Rs 6.721 million to the gratuity fund.

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employee benefits".

(b) The Company operates an un-funded benefit scheme (ex-gratia) for its unionized staff. Under the scheme, members who have completed prescribed years of service with the Company are entitled to receive 20 days last drawn basic pay for each completed year of service. Provision has been made to cover the obligation on the basis of actuarial valuation and charged to income currently. The amount recognized in the balance sheet represents the present value of defined benefit obligation adjusted for unrecognized actuarial gains and losses. Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

Expected rate of increase in salary level	10.00% per annum
Discount rate	11.00% per annum

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employee benefits".

(c) The Company provides for the expected cost of accumulating compensated absences, when the employee renders the service that increases the entitlement to future compensated absences. Provision has been made to cover the obligation on the basis of actuarial valuation and charged to income currently. The amount recognized in the balance sheet represents the present value of defined benefit obligation. Actuarial gains/losses are recognized immediately under IAS 19 "Employee benefits". Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

Expected rate of increase in salary level	10.00% per annum
Discount rate	11.00% per annum

The latest actuarial valuation of all defined benefit plans was carried out as at December 31, 2012

4.2.2 Defined contribution plans

The Company operates an approved contributory provident fund for all employees. Equal monthly contributions are made by the Company and employees to the fund in accordance with the fund rules.

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

4.3 Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Cost in relation to own manufactured assets includes direct cost of materials, labour and applicable manufacturing overheads.

Depreciation on property, plant and equipment is charged to profit using the straight line method so as to write off the depreciable amount of the assets over their estimated useful lives at the rates mentioned in note 12.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The Company's estimate of the residual value of its property, plant and equipment as at December 31, 2012 has not required any adjustment as its impact is considered insignificant.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalized, while no depreciation is charged for the month in which the asset is disposed off.

The Company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

4.4 Intangible assets

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of such an asset can also be measured reliably. Intangible assets are stated at cost less accumulated amortization and any identified impairment loss.

Amortization is charged to income on the straight line basis so as to write off the cost of an asset over its estimated useful life. Amortization on additions is charged from the month in which an asset is acquired or capitalized while no amortization is charged for the month in which the asset is disposed off. Amortization is being charged at the annual rate of 33.33 %.

The Company assesses at each balance sheet date whether there is any indication that intangible assets may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment is recognized in income currently. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss is recognized, the amortization charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

4.5 Capital work in progress

Capital work in progress is stated at cost less any identified impairment loss.

4.6 Investment property

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the Company comprises building and is valued using the cost method i.e., at cost less accumulated depreciation and identified impairment loss.

Depreciation on building is charged to profit on the straight line method so as to write off the depreciable amount of a building over its estimated useful life of 30 years . Currently investment property is being depreciated at an effective rate of 4.8% per annum. Depreciation on additions is charged from the month in which an asset is acquired or capitalized while no depreciation is charged for the month in which the asset is disposed off.

The Company assesses at each balance sheet date whether there is any indication that investment property may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as income or expense.

4.7 Operating Leases

4.7.1 The Company is the lessee:

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit on a straight-line basis over the lease term.

4.7.2 The Company is the lessor:

Assets leased out under operating leases are included in investment property as referred to in note 13. They are depreciated over their expected useful lives on the basis consistent with similar owned property, plant and equipment. Rental income under operating leases (net of any incentives given to lessees) is recognized on a straight-line basis over the lease term.

4.8 Stores, spares and loose tools

Stores and spares are valued at the lower of moving average cost and net realizable value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale. Provision is made in the financial statements for obsolete and slow moving stores and spares based on management estimate.

4.9 Stock-in-trade

Stock of raw materials except for those in transit, work-in-process and finished goods are valued principally at the lower of moving average cost and net realizable value. Cost of work-in-process and finished goods comprise cost of direct materials, labour and appropriate manufacturing overheads. Materials in transit are stated at cost comprising invoice value and other charges paid thereon.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make the sale. Provision is made in the financial statements for obsolete and slow moving stock in trade based on management estimate.

4.10 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

4.11 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and short term finances.

4.12 Borrowings

Borrowings are recorded at the proceeds received. Finance cost is accounted for on an accrual basis and is included in current liabilities to the extent of remaining unpaid amount.

4.13 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and/or services received, whether or not billed to the Company.

4.14 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.15 Financial instruments

4.15.1 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the time of initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise loans, advances, deposits and other receivables and cash and cash equivalents in the balance sheet.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months from the balance sheet date.

d) Held to maturity

Financial assets with fixed or determinable payments and fixed maturity, where management has the intention and ability to hold till maturity are classified as held to maturity and are stated at amortized cost.

All financial assets are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognized on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss account as part of other income when the Company's right to receive payments is established.

Changes in the fair value of securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account. Dividends on available-for-sale equity instruments are recognized in the profit and loss account when the Company's right to receive payments is established.

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the Company measures the investments at cost less impairment in value, if any.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

4.15.2 Financial liabilities

All financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the profit and loss account.

4.16 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

4.17 Foreign currency transactions and translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These financial statements are presented in 'Pak Rupees', which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

All exchange differences are charged to the profit and loss account.

4.18 Revenue recognition

Revenue from sale of products is recognized on shipment or acceptance of products depending on the terms of supply. Service revenue is recognized over the contractual period or as and when services are rendered to customers. Contract revenue is recognized in accordance with the policy as referred to in note 4.19.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

4.19 Construction contracts

Contract costs are recognized when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Company uses the 'percentage of completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

Gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceeds progress billings are carried in balance sheet as assets and included in trade debts. Gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses) is included in trade and other payables.

The aggregate amount of costs incurred and recognized profits (less recognized losses) for contracts in progress at the balance sheet date was Rs 1,995.930 million (2011: Rs 1,580.866 million).

4.20 Dividend

Dividend distribution to the Company's shareholders is recognized as a liability in the period in which the dividends are approved.

5. Issued subscribed and paid up capital

2012 (Number of shares)	2011 (Number of shares)		2012 Rupees	2011 Rupees
973,100	973,100	Ordinary shares of Rs 10 each fully paid in cash	9,731,000	9,731,000
8,000	8,000	Ordinary shares of Rs 10 each issued as fully paid against property	80,000	80,000
12,218,900	12,218,900	Ordinary shares of Rs 10 each issued as fully paid bonus shares	122,189,000	122,189,000
13,200,000	13,200,000		132,000,000	132,000,000

As at December 31, 2012, the holding company KSB AG, Germany held 7,772,975 (2011: 7,772,975) shares of the Company.

