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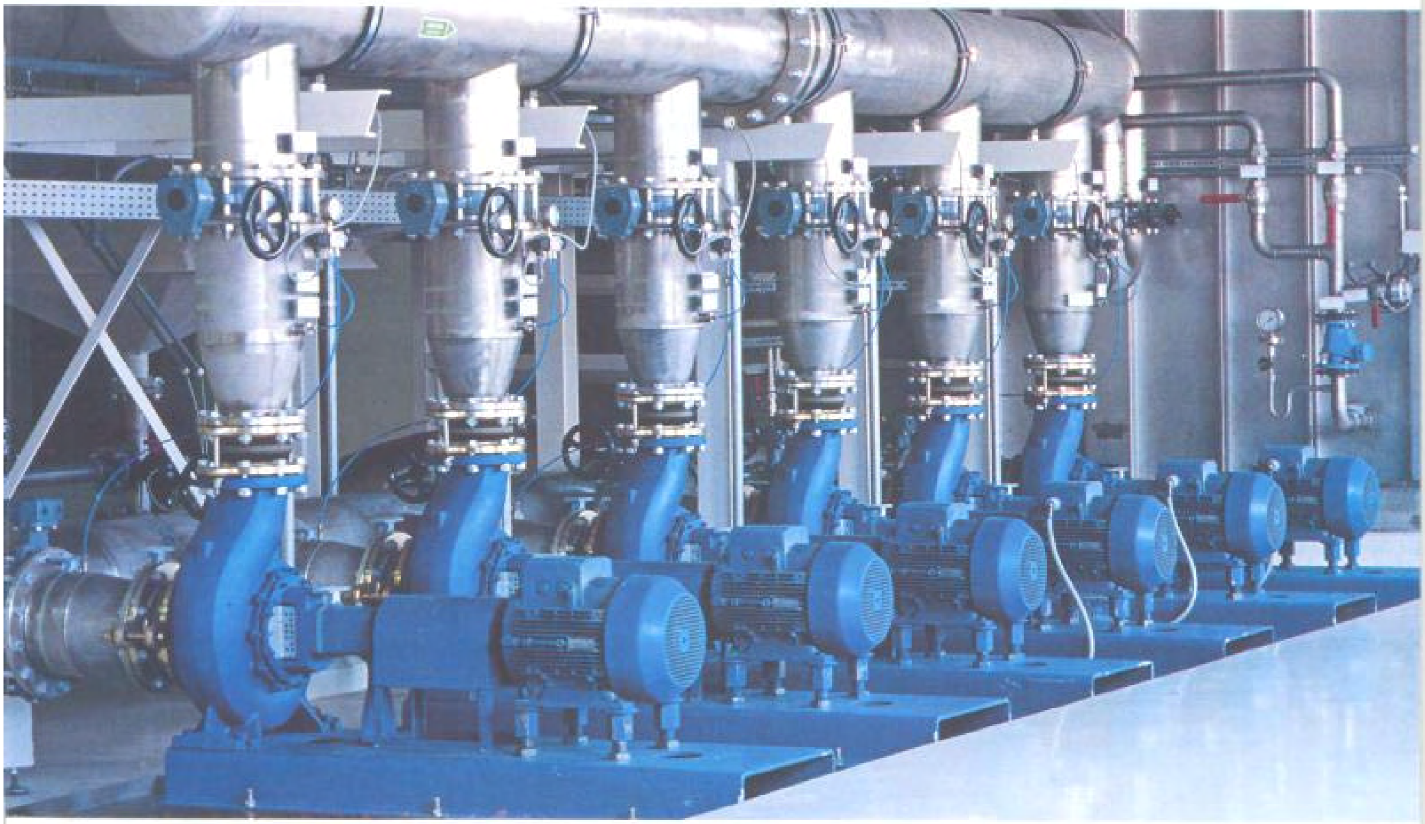
KSB Pumps Company Limited