	2012 (Number of shares)	2011 (Number of shares)
The movement of ordinary shares is as follows:		
Opening balance	13,200,000	13,200,000
Add: Bonus shares issued during the year	-	-
Closing balance	13,200,000	13,200,000

		2012 Rupees	2011 Rupees
6. Employees' retirement and other benefits			
These are composed of:			
Gratuity fund	- note 6.1	804,533	793,587
Ex-gratia scheme	- note 6.2	22,889,865	20,894,337
		23,694,398	21,687,924

6.1 Gratuity fund

	2012 Rupees	2011 Rupees
Present value of defined benefit obligation	72,838,318	72,840,831
Fair value of plan assets	(79,560,500)	(70,475,522)
Unrecognized actuarial gain/(losses)	7,526,715	(1,571,722)
Liability as at December 31	804,533	793,587
Liability as at January 1	793,587	663,100
Charged to profit and loss account	8,855,651	9,483,202
Contribution by the company	(8,844,705)	(9,352,715)
Liability as at December 31	804,533	793,587
The movement in the present value of defined benefit obligation is as follows:		
Present value as at January 1	72,840,831	75,300,886
Current service cost	8,559,987	8,362,880
Interest cost	9,105,104	10,918,628
Contribution by the employees	637,699	37,323
Benefits paid	(12,302,523)	(11,070,442)
Experience gain	(6,002,780)	(10,708,444)
Present value as at December 31	72,838,318	72,840,831
The movement in fair value of plan assets is as follows:		
Fair value as at January 1	70,475,522	67,574,522
Expected return on plan assets	8,809,440	9,798,306
Company's contributions	8,844,705	9,352,715
Contribution by the employees	637,699	37,323
Benefits paid	(12,302,523)	(11,070,442)
Experience gain/(loss)	3,095,657	(5,216,902)
Fair value as at December 31	79,560,500	70,475,522
Plan assets are comprised of as follows:		
Debt (Investments)	79,226,940	55,210,103
Cash	333,560	15,265,419
	79,560,500	70,475,522

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of gratuity fund is as follows:

Rupees

	2012	2011	2010	2009	2008
As at December 31					
Present value of defined benefit obligation	72,838,318	72,840,831	75,300,886	64,278,263	57,344,278
Fair value of plan assets	79,560,500	70,475,522	67,574,522	57,893,500	51,584,648
Surplus / (deficit)	6,722,182	(2,365,309)	(7,726,364)	(6,384,763)	(5,759,630)
Experience adjustment on obligation	8%	14%	0%	(4)%	10%
Experience adjustment on plan assets	4%	(7)%	(3)%	(5)%	(2)%

		2012 Rupees	2011 Rupees
6.2 Ex-gratia			
Present value of defined benefit obligation		18,744,314	17,039,704
Unrecognized actuarial gains		4,145,551	3,854,633
Liability as at December 31		22,889,865	20,894,337
Liability as at January 1		20,894,337	18,745,644
Charged to profit and loss account		2,626,423	2,884,935
Payments made by the company		(630,895)	(736,242)
Liability as at December 31		22,889,865	20,894,337
7. Deferred liabilities			
Accumulating compensated absences	- note 7.1	12,803,121	13,758,172
		12,803,121	13,758,172
7.1 Accumulating compensated absence			
Liability as at January 1		13,758,172	12,701,779
Charged to profit and loss account		2,155,832	3,537,639
Payments made by the company		(3,110,883)	(2,481,246)
Liability as at December 31		12,803,121	13,758,172

8. Short term finances - secured

Finances available from commercial banks under mark up arrangements amount to Rs 882 million (2011: Rs 932 million). The rates of mark up range from Re 0.2723 to Re 0.3737 per Rs 1,000 per diem or part thereof on the balance outstanding.

Of aggregate facility of letters of credit of Rs 575 million (2011: Rs 625 million) out of which Rs. 250 million is the sublimit of Running Finances (2011: Rs Nil) and guarantees of Rs 1.5 billion (2011: Rs 1.296 billion) out of which Rs. 654 million is the sub limit of Running Finances (2011: Rs. 532 million) , the amounts utilized as at December 31, 2012 was Rs 16.91 million (2011: Rs 35.670 million) and Rs 272.213 million (2011: Rs 275.124 million) respectively.

The finances are secured by first parri passu charge over all current and future assets of the Company.

9. Trade and other payables

		2012 Rupees	2011 Rupees
Trade creditors	- note 9.1	302,407,195	371,238,862
Accrued liabilities	- note 9.2	218,568,355	194,299,522
Advances from customers		490,886,272	540,204,567
Due against construction work in progress		32,012,000	27,157,000
Sales Tax Payable		-	239,082
Workers' profit participation fund	- note 9.3	780,786	-
Workers' welfare fund		3,495,956	677,437
Rent received in advance		6,062,399	9,425,197
Unclaimed dividends		1,746,034	1,753,749
Other liabilities		30,105,282	28,178,032
		1,086,064,279	1,173,173,448

9.1 Trade creditors include amount due to holding company of Rs 153.639 million (2011: Rs 65.486 million) and associated undertakings of Rs 9.463 million (2011: Rs 3.329 million).

9.2 Accrued liabilities include amount due to holding company of Rs 32.715 million (2011: 21.972 million) and associated undertakings of Rs 34.516 million (2011: Rs 13.657 million). Due to associated undertaking includes amount due to provident fund of Rs 2.074 million (2011: Rs 1.701 million).

9.3 Workers' profit participation fund

		2012 Rupees	2011 Rupees
Balance at beginning of the year		-	1,159,579
Allocation for the year	- note 27	10,780,786	-
Interest payable on funds utilized by the company	- note 29	-	74,713
		10,780,786	1,234,292
Less: Payments made during the year		10,000,000	1,234,292
Balance at the end of the year		780,786	-

10. Provisions for other liabilities and charges

		2012 Rupees	2011 Rupees
Bonus to employees	- note 10.1	24,465,951	15,324,358
Sales incentive scheme	- note 10.2	17,094,921	9,987,723
		41,560,872	25,312,081

Movement in provisions for other liabilities and charges during the year is as follows:

	Bonus to employees	Sales incentive scheme	Total
			Rupees
Balance as at January 1, 2012	15,324,358	9,987,723	25,312,081
Additional provisions made during the year	26,146,575	20,213,057	46,359,632
Provisions used during the year	(17,004,982)	(13,105,859)	(30,110,841)
Balance as at December 31, 2012	24,465,951	17,094,921	41,560,872

10.1 Bonus to employees

This provision represents bonus equal to seven months' basic salary and three months' basic salary payable to unionized and management staff respectively.

10.2 Sales incentive scheme

The sales incentive is payable to staff in consideration of achieving specific target in a stipulated time period.

All provisions as at December 31, 2012 are expected to be utilized in the next financial year.

11. Contingencies and commitments

11.1 Contingencies

The company has issued guarantees of Rs 272.213 million (2011: Rs 275.124 million) against the performance of various contracts.

11.2 Commitments in respect of

Letters of credit other than for capital expenditure approximately Rs 16.91 million (2011: Rs 35.670 million).