Annual Report 2009



Engineering Excellence

KSB

Contents

Vision

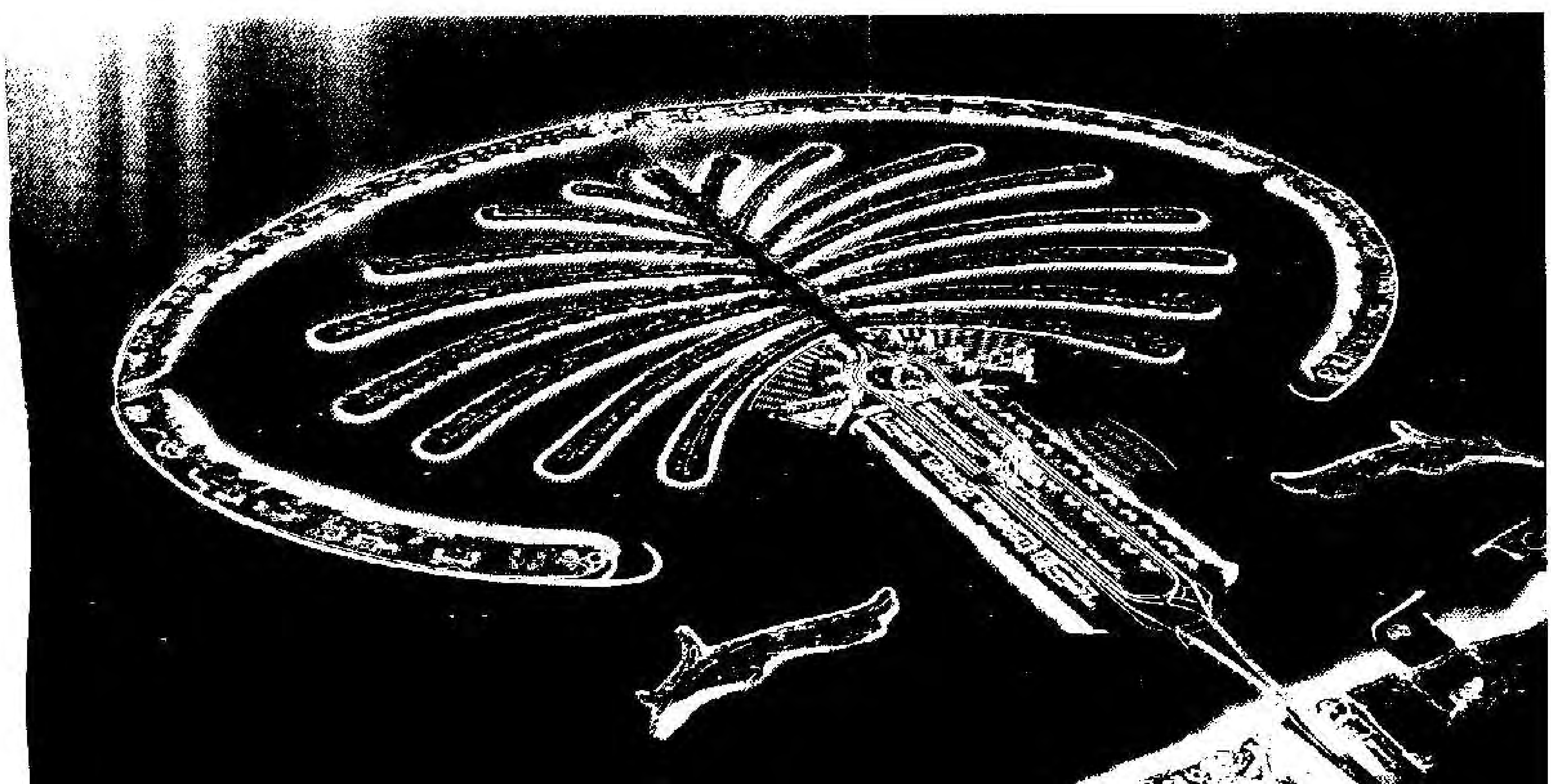
We aim to outperform our competitors by achieving and maintaining leading competitive position in attractive markets, at the same time sustain profitable growth to secure our long term future.

Mission Statement

We manufacture and market a selected 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 building services sectors.

In line with the Group 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

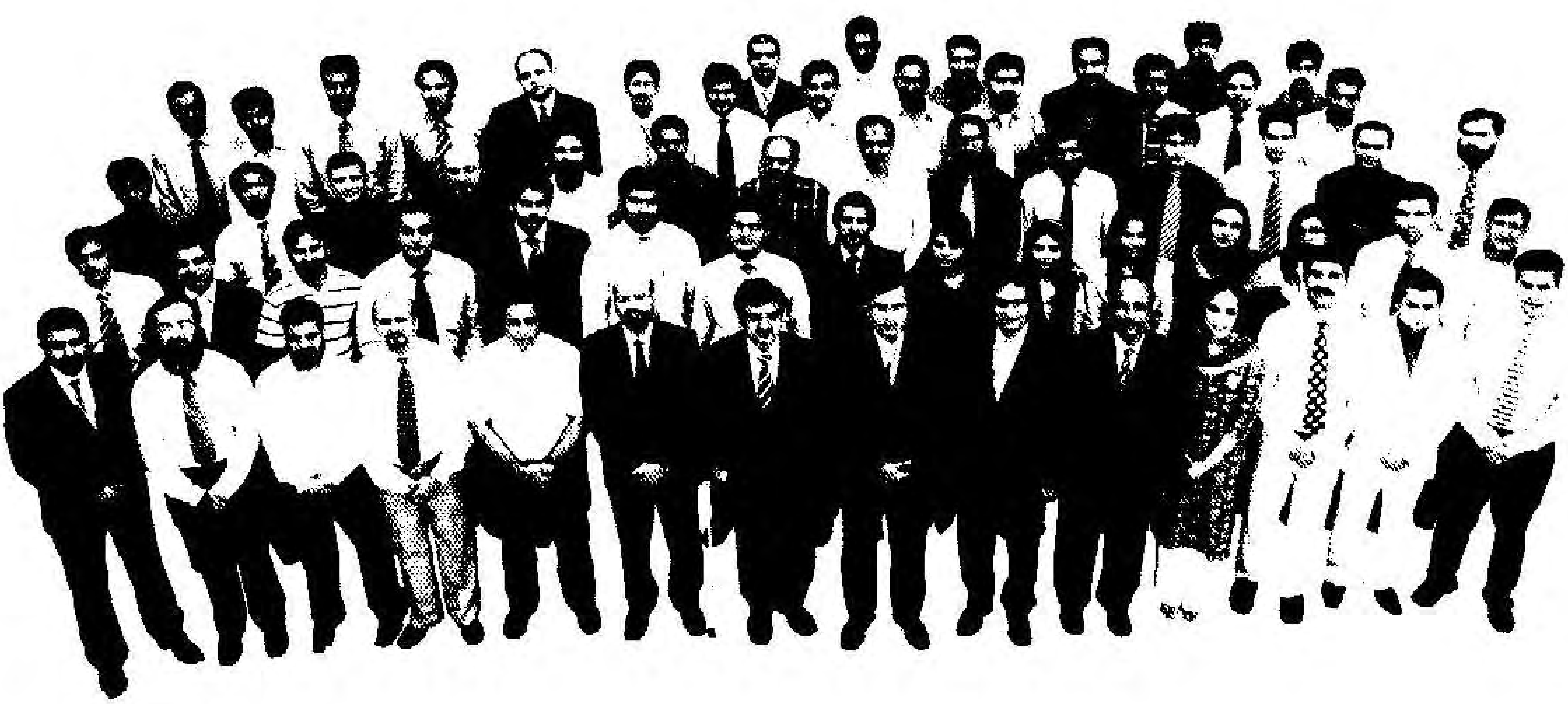
1. We grow more strongly than the market
2. We achieve above average profitability
3. We gain or build on a leading competitive position

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

- We believe in selfesteem of our customers, suppliers and employees.
- We work as a team where every member owns the process with an entrepreneurial spirit.
- We work with professional honesty and integrity.
- We trust our employees and appreciate their contributions.
- We strive for continuous improvement to achieve excellence in all spheres of our activities.
- We are an equal opportunity employer and follow merit in human resources development.
- We fulfill moral obligation towards society and environment.



Quality Principles

- **Maximum satisfaction of our customers governs our actions.**
  Our customers set the standard for the quality of our products and service. We meet our customer's range of requirementson schedule.

- **Every employee is conscious of his responsibilities and contributes with his work towards realizing our customer's requirements.**
  The internal customer/supplier relationship is predominant; the next person in the internal workflow is our customer; heobtains faultless work results.

- **The promotion of quality conscience is an important task of the management.**
  Continuous training and the availability of comprehensive information ensure that all employees are highly qualified.Management staff are models of realizing the quality concept.

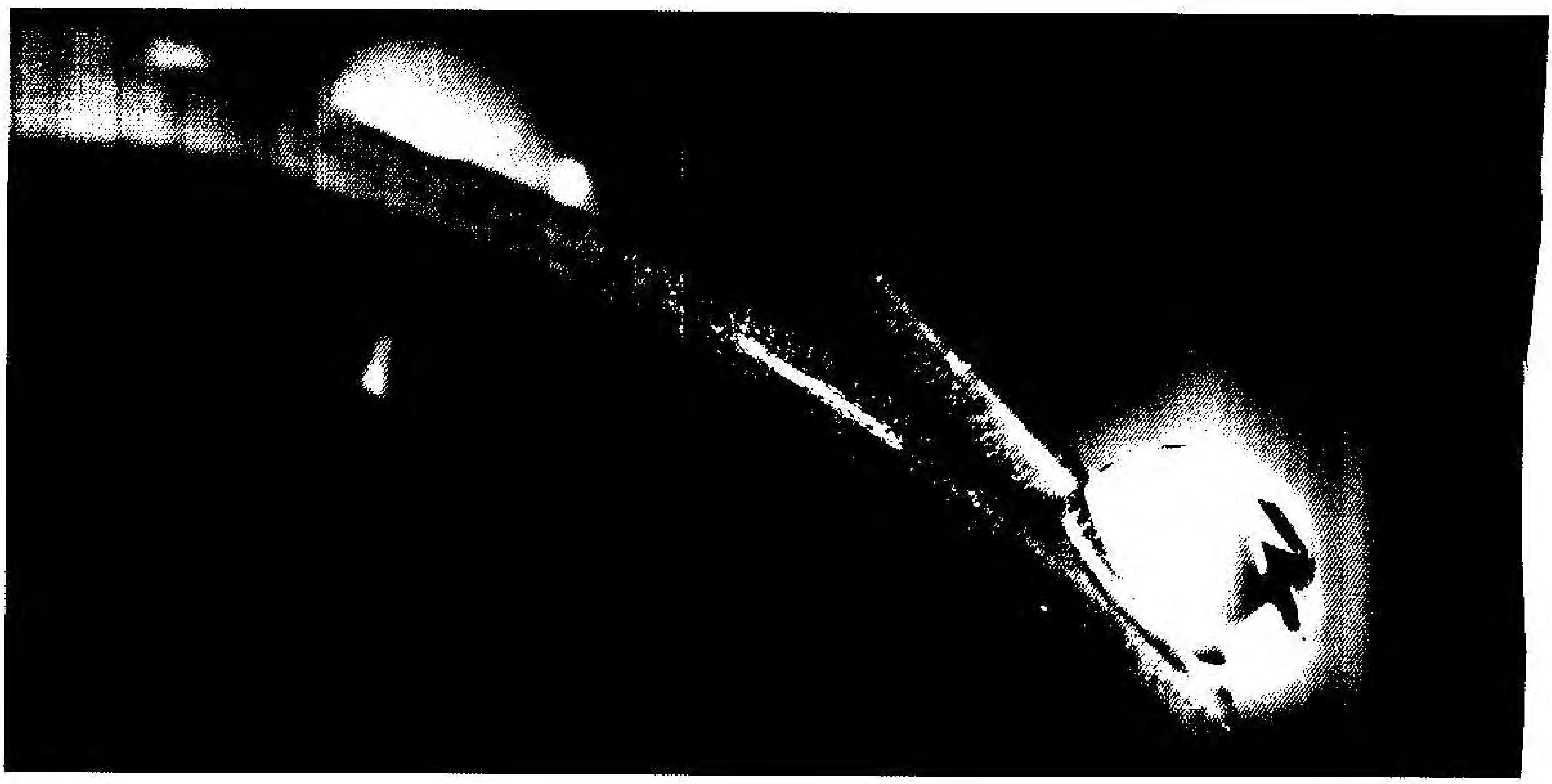
- **Prevention of errors precedes correction of errors. Correction of errors is not enough.** Most important is to find the possible causes of errors and to eliminate them in a preventive and durable manner.