12. Property, plant and equipment

Rupees

	Freehold land	Buildings on freehold land	Plant and machinery	Tools, jigs and attachments	Patterns	Other equipment	Furniture and fixtures	Office machines and appliances	Vehicles	Total
Net carrying value basis										
Year ended December 31, 2012										
Opening net book value (NBV)	1,372,520	37,350,360	122,783,609	10,251,673	14,096,730	45,819,936	11,367,227	13,782,582	51,733,031	308,557,668
Additions (at cost)	-	-	5,641,559	2,386,581	5,469,832	5,981,268	614,470	4,151,466	23,893,499	48,138,675
Disposals (at NBV)	-	-	(1,340,959)	-	-	-	(46,107)	(57,068)	(4,487,261)	(5,931,395)
Depreciation charge	-	(1,522,144)	(13,096,399)	(1,839,222)	(3,492,174)	(8,978,886)	(931,818)	(6,018,390)	(8,580,817)	(44,459,850)
Closing net book value (NBV)	1,372,520	35,828,216	113,987,810	10,799,032	16,074,388	42,822,318	11,003,772	11,858,590	62,558,452	306,305,098
Gross carrying value basis										
As at December 31, 2012										
Cost	1,372,520	65,020,958	240,198,592	48,896,110	72,176,370	79,599,794	18,778,612	64,779,277	88,847,928	679,670,161
Accumulated depreciation	-	(29,192,742)	(126,210,782)	(38,097,078)	(56,101,982)	(36,777,476)	(7,774,840)	(52,920,687)	(26,289,476)	(373,365,063)
Net book value (NBV)	1,372,520	35,828,216	113,987,810	10,799,032	16,074,388	42,822,318	11,003,772	11,858,590	62,558,452	306,305,098
Depreciation rate % per annum	-	3.33	6.66 - 10.00	10.00	16.67	12.50	6.67	20.00	20.00	
Net carrying value basis										
Year ended December 31, 2011										
Opening net book value (NBV)	1,372,520	16,861,806	122,292,380	11,852,988	13,003,895	45,409,636	9,783,740	16,249,241	55,372,676	292,198,882
Additions (at cost)	-	21,534,188	12,278,652	288,258	4,061,651	8,840,080	2,458,984	2,632,087	18,006,306	70,100,206
Disposals (at NBV)	-	-	-	-	-	-	(45,706)	(14,004)	(13,088,207)	(13,147,917)
Depreciation charge	-	(1,045,634)	(11,787,423)	(1,889,573)	(2,968,816)	(8,429,780)	(829,791)	(5,084,742)	(8,557,744)	(40,593,503)
Closing net book value (NBV)	1,372,520	37,350,360	122,783,609	10,251,673	14,096,730	45,819,936	11,367,227	13,782,582	51,733,031	308,557,668
Gross carrying value basis										
As at December 31, 2011										
Cost	1,372,520	65,020,958	252,455,271	46,509,530	66,706,537	73,618,526	18,280,641	61,303,885	72,590,275	657,858,143
Accumulated depreciation	-	(27,670,598)	(129,671,662)	(36,257,857)	(52,609,807)	(27,798,590)	(6,913,414)	(47,521,303)	(20,857,244)	(349,300,475)
Net book value (NBV)	1,372,520	37,350,360	122,783,609	10,251,673	14,096,730	45,819,936	11,367,227	13,782,582	51,733,031	308,557,668
Depreciation rate % per annum	-	3.33	6.66 - 10.00	10.00	16.67	12.50	6.67	20.00	20.00	

The cost of fully depreciated property, plant and equipment which are still in use as at December 31, 2012 is Rs 217.296 million (2011: Rs 218.640 million).

		2012 Rupees	2011 Rupees
12.1 The depreciation charge for the year has been allocated as follows:			
Cost of sales	- note 24	33,614,990	31,506,806
Distribution and marketing expenses	- note 25	3,030,839	3,807,102
Administration expenses	- note 26	7,814,021	5,279,595
		44,459,850	40,593,503

12.2 Disposal of property, plant and equipment

2012						Rupees
Particulars of assets	**Sold to**	**Cost**	**Accumulated depreciation**	**Book value**	**Sale proceeds**	**Mode of disposal**
Vehicles						
	Employees					
Mitsubishi Lancer	Sameen Khan	1,069,000	495,119	573,881	759,403	Company Policy
Suzuki Cultus	Usman Qayyum	893,345	215,892	677,453	771,090	Company Policy
Honda City	Rajib Ali	1,353,500	146,629	1,206,871	1,211,668	Company Policy
Hyundai Santro	Sajjad Butt	708,000	297,950	410,050	349,506	Company Policy
Honda City MT	Tahir Mir	881,000	333,434	547,566	552,040	Company Policy
	Outsiders					
Toyota Corolla GLI	EFU General Insurance	1,284,000	436,560	847,440	1,220,000	Insurance Claim
Suzuki Jeep	Ameer Ahmed	523,000	523,000	-	280,000	Tender
Suzuki Cultus VXR	Awais Brothers	560,000	336,000	224,000	325,000	Tender
Suzuki Bolan	Sultan Ansari	364,000	364,000	-	320,000	Tender
MULTI SPINDLE DRILLING3	Awais Brothers	258,750	150,938	107,813	41,068	Tender
CNC LATHE CAK 6180/1500	Awais Brothers	600,000	533,333	66,667	95,230	Tender
CNC MACHINE CENTER	Awais Brothers	1,262,700	687,470	575,230	200,411	Tender
CNC MACHINE CENTER	Awais Brothers	1,347,150	755,900	591,250	225,101	Tender
Other assets with book value less than Rs 50,000		15,222,217	15,119,042	103,174	2,222,118	
		26,326,662	20,395,267	5,931,395	8,572,635	

2011						Rupees
Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Vehicles						
	Employees					
Honda City	Saad Bin Adil	845,000	507,000	338,000	577,000	Company Policy
Toyota Corolla	Abdul Hameed	1,328,000	415,738	912,262	1,050,000	Company Policy
Suzuki Baleno	Rehan Iqbal kazmi	774,000	464,400	309,600	462,000	Company Policy
Honda Civic	Sajjid Mahmood Awan	1,252,500	751,500	501,000	375,750	Company Policy
Honda Civic	Nadeem Hamid Butt	1,286,500	1,029,200	257,300	385,950	Company Policy
Toyota Corolla	Asghar Khan	969,000	372,591	596,409	672,118	Company Policy
Honda City	Kaiser Ali	872,000	356,727	515,273	551,930	Company Policy
Honda City	Khurram Sajjad Khawaja	840,500	490,491	350,009	527,339	Company Policy
Toyota Corolla	Saad Khan	1,414,955	235,826	1,179,129	1,368,985	Company Policy
Mitsubishi Lancer	Khurram Ali Mirza	1,049,000	423,034	625,966	795,480	Company Policy
Suzuki Cultus	Noor Hassan	600,000	257,500	342,500	300,000	Company Policy
Suzuki Swift	Asfanad Yar Afandi	1,058,000	96,983	961,017	1,051,434	Company Policy
Suzuki Cultus	Asim Nawab	595,000	271,196	323,804	297,474	Company Policy
Toyota Corolla	Sohaib Anwer Rathor	1,299,855	324,963	974,892	1,257,985	Company Policy
Honda City	Muhammad Yahya	933,160	559,896	373,264	639,000	Company Policy
Toyota Corolla	Muhammad Tariq Shafi	1,458,210	303,085	1,155,125	1,278,532	Company Policy
Mercedes Benz	Masud Akhtar	4,660,000	3,728,000	932,000	932,000	Company Policy
Honda City	Muhammad Farooq Hassan	945,970	567,582	378,388	750,000	Company Policy
Suzuki Khyber	Sheikh Waseem Raza	334,719	200,831	133,888	285,000	Company Policy
Mitsubishi Lancer	Shehzad Umer	999,000	422,584	576,416	697,506	Company Policy
Toyota Corola	Faisal Aman	1,029,000	418,031	610,969	501,792	Company Policy
	Outsiders					
Toyota Hillux	Majid Khan	430,769	430,769	-	240,000	Tender
Suzuki	Rana Saleem	469,948	103,390	366,558	503,229	Tender
Suzuki	Rana Saleem	480,053	105,612	374,441	523,878	Tender
Hyundai Shehzor	Ameer Ahmad	589,000	589,000	-	400,000	Tender
Hyundai Shehzor	Arslan Nadeem	589,000	589,000	-	425,200	Tender
Other assets with book value less than Rs 50,000		1,588,993	1,529,286	59,707	202,599	
		28,692,132	15,544,215	13,147,917	17,052,181	