- **The improvement of quality is an indispensable obligation.** The initiative of each individual as regards to continuous improvement of work flows, manner of working and job environment, is an important contribution towards personal success and satisfaction, and ensures our leading position in the market.

- **Our suppliers are obliged to meet our quality requirements.** In a fair and open partnership, we support our suppliers in pursuing common quality targets.

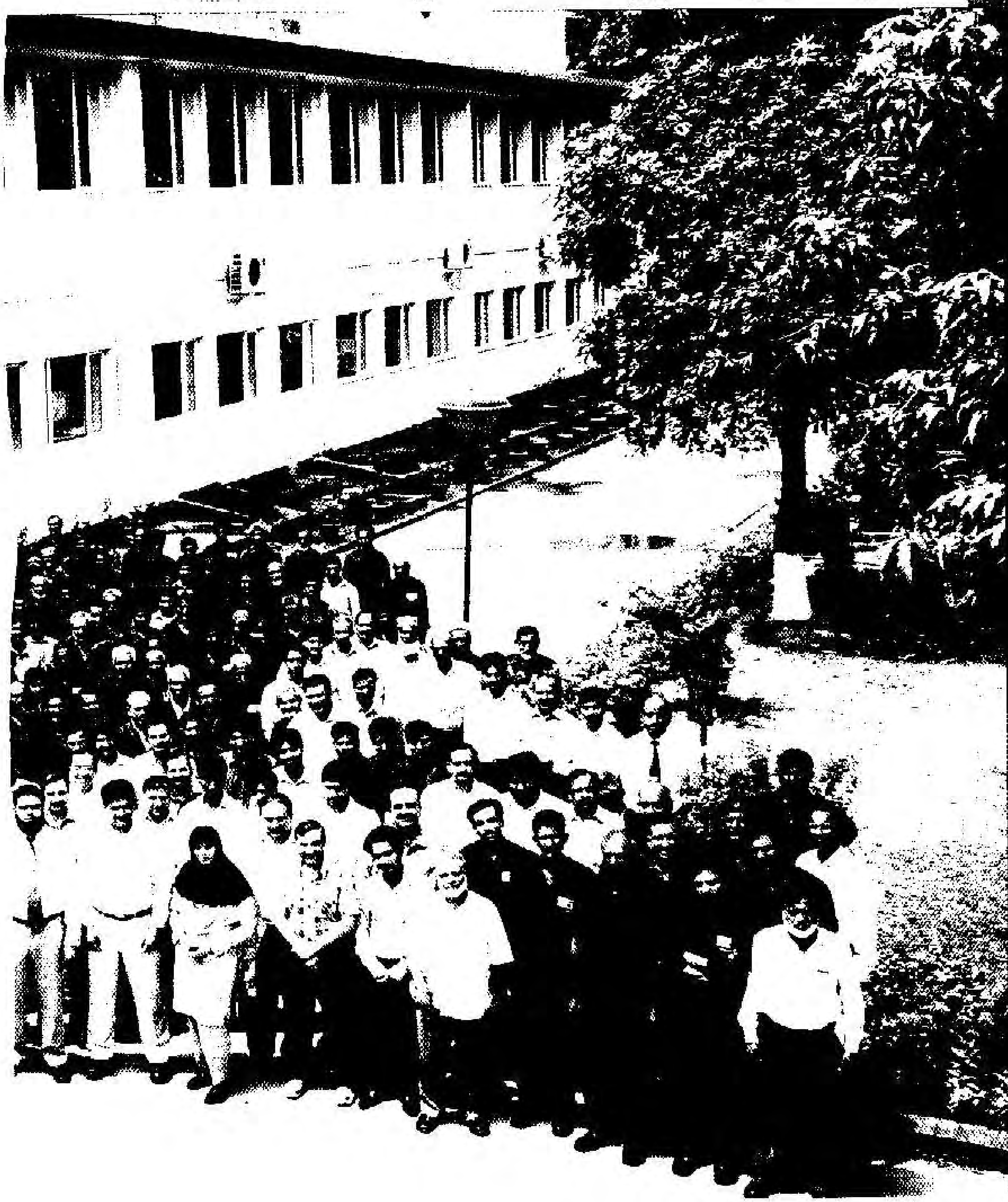
Environment, Health & Safety Policy

KSB's vision allows for no compromises in our commitment to safety, health and responsible care for the environment.Every manager has the responsibility to maintain a safe working environment in which risks arising from the manufacture, storage,distribution and use of the Company's products are identified and controlled. The health and safety of our employees, of those who from time to time work with the Company, of our customers and of the general public are of fundamental importance to us and are necessarily safeguarded.



KSB Pakistan-Introduction

KSB Pakistan is an affiliate company of the world famous German KSB Group, which was founded in 1871. The KSB Group is among the leading companies in the field of pumps and valves with subsidiaries and affiliated companies all over the world. The KSB name stands for the highest standards of product and service quality. KSB Pakistan was established in July 1959 in Lahore. The production facilities at Hassanabdal were completed in 1964 and a full-fledged foundry was commissioned in the same premises in 1980. 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. Now the Company employs over 350 people and operates through its Sales Offices at Lahore, Karachi, Quetta, Rawalpindi, Hassanabdal, Peshawar and Multan and through a dealership network throughout the country. In addition, the Company has a fullfledged Service Department comprising qualified and experienced personnel capable of undertaking turnkey installation jobs and O&M Contracts. KSB Pakistan became a public limited company in 1979 providing a broader base for local participation. The company's shares are traded on both Karachi and Lahore Stock Exchanges. The Company received the Merit Trophy 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. Another award for Corporate Excellence and Good Management Practices was bestowed on the Company by the Management Association of Pakistan. During the last thirty years, the Company has rapidly expanded its production range to include a large variety of pumps to serve various business segments. KSB believes in continuous innovations and adds new solutions for the customers in its production range, particularly to meet the requirements of sugar, paper and other process and chemical industries apart from meeting the requirements of drinking water supply, sewage disposal and surface drainage schemes. The latest additions have been pumps of large capacity which are specifically meant for irrigation and drainage applications while also in special metallurgy for sea water desalination. State-of-the-art material construction such as grey cast iron, austenitic cast iron (D-2), bronzes and high grade stainless steel are used. KSB Pakistan's special area of expertise is to deliver complete system solutions as an EPC contractor. The recent examples have been K-III project and the construction of sewage disposal station for MDA Multan. Other than that KSB Pakistan has recently secured the CDWA project which is a great milestone indeed.

KSB Pakistan has been the major supplier to the vitally important salinity control and reclamation projects (SCARP) installed by WAPDA. In the agricultural sector, KSB's name is synonymous with productivity and reliability. The latest technology and knowhow has been made available to KSB Pakistan's customers. 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 test bed facilities are available at Works, Hassanabdal to ensure compliance with these quality standards. The production facilities are also being regularly modernized and extended to cope with the challenges of new product technology. The 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.

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.

This year the Company completes five very successful decades in the Country and becomes the first Asian Subsidiary of KSB AG, Germany to have this honor. It is a moment of great pride and joy for the Management and Team of KSB Pakistan to celebrate 50 glorious years of setting standards, and we share this delight with all our business partners, who have helped us, grow and strengthen over these five decades.

This celebration marks the journey of a Company whose history engulfs countless milestones and with each achievement it has matured and the resolve of its leadership to take it further has strengthened. KSB has been accepted 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.

It is our resolve to continue serving our customers and all other stakeholders, with the same commitment and perseverance for many more 50 years to come.

Board of Directors

Dr. Augus Lee
Chairman Board of Directors

Dr. Lee is a PhD. in Engineering, from the Technical University, Berlin, Germany. He is the Chairman of the Board of Directors of KSB Pumps Company Limited, Pakistan. In addition to this he is also the President for KSB Asia Pacific Region.

Mr. 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 Management of Technology from Pennsylvania USA. He has an extensive and diversified experience in Sales, Marketing, Operations and Manufacturing areas.

Mr. Jan Stoop
Director

Mr. Stoop is a member of Board of Management for KSB AG and is responsible for Sales & Marketing. He has 39 years of experience in the establishment and expansion of pump manufacturing companies. He was also the Managing Director for the Dutch KSB subsidiary DP Industries B.V.

Mr. Tonjes Cerovsky
Director

Mr. Tonjes Cerovsky works for KSB since 29 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. Since 1st of January 2010 he is the Vice President Regional Sales for Middle East & Africa for KSB. He is a director and a member of the Audit Committee of KSB 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. He is the President of ICMAP. 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. Aizaz Sarfraz
Director

Mr. Aizaz Sarfraz is Master in Business Administration from the School of Business Columbia University NYC NY. Mr. Aizaz is CEO/MD of the Pak-Iran Joint Investment Company Limited. He has vast Experience of working with and for Multinational, foreign and large Pakistani Business Group.

Mr. Sajid Mahmood Awan
Director

Mr. Awan is the Director Finance and Company Secretary for KSB Pakistan. He has more than 15 years of professional experience in multinational environments in Asia, Africa and Middle East. He is a fellow member of ICMAP, associate member of ICSP and certified director from PICG.

Management Committee

Mr. Mohammad Masud Akhtar
Chief Executive Officer

Mr. Sajid Mahmood Awan
Director Finance & Company Secretary

Mr. Nadeem Hamid Butt
Director Production & Projects

Mr. Kamran Khan Mangol
Director Sales, Marketing & Product Management

Mr. Saeed Zafar
GM Customer Service

Syed Kamran Hassan
General Manager Material

Ms. Sanam Mujeeb Sheikh
Manager Human Resource

Mr. Masud Akhtar, MD & CEO KSB Pakistan (Left) receiving the certificate of commemoration from Mr. Jan Stoop, Member of the Board of Management KSB AG (Center) and Dr. Augus Lee, Chairman KSB Pakistan (Right) on the completion of fifty years of successful operations of KSB in Pakistan.