	Rupees
13. Investment property	
Net carrying value basis	
Year ended December 31, 2012	
Opening net book value (NBV)	1,652,421
Additions (at cost)	-
Disposals (at NBV)	-
Amortisation charge	(213,216)
Closing net book value (NBV)	1,439,205
Gross carrying value basis	
As at December 31, 2012	
Cost	4,400,000
Accumulated amortisation	(2,960,795)
Net book value (NBV)	1,439,205
Depreciation rate % per annum	3.33
Net carrying value basis	
Year ended December 31, 2011	
Opening net book value (NBV)	1,865,638
Additions (at cost)	-
Disposals (at NBV)	-
Amortisation charge	(213,217)
Closing net book value (NBV)	1,652,421
Gross carrying value basis	
As at December 31, 2011	
Cost	4,400,000
Accumulated amortisation	(2,747,579)
Net book value (NBV)	1,652,421
Depreciation rate % per annum	3.33

13.1 Depreciation charge for the year has been allocated to administration expenses.Currently investment property is being depreciated at an effective rate of 4.8% per annum.

13.2 Fair value of the investment property, based on the valuation carried out by an independent valuer, as at December 31, 2012 is Rs 72.652 million (2011: Rs 66.596 million).

		Rupees
14.	**Intangible assets - Computer software**	
	Net carrying value basis	
	Year ended December 31, 2012	
	Opening net book value (NBV)	2,150,179
	Additions (at cost)	1,733,393
	Disposals (at NBV)	-
	Amortisation charge	(1,973,618)
	Closing net book value (NBV)	1,909,954
	Gross carrying value basis	
	As at December 31, 2012	
	Cost	12,160,445
	Accumulated amortisation	(10,250,491)
	Net book value (NBV)	1,909,954
	Amortisation rate % per annum	33.33
	Net carrying value basis	
	Year ended December 31, 2011	
	Opening net book value (NBV)	5,626,343
	Additions (at cost)	
	Disposals (at NBV)	
	Amortisation charge	(3,476,164)
	Closing net book value (NBV)	2,150,179
	Gross carrying value basis	
	As at December 31, 2011	
	Cost	10,427,052
	Accumulated amortisation	(8,276,873)
	Net book value (NBV)	2,150,179
	Amortisation rate % per annum	33.33

14.1 Amortisation charge for the year has been allocated to administration expenses

The cost of fully amortised softwares which are still in use as at December 31, 2012 is Rs 7.132 million (2011: Rs Nil).

		2012 Rupees	2011 Rupees
15. Capital work in progress			
Advance for land		229,800	229,800
Advance for vehicles		-	2,856,000
Plant and machinery		139,223	-
Others		991,102	1,024,637
		1,360,125	4,110,437
16. Long term loans and deposits			
Loans to employees - considered good			
- Directors		1,062,500	1,812,500
- Executives		2,273,840	3,584,035
- Others		5,014,055	5,828,880
		8,350,395	11,225,415
Less: Receivable within one year	- note 21	3,780,540	4,368,867
		4,569,855	6,856,548
Security deposits		5,981,958	6,089,188
		10,551,813	12,945,736

Reconciliation of the carrying amount of loans to:

	Director		Executives	
	2012	2011	2012	2011
Balance as at January 1	1,812,500	3,902,500	3,584,035	2,011,978
Disbursements during the year	-	-	2,001,600	2,458,204
Repayments during the year	(750,000)	(2,090,000)	(3,311,795)	(886,147)
Balance as at December 31	1,062,500	1,812,500	2,273,840	3,584,035

These represent un-secured interest free loans, other than loans to Chief Executive Officer and Chief Financial Officer which are secured against their respective personal property. Loans are given to executives and other employees for house building, purchase of vehicles and for use in marriages of employees and their dependents. These are repayable in monthly installments over a period of 24 to 60 months.

The maximum aggregate amount due from directors and executives at any time during the year was Rs 1.812 million (2011: Rs 3.902 million) and Rs 3.584 million (2011: Rs 4.099 million) respectively.

		2012 Rupees	2011 Rupees
17.	**Deferred taxation**		
	Debit/ (credit) balance arising from:		
	Accelerated tax depreciation	(42,956,800)	(43,929,000)
	Employees' retirement and other benefits	11,346,000	10,967,100
	Minimum tax paid	23,889,841	17,697,665
	Unassessed tax loss carried forward	32,319,736	52,078,226
	Deferred tax asset	24,598,777	36,813,991
18.	**Stores, spares and loose tools**		
	Stores, spares and loose Tools	53,455,480	37,133,567
		53,455,480	37,133,567
19.	**Stock in trade**		
	Raw materials [including in transit Rs 10.668 Million (2011: Rs Nil)]	363,669,275	220,927,094
	Work in process	204,835,349	149,565,494
	Finished goods	44,163,528	52,509,714
		612,668,152	423,002,302
	Provision for obsolescence	(27,892,391)	(23,817,669)
		584,775,761	399,184,633

19.1 An amount of Rs 10.717 million (2011: 8.5 million) has been charged to cost of sales, being the cost of inventory written down during the year.

			2012 Rupees	2011 Rupees
20.	**Trade debts - unsecured**			
	Considered good			
	- Related parties	- note 20.1	155,790,237	130,852,369
	- Others		662,453,519	588,591,326
	- Due against construction work in progress		102,491,000	147,309,000
			920,734,756	866,752,695
	Considered doubtful		50,862,532	59,364,283
			971,597,288	926,116,978
	Less: Provision for doubtful debts	- note 20.2	(50,862,532)	(59,364,283)
			920,734,756	866,752,695

20.1 Related parties

	2012 Rupees	2011 Rupees
Holding Company		
- KSB Aktiengesellschaft, Germany	25,813,548	14,012,572
Associated undertakings		
- PT KSB Indonesia	14,353,075	1,366,400
- KSB Middle East	-	-
- KSB Pumps Company Limited Thailand	6,583,386	9,915,584
- KSB South Africa	18,908,581	12,294,912
- KSB Pompy Armatura, Poland	-	-
- KSB Singapore (Asia Pacific)	1,487,415	672,728
- KSB Australia Pty Limited	-	-
- KSB-Shanghai Pump	14,463,266	43,878
- KSB-Pompy i Armatura Sp z o. o	-	775,488
- KSB ITUR Spain S.A.	4,226	173,946
- KSB Pumps India	-	2,253,440
- Fauji Fertilizer Company Limited	-	-
- KSB Pars Co. (P.J.S)	261,702	-
- Sui Southern Gas Company Limited	8,718	8,718
- North Sindh Urban Services Corporation	73,906,320	89,334,703
	155,790,237	130,852,369

These relate to normal course of business and are interest free.