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

Karachi

501, 5th Floor, Faiyaz Centre, 3A,
Sindhi Muslim Cooperative
Housing Society, Opposite
FTC Building, Shahrah-e-Faisal, Karachi.
Ph: (021) 111 572 786
Fax: (021) 34388302
Email: sohaib.rathore@ksb.com.pk

Multan

85A, Qasim Road, Opp. Metro
Plaza, Multan Cantt.
Ph: (061) 111 572 786
Fax: (061) 4541784
Email: ksbmul@ksb.com.pk

Peshawar

Office No. 7, 3rd Floor, The Mall
Towers, 35 The Mall, Peshawar.
Ph: (091) 111 572 786
Fax: (091) 5278919
Email: ksbpsh@ksb.com.pk

Quetta

House No. F-1/5, First Floor,
Al-Zain Centre, Zarghoon Road, Quetta.
Ph: (081) 111 572 786
Fax: (081) 2830445
Email: ksbqta@ksb.com.pk

Company Information

Board of Directors

Dr. Angus Lee	Chairman
Mohammad Masud Akhtar	Managing Director
Jan Stoop	
Tonjes Cerovsky	
R. D. Ahmad	
Sajid Mahmood Awan	
Aizaz Sarfraz	
Hasan Aziz Bilgrami	(Nominee NIT)

Company Secretary

Sajid Mahmood Awan

Management

Mohammad Masud Akhtar	Chief Executive Officer
Sajid Mahmood Awan	Finance & Administration
Nadeem Hamid Butt	Production & Projects
Kamran Khan Mongol	Sales, Marketing & Product Management

Auditors

A.F. Ferguson & Co. Chartered Accountants

Legal Advisors

Mandviwala & Zafar

Bankers

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

Audit Committee

Hasan Aziz Bilgrami	Chairman
R. D. Ahmad	Member
Tonjes Cerovsky	Member

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

Service Office

Gardee Trust Building, Napier Road, Lahore.
Ph: (042) 37364845, 37238343, 37311661, 37355238
Fax: (042) 37236922
Email: saeed.zafar@ksb.com.pk

Workshop

Plot No.6, Street No.26, Korangi Industrial Area,
Near G.P.O, Korangi, Karachi.
Ph: (021) 35070498
Email: munir.iqbal@ksb.com.pk

Share Registrar

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

Notice of Annual General Meeting

Notice is hereby given that the 53rd Annual General Meeting of the members of KSB Pumps Company Limited, will be held on Friday, the 30th April, 2010, at 4.00 p.m. at Hotel Holiday Inn, 25-26 Egerton Road, Lahore, to transact the following business:

1. To confirm the minutes of the Annual General Meeting held on April 23, 2009.

2. To consider and adopt the audited accounts of the Company for the year ended December 31, 2009 and report of Auditors and Directors thereon.

3. To approve and declare dividend of 35% for the financial year ended December 31, 2009 as recommended by the Directors.

4. To appoint auditors and fix their remuneration. M/s. A.F. Ferguson & Co., Chartered Accountants, the retiring auditors offer themselves for re-appointment as auditors of the Company.

Lahore : April 07, 2010

BY ORDER OF THE BOARD

SAJID MAHMOOD AWAN
Company Secretary

Dr. Augus Lee Chairman KSB Pumps Company Limited, addressing at the 52nd AGM, held on April 23, 2009

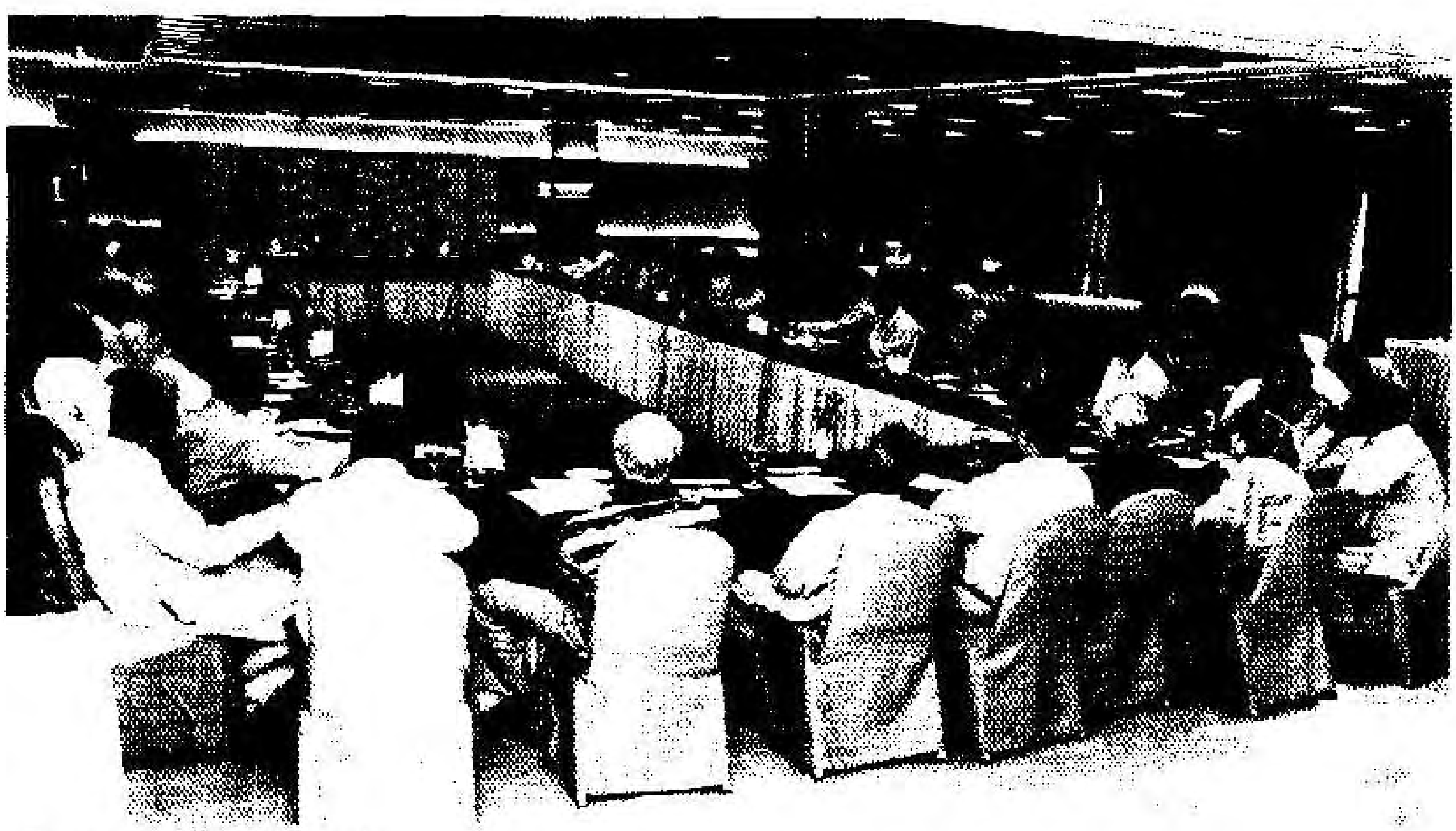
Notes

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 23rd April, 2010 to 30th April, 2010 (both days inclusive). Transfers received in order at Company's Registrar M/s Central Depository Company of Pakistan Ltd, CDC House, 99-B, Block B, S.M.C.H.S Main Shahrah-e-Faisal, Karachi - 74000 by the close of business on 22nd April, 2010 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.


Participants at the 52nd AGM

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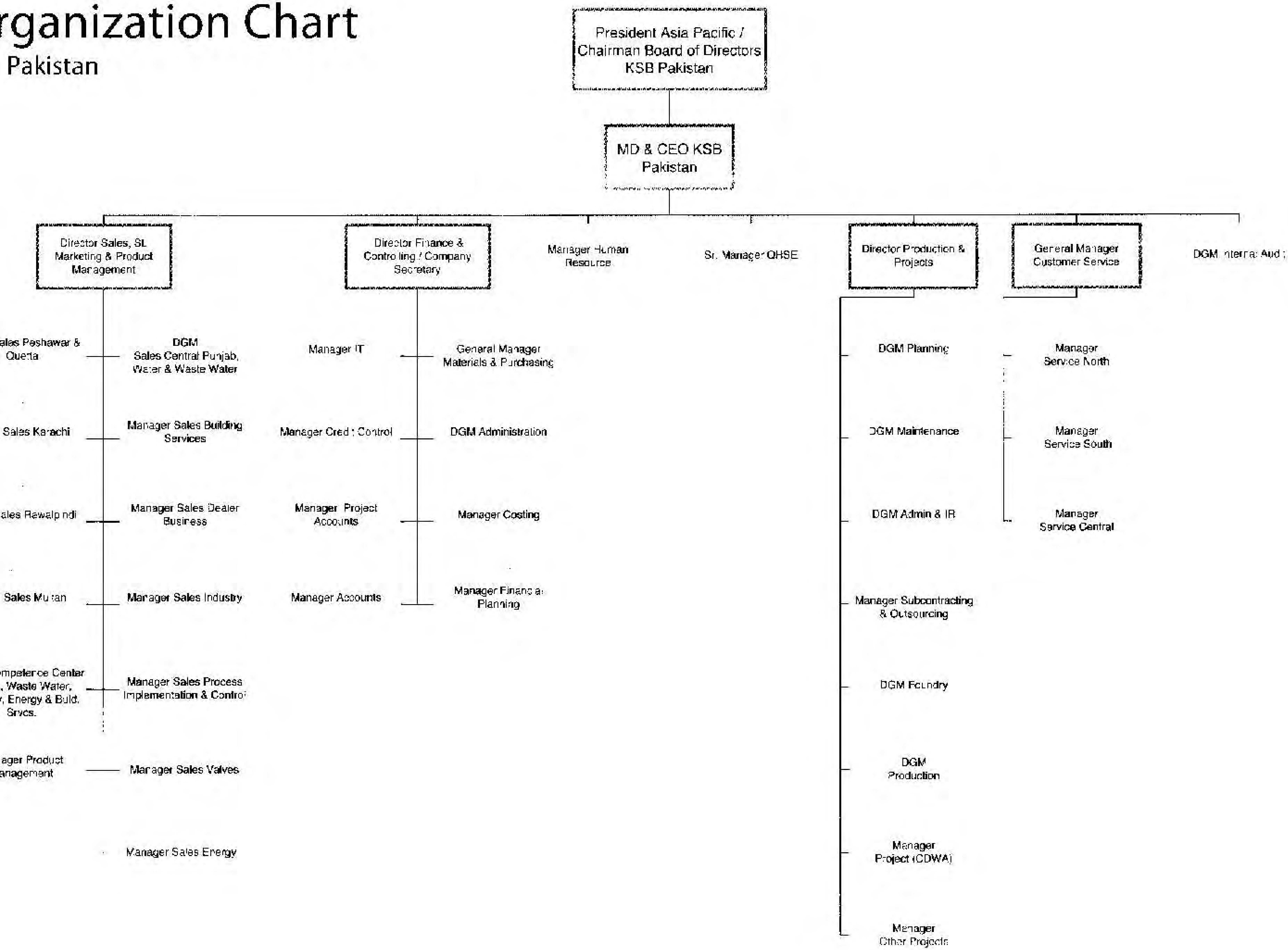
Pakistan