20.2 Provision for doubtful debts

	2012 Rupees	2011 Rupees
Opening balance	59,364,283	49,604,979
Provision for the year	14,703,683	18,501,993
	74,067,966	68,106,972
Less: Bad debts written off against provision	23,205,434	8,742,689
Closing balance	50,862,532	59,364,283

21. Advances, deposits, prepayments and other receivables

		2012 Rupees	2011 Rupees
Current portion of long term loans to employees	- note 16	3,780,540	4,368,867
Short term advances to employees- considered good	- note 21.1	9,861,142	6,815,051
Advances to suppliers and contractors			
- Considered good		44,315,007	86,439,729
- Considered doubtful		341,432	873,129
		44,656,439	87,312,858
Due from related parties	- note 21.2	19,887,877	5,685,600
Trade deposits and prepayments			
- Considered good		58,850,388	59,566,572
- Considered doubtful		8,219,792	6,347,736
		67,070,180	65,914,308
Letters of credit, deposits and opening charges		7,340,835	4,476,719
Claims Recoverable from Government			
- Sales Tax		2,794,383	-
- Income Tax		140,711,880	74,314,210
		143,506,263	74,314,210
Other receivables			
- Considered good		1,380,926	16,176,223
- Considered doubtful		275,000	275,000
		1,655,926	16,451,223
		297,759,202	265,338,836
Less: Provision for doubtful amounts	- note 21.3	(8,836,224)	(7,495,865)
		288,922,978	257,842,971

21.1 Included in short term advances to employees is amount due from executives of Rs 5.502 million (2011: 1.697 million).

21.2 Due from related parties

	2012 Rupees	2011 Rupees
Holding company		
- KSB Aktiengesellschaft, Germany	16,830,453	1,598,384
Associated undertakings		
- PT KSB Indonesia	97,595	14,647
- KSB S.A. Cedex, France	-	647,657
- KSB Pompa AMATUER	46,924	41,500
- KSB Shanghai	1,834,455	754,695
- KSB Pumps S.A (PTY) Ltd	117,713	117,713
- KSB Singapore (Asia Pacific)	960,737	2,511,004
	19,887,877	5,685,600

These relate to normal course of business and are interest free.

		2012 Rupees	2011 Rupees
21.3	**Provision for doubtful amounts**		
	Opening balance	7,495,865	5,750,192
	Provision made/(reversed) during the year	1,378,143	2,263,606
		8,874,008	8,013,798
	Less: Amount written off against provision	37,784	517,933
	Closing balance	8,836,224	7,495,865
22.	**Cash and bank balances**		
	At banks		
	- on saving accounts	47,325,314	50,544,875
	- on current accounts	9,263,600	18,638,282
		56,588,914	69,183,157
	Cash in hand [including cheques in hand of Rs 18.341 Million (2011: Rs Nil)]	19,984,813	1,270,103
		76,573,727	70,453,260

22.1 The balances in saving and deposit accounts bear mark-up which ranges from 5% to 8.25% per annum.

			2012 Rupees	2011 Rupees
23.	**Sales**			
	Local sales	- note 23.1	2,719,125,474	1,981,359,338
	Export sales		241,418,328	176,004,564
			2,960,543,802	2,157,363,902
	Less: Sales tax		(330,141,397)	(212,599,751)
			2,630,402,405	1,944,764,151

23.1 Sales are inclusive of revenue from rendering of contract and services of Rs 424.046 million (2011: Rs 365.775 million) and Rs. 215.661 million (2011: Rs. 52.587 million) respectively.

24. Cost of sales

		2012 Rupees	2011 Rupees
Raw material consumed		1,315,480,156	942,356,310
Salaries, wages, amenities and staff welfare	- note 24.1	198,556,623	164,593,308
Staff training		1,099,899	764,399
Electricity and power		65,139,097	56,734,286
Stores and spares consumed		133,332,710	81,701,260
Insurance		3,059,052	3,321,518
Traveling and conveyance		31,600,459	26,215,079
Postage and telephone		3,942,272	3,865,865
Printing and Stationery		2,573,822	1,207,157
Rent, rates and taxes		2,152,012	2,169,731
Repairs and maintenance		4,031,727	5,062,190
Legal & Professional charges		1,250,380	2,054,802
SAP user license fee and other IT services		11,741,031	3,234,934
Packing expenses		20,107,698	14,476,973
Outside services		292,647,238	219,711,940
Depreciation on property, plant and equipment	- note 12.1	33,614,990	31,506,806
Amortization of intangible assets	- note 14.1	-	2,377,943
Provision for obsolete stores & stocks		4,074,722	32,317,669
Royalty		6,224,040	1,992,000
Other expenses		4,109,039	2,595,172
		2,134,736,966	1,598,259,342
Opening work-in-process		149,565,494	139,419,250
Less: Closing work-in-process		204,835,349	149,565,494
		(55,269,855)	(10,146,244)
Cost of goods manufactured		2,079,467,112	1,588,113,098
Opening stock of finished goods		52,509,714	92,540,264
Less: Closing stock of finished goods		44,163,528	52,509,714
		8,346,186	40,030,550
		2,087,813,298	1,628,143,648
Less: Cost of capital assets manufactured		-	-
		2,087,813,298	1,628,143,648

Cost of sales include the following in respect of:

	2012 Rupees	2011 Rupees
Contract cost	346,251,602	330,207,000
Raw material written off	9,758,194	8,500,000
Finished goods written off	958,735	-

	2012 Rupees	2011 Rupees

24.1 Salaries, wages, amenities and staff welfare

Salaries, wages, amenities and staff welfare include following in respect of retirement and other benefits:

Gratuity fund

	2012 Rupees	2011 Rupees
Current service cost	4,027,750	3,490,362
Interest cost	4,284,244	4,557,039
Expected return on plan assets	(4,145,125)	(4,089,457)
	4,166,869	3,957,944

Ex-gratia

	2012 Rupees	2011 Rupees
Current service cost	752,241	830,421
Interest cost	1,874,182	2,054,514
	2,626,423	2,884,935

In addition to above, salaries, wages, amenities and staff welfare include Rs 6.285 million (2011: Rs 5.273 million) and Rs 0.954 million (2011: Rs 1.411 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

25. Distribution and marketing expenses

		2012 Rupees	2011 Rupees
Salaries, wages, amenities and staff welfare	- note 25.1	71,858,718	68,081,359
Staff training		2,402,661	488,850
Insurance		289,818	352,150
Traveling, conveyance and representations		18,959,523	19,016,600
Rent, rates and taxes		4,644,556	3,754,881
Publicity charges		9,412,707	9,229,623
Electricity, gas and water		5,002,665	2,890,448
Postage and telephone		2,191,466	2,854,867
Printing and stationery		677,834	680,871
Legal and Professional charges		298,345	195,834
SAP user license fee and other IT services		4,414,669	-
Contract services		2,636,576	3,316,764
Repairs and maintenance		355,947	4,487,534
Forwarding expenses		27,834,695	20,694,882
Commission expenses		34,338,729	9,978,085
Provision for doubtful debts and receivables		16,081,826	20,765,598
Depreciation on property, plant and equipment	- note 12.1	3,030,839	3,807,102
Warranty charges		16,622,778	8,318,795
Other expenses		1,129,111	1,181,593
		222,183,463	180,095,836

	2012 Rupees	2011 Rupees
25.1 Salaries, wages, amenities and staff welfare		
Salaries, wages, amenities and staff welfare include following in respect of retirement and other benefits:		
Gratuity fund		
Current service cost	2,167,873	2,283,384
Interest cost	2,305,927	2,981,200
Expected return on plan assets	(2,231,048)	(2,675,309)
	2,242,752	2,589,275

In addition to above, salaries, wages, amenities and staff welfare include Rs 2.322 million (2011: Rs 2.476 million) and Rs 0.713 million (2011: Rs 1.162 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

25.2 Provision for doubtful debts and receivables include provision for doubtful amounts of Rs. 1.378 Million

26. Administration expenses

		2012 Rupees	2011 Rupees
Salaries, wages, amenities and staff welfare	- note 26.1	66,724,497	56,512,082
Staff training		335,912	460,660
Insurance		151,350	217,679
Travelling, conveyance and representations		14,595,604	14,270,848
Rent, rates and taxes		4,011,770	3,984,331
Electricity, gas and water		5,862,308	8,187,674
Postage and telephone		9,125,392	7,914,907
Printing and stationery		2,077,562	1,617,325
Repairs and maintenance		3,398,858	2,119,700
Professional services	- note 26.2	4,634,920	7,966,079
SAP user license fee and other IT services		3,092,324	802,812
Contract Services		4,740,472	4,898,262
Depreciation on:			
- Property, plant and equipment	- note 12.1	7,814,021	5,279,595
- Investment property	- note 13.1	213,216	213,217
- Amortization on intangible assets	- note 14.1	1,973,618	1,098,221
Other expenses		4,369,125	3,480,003
		133,120,949	119,023,395

26.1 Salaries, wages, amenities and staff welfare

Salaries, wages, amenities and staff welfare include following in respect of retirement and other benefits:

	2012 Rupees	2011 Rupees
Gratuity fund		
Current service cost	2,364,365	2,589,134
Interest cost	2,514,933	3,380,390
Expected return on plan assets	(2,433,268)	(3,033,540)
	2,446,030	2,935,984

In addition to above, salaries, wages, amenities and staff welfare include Rs 2.745 million (2011: Rs 3.079 million) and Rs 0.489 million (2011: Rs 0.963 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

26.2 Professional services

The charges for professional services include the following in respect of auditors' services for:

	2012 Rupees	2011 Rupees
Statutory audit	500,000	500,000
Review of half yearly financial statements	150,000	150,000
Audit of funds, consolidation forms and sundry services	423,994	359,150
Taxation services	2,962,943	3,806,195
Out of pocket expenses	131,145	103,055
	4,168,082	4,918,400

27. Other operating expenses

		2012 Rupees	2011 Rupees
Workers' profit participation fund	- note 9.3	10,780,786	-
Workers' welfare fund		2,818,519	-
Donations	- note 27.1	150,000	200,000
CRM cost		9,202,985	9,880,941
SAP Implementation		-	189,624,781
		22,952,290	199,705,722

27.1 None of the directors and their spouses had any interest in any of the donees during the year.

		2012 Rupees	2011 Rupees
28. Other operating income			
Income from financial assets			
Profit on bank accounts		3,432,570	4,138,435
Income from non-financial assets			
Commission Income		23,155,201	9,621,726
Rental income on investment property		6,384,905	5,729,826
Scrap sales		5,077,444	5,020,752
Profit on sale of property, plant and equipment		2,641,240	3,904,264
Provisions no longer considered necessary and unclaimed balances written back		9,331,168	7,162,189
Exchange gain		5,551,350	119,982
Sundry income		12,514,967	6,621,681
		64,656,275	38,180,420
		68,088,845	42,318,855
29. Finance cost			
Mark-up on short term finances - secured		25,583,352	11,772,552
Interest on workers' profit participation fund	- note 9.3	-	74,713
Bank and other charges		4,821,485	4,387,855
		30,404,837	16,235,120
30. Taxation			
For the year			
- Current		29,223,035	19,197,820
- Deferred		12,215,214	(68,546,291)
		41,438,249	(49,348,471)
Prior year			
- Current		(2,344,623)	(651,564)
- Deferred		-	-
		(2,344,623)	(651,564)
		39,093,626	(50,000,035)

30.1 Tax charge reconciliation

	2012 %	2011 %
Numerical reconciliation between the average effective tax rate and the applicable tax rate:		
Applicable tax rate	35.00	(35.00)
Tax effect of amounts that are:		
Tax effect under presumptive tax regime and others	(14.52)	3.35
Effect of change in prior year's tax	(1.13)	(0.38)
Average effective tax rate charged to profit and loss account	19.35	(32.03)

31. Rates of exchange

Foreign currency assets and liabilities have been translated into Pak Rupees at US $ 1.0299 (2011: US $ 1.1136), EURO 0.7794 (2011: EURO 0.8604), GBP 0.6373 (2011: GBP 0.722), DHR 3.7821 (2011: DHR 4.090), SFR 0.9409 (2011: SFR 1.0481), YEN 88.5269 (2011: YEN 86.333), and HK$ 7.9808 (2011: HK$ 8.651) equal to Rs 100.

32. Cash generated from operations

		2012 Rupees	2011 Rupees
Profit before taxation		202,016,413	(156,120,715)
Adjustment for:			
Depreciation on:			
- Property, plant and equipment		44,459,850	40,593,503
- Investment property		213,216	213,217
- Intangible Assets		1,973,618	3,476,164
Profit on sale of property, plant and equipment		(2,641,240)	(3,904,264)
Accumulating compensated absences		2,155,832	3,537,639
Employees' retirement and other benefits		11,482,074	12,368,137
Provision for doubtful debts and receivables		16,081,826	20,765,598
Provision for obsolete stocks		4,074,722	32,317,669
Advances, deposits, prepayments and other receivables written off		37,784	517,933
Provisions no longer considered necessary and unclaimed balances written back		(9,331,168)	(7,162,189)
Finance cost		30,404,837	16,235,120
Exchange loss/(gain)		(5,551,350)	(119,982)
Working capital changes	- note 32.1	(296,741,916)	206,509,576
		(1,365,502)	169,227,406

		2012 Rupees	2011 Rupees
32.1 Working capital changes			
(Increase)/decrease in current assets:			
Stores, spares and loose tools		(16,321,913)	4,715,268
Stock-in-trade		(189,665,850)	31,098,206
Trade debts		(63,134,394)	(252,411,000)
Advances, deposits, prepayments and other receivables		33,901,736	(34,734,137)
		(235,220,421)	(251,331,663)
Increase/(decrease) in current liabilities:			
Trade and other payables		(77,770,286)	469,586,910
Provision for other liabilities and charges		16,248,791	(11,745,671)
		(296,741,916)	206,509,576
33. Cash and cash equivalents			
Cash and cash equivalents comprise the following items:			
Cash and bank balances	- note 22	76,573,727	70,453,260
Short term finances - secured	- note 8	(233,370,193)	(57,790,579)
		(156,796,466)	12,662,681

34. Remuneration of Chief Executive, Directors and Executives

34.1 The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Chief Executive, full time working director and executives of the company is as follows:

Rupees

		Chief Executive		Director		Executives	
		2012	2011	**2012**	2011	**2012**	2011
Short term employee benefits							
Managerial remuneration		11,024,472	9,586,500	2,690,328	2,507,887	62,129,792	45,534,080
Bonus	- note 34.3	5,000,000	3,000,000	672,582	409,102	12,706,426	11,653,770
Ex-gratia		-	-	-	-	-	-
House rent		2,542,914	2,365,500	1,210,644	1,060,991	27,854,678	20,509,661
Utilities		499,903	688,055	269,028	235,775	6,189,993	4,553,423
Medical and other expenses		157,245	262,878	300,000	240,000	10,665,816	6,594,198
		19,224,534	15,902,933	5,142,582	4,453,755	119,546,705	88,845,132
Post employment benefits							
Contribution to gratuity and provident fund		2,021,154	1,796,502	493,222	463,487	11,227,678	8,057,485
Other long term benefits							
Accumulating compensated absences		-	-	661,500	606,697	10,364,005	8,589,859
		21,245,688	17,699,435	6,297,304	5,523,939	141,138,388	105,492,476
Number of persons		1	1	1	1	72	51

34.2 The Company also provides its chief executive, director and some of its executives with company maintained cars, free residential telephones and mobile phones. In addition, chief executive and 2 executives have also been provided with rent free furnished accommodation.

34.3 Bonus paid to the Chief Executive Officer and Director during the year ended December 31, 2012 amounts to Rs. 3,740,700 (2011: Rs. 3,905,900) and Rs. 398,875 (2011: Rs. 375,000) respectively. Bonus for the year ended December 31,2012 is subject to approval of Board of Directors.

34.4 Aggregate amount charged in the financial statements for the year for fee to 8 directors (2011: 8 directors) was Rs. 20,000 (2010: Rs 30,000).

35. Related party transactions

The related parties comprise holding company, associated undertakings, other related group companies, key management personnel and post employment benefit plan. The company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables, amounts due from key management personnel are shown under receivables and remuneration of key management personnel is disclosed in note 34 . Other significant transactions with related parties are as follows:

	2012 Rupees	2011 Rupees
Holding company		
Sales	79,334,191	62,722,893
Purchases	256,018,376	128,827,740
Commission income	19,583,574	9,469,058
Royalty	6,224,040	1,992,000
Associated undertakings		
Sales	226,551,887	150,739,468
Purchases	83,547,665	75,974,859
Commission income	3,571,627	152,668
Commission expense	20,537,061	-
Key management personnel		
Sale of property, plant and equipment	8,175	1,693,700
Post employment benefit plan		
Expense charged in respect of:		
- Gratuity fund	8,855,700	9,483,202
- Ex-gratia scheme	2,626,440	2,884,935
- Provident fund	9,395,912	10,827,900
- Accumulating compensated absences	2,155,832	3,537,639

All transactions with related parties are carried out at commercial terms and conditions.

36. Plant capacity and production

		Capacity		Actual production	
		2012	2011	2012	2011
Power driven pumps	Number	6,000	6,000	5,276	3,648

The variance of actual production from capacity is on account of the product mix.

37. Earnings per share

37.1 Basic earnings per share

		2012	2011
Profit/(loss) for the year	Rupees	162,922,787	(106,120,680)
Weighted average number of ordinary shares	Numbers	13,200,000	13,200,000
Earnings per share	Rupees	12.34	(8.04)

37.2 Diluted earnings per share

A diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue as at December 31, 2012 and December 31, 2011 which would have any effect on the earnings per share if the option to convert is exercised.

38 Financial risk management

38.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by the finance department under the principles and policies approved by the Board of Directors (the Board). The Board provides principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of these policies.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

	2012	2011
Advances deposits and other receivables - USD	194,643	56,097
Trade debts - USD	993,272	631,331
Trade and other payables - USD	(479,568)	(697,247)
Net exposure - USD	708,347	(9,819)
Advances deposits and other receivables - EURO	53,145	6,942
Trade debts - EURO	19,887	1,500
Trade and other payables - EURO	(1,041,000)	(510,144)
Net exposure - EURO	(967,968)	(501,702)
Trade and other payables - GBP	(423)	(12,925)
Advances deposits and other receivables - GBP	1,294	-
Net exposure - GBP	871	(12,925)
Advances deposits and other receivables - SGD	1,315	-
Net exposure - SGD	1,315	-
Advances deposits and other receivables - AED	12,250	-
Net exposure - AED	12,250	-

The following significant exchange rates were applied during the year:

Rupees per USD	2012	2011
Average rate	93.42	87.60
Reporting date rate	97.10	89.80

If the functional currency, at reporting date, had fluctuated by 5% against the USD with all other variables held constant, the impact on profit before taxation for the year would have been Rs 3.439 million (2011: Rs 0.044 million million) higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

Rupees per EURO	2012	2011
Average rate	120.62	121.09
Reporting date rate	128.31	116.22

If the functional currency, at reporting date, had fluctuated by 5% against the Euro with all other variables held constant, the impact on profit before taxation for the year would have been Rs 6.210 million (2011: Rs 2.915 million) higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

Rupees per GBP	2012	2011
Average rate	148.66	139.01
Reporting date rate	156.58	138.40

If the functional currency, at reporting date, had fluctuated by 5% against the GBP with all other variables held constant, the impact on profit before taxation for the year would have been Rs 0.007 million (2011: 0.089 million million) higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

Rupees per SGD	**2012**	2011
Average rate	75.01	68.98
Reporting date rate	79.31	69.88

If the functional currency, at reporting date, had fluctuated by 5% against the SGD with all other variables held constant, the impact on profit before taxation for the year would have been Rs 0.005 million (2011: Nil) higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

Rupees per AED	**2012**	2011
Average rate	25.43	23.52
Reporting date rate	26.38	24.39

If the functional currency, at reporting date, had fluctuated by 5% against the AED with all other variables held constant, the impact on profit before taxation for the year would have been Rs 0.016 million (2011: Nil) higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to equity price risk since there are no investments in equity securities. The Company is also not exposed to commodity price risk since it has a diverse portfolio of commodity suppliers.

(iii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term and short term borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk.

At the balance sheet date, the interest rate profile of the Company's interest bearing financial instruments was:

	2012 Rupees	2011 Rupees
Fixed rate instruments		
Financial assets		
Bank balances - savings	47,325,314	50,544,875
Net exposure	47,325,314	50,544,875
Floating rate instruments		
Financial liabilities		
Short term finances - secured	233,370,193	57,790,579

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for floating rate instruments

If interest rates on short term running finance, at the year end date, fluctuate by 1% higher/lower with all other variables held constant, profit before taxation for the year would have been Rs 2.334 million (2011: Rs 0.578 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from deposits with banks and other receivables.

Credit risk of the Company arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The management assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilization of credit limits is regularly monitored and major sales to retail customers are settled in cash. For banks and financial institutions, only independently rated parties with a strong credit rating are accepted.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2012 Rupees	2011 Rupees
Long term loans and deposits	10,551,813	12,945,736
Trade debts	971,597,288	926,116,978
Loans, advances, deposits, prepayments and other receivables	104,130,616	99,398,698
Balances with banks	56,588,914	69,183,157
	1,142,868,631	1,107,644,569
The age of trade receivables and related impairment loss at balance sheet date is as follows:		
The age of trade receivables		
- Not past due		-
- Past due 0 - 180 days	486,089,056	447,952,132
- Past due 181 - 365 days	253,187,895	60,431,876
- Over 365 days	232,320,338	417,732,970
	971,597,289	926,116,978
The age of impairment loss against trade receivables		
- Not past due	-	-
- Past due 0 - 180 days	-	-
- Past due 181 - 365 days	-	-
- Over 365 days	50,862,532	59,364,283
	50,862,532	59,364,283

(ii) Credit quality of major financial assets

The credit quality of major financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

	Rating Short term	Rating Long term	Rating Agency	2012 (Rupees)	2011 (Rupees)
National Bank of Pakistan	A-1+	AAA	JCR-VIS	2,283,424	15,200,190
MCB Bank Limited	A1+	AA+	PACRA	45,217,722	35,686,455
United Bank Limited	A-1+	AA+	JCR-VIS	203,129	192,525
Deutsche Bank A.G.	A-1	A+	S&P	8,530,467	17,112,111
HSBC Bank Middle East Limited	P-1	A1	Moody's	10,220	-
NIB Bank Limited	A1+	AA-	PACRA	343,952	991,876
				56,588,914	69,183,157

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the credit risk is minimal.

(c) Liquidity risk

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the Company's businesses, the Company's finance department maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors the forecasts of the Company's cash and cash equivalents on the basis of expected cash flow. This is generally carried out in accordance with practice and limits set by the Company. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Company's liquidity management policy involves projecting cash flows in each quarter and considering the level of liquid assets necessary to meet its liabilities; monitoring balance sheet liquidity ratios against internal and external regulatory requirements; and maintaining debt financing plans.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows as the impact of discounting is not significant.

The following are the contractual maturities of financial liabilities as at December 31, 2012:

	Carrying amount	Less than one year	One to five years	More than five years
	(Rupees)			
Trade and other payables	533,434,219	533,434,219	-	-
Accrued finance cost	6,232,664	6,232,664	-	-
	539,666,883	539,666,883	-	-

The following are the contractual maturities of financial liabilities as at December 31, 2011:

	Carrying amount	Less than one year	One to five years	More than five years
	(Rupees)			
Trade and other payables	577,413,951	577,413,951	-	-
Accrued finance cost	1,895,994	1,895,994	-	-
	579,309,945	579,309,945	-	-

38.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

38.3 Financial instruments by categories

	Loans and receivables	
	2012 Rupees	2011 Rupees
Assets as per balance sheet		
Long term loans and deposits	10,551,813	12,945,736
Trade debts	971,597,288	926,116,978
Loans, advances, deposits, prepayments and other receivables	104,130,616	99,398,698
Cash and bank balances	56,588,914	69,183,157
	1,142,868,631	1,107,644,569

	Financial liabilities at amortised cost	
	2012 Rupees	2011 Rupees
Liabilities as per balance sheet		
Trade and other payables	533,434,219	577,413,951
Accrued finance cost	6,232,664	1,895,994
	539,666,883	579,309,945

38.4 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. As the Company is a wholly equity financed corporation, with working capital lines, capital comprises all components of equity (share capital, general reserve, and retained earnings) as mentioned on the face of balance sheet, and is raised as required, through the approval of the Board of Directors.

39. Date of authorization for issue

These financial statements were authorized for issue on March 20, 2013 by the board of directors of the company.

40. Events after the balance sheet date

The Board of Directors have proposed a final dividend for the year ended December 31, 2012 of Rs 4.00 (2011: Rs Nil) per share, amounting to Rs 52.8 million (2011: Rs Nil) at their meeting held on March 20, 2013 for approval of members at the Annual General Meeting to be held on April 24, 2013. The board has also proposed transfer of Rs 4.0 million (2011: Rs Nil) to general reserve from unappropriated profit. These financial statements do not reflect this dividend payable and other appropriations.

41. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made during the year, except for the following:

	Note	From	Note	To	2011 Rupees
Loans to employees	16	Loans to employees-others	16	Loans to employees-executives	264,440
Trade debts	20	Others	20	Related parties	90,821,841
Cost of sales	24	Printing and Stationery	24	Other expenses	1,048,717
	24	Legal & Professional charges	24	SAP user license fee and other IT services	1,840,294
Distribution and marketing expenses	25	Legal & Professional charges	24	SAP user license fee and other IT services	1,394,640
Administration expenses	26	Salaries, wages, amenities and staff welfare	24	Salaries, wages, amenities and staff welfare	10,788,886
	26	Legal & Professional charges	26	SAP user license fee and other IT services	802,812

Chairman **Chief Executive**

Form of Proxy

The Company Secretary
KSB Pumps Company Limited
16/2, Sir Aga Khan Road
Lahore-54000.

I/We____

of____

in the district of_________________________________ being member(s) of KSB

Pumps Co. Ltd. and holder(s) of ____________________shares as per Share Register folio number
(No. of Shares)

________________and/or CDC participant I.D.______________and sub account No.

____________________hereby appoint____________________

of____ as my/our proxy

to attend and vote for me/us on my/our behalf at the Annual General Meeting of the company to be held on Wednesday, April 24, 2013 and at any adjournment thereof.

Signed this ____________________day________________ of 2013.

Witness

Signature ____________________

Name ____________________

Address ____________________

NIC No.____________________

Signature on
Rs. 5.00
Revenue
Stamp

Note:

A member of the company entitled to vote at this meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. Proxy must be received at the Registered Office of the company not later than 48 hours before the time of meeting.

The instrument appointing a Proxy should be signed by the member or by his attorney duly authorised in writing. If the member is a corporation, its common seal should be affixed to the instrument.

The shareholders of the company through Central Depository Company or their proxies are requested to bring with them copies of their Computerized National Identity Card or Passport along with the participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

KSB Pumps Company Limited
16/2, Sir Aga Khan Road, Lahore
Telephone: +92 42 3630 4173, Fax: +92 42 3636 8878
UAN: 111 572 786, Email: info@ksb.com.pk, URL: www.ksb.com.pk