Mohammad Masud Akhtar
Chief Executive Officer

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, 2009 together with Auditor's report thereon.

The Economy

Global Economy

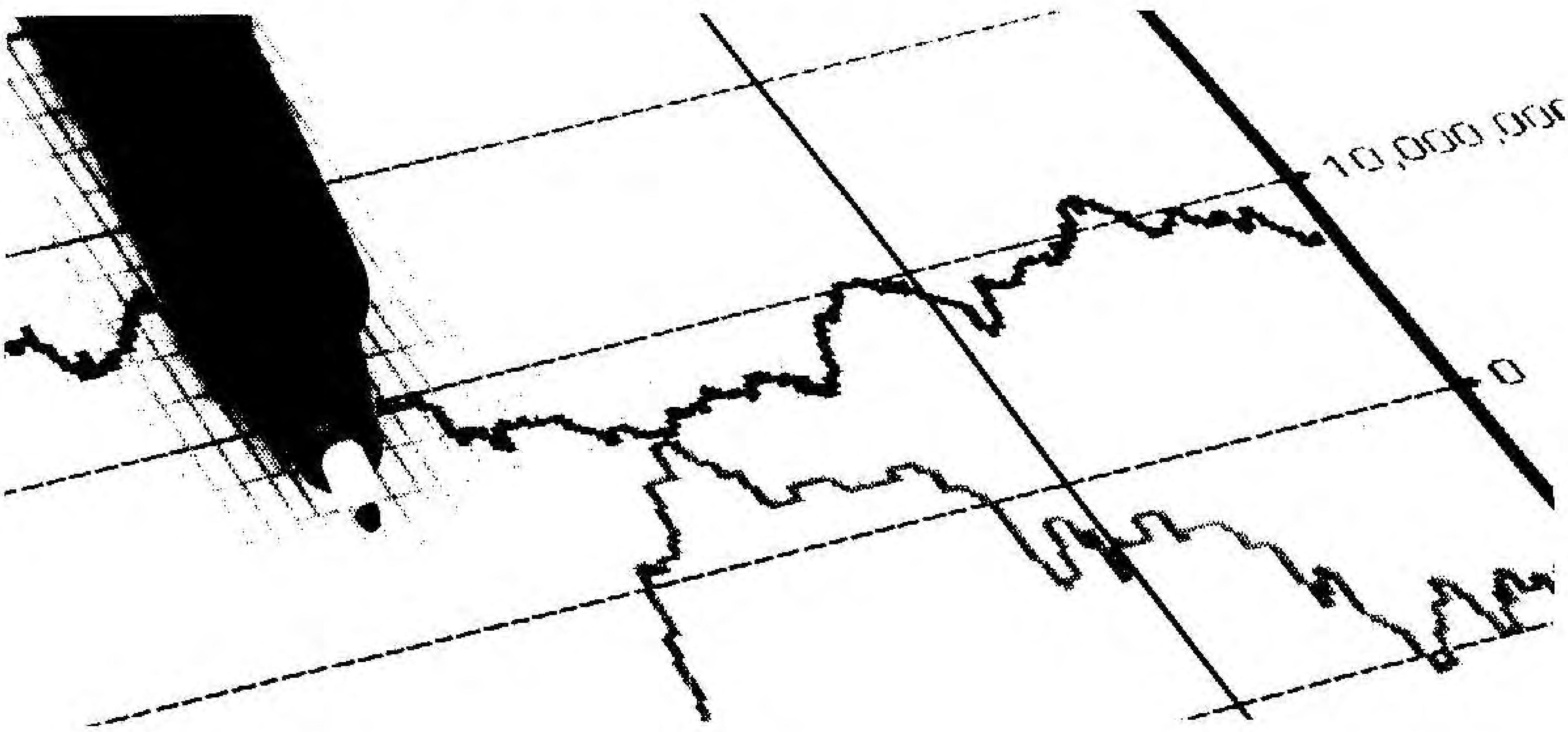
After a sharp, broad and synchronized global downturn in late 2008 and early 2009, an increasing number of countries have registered positive growth of gross domestic product (GDP), along with a notable recovery in international trade and global industrial production.

In the future outlook global economic recovery is expected to remain sluggish, employment prospects will remain bleak and inflation will stay low. Developing countries especially those in Asia are expected to show strongest recovery in the year 2010. Global GDP, which declined by 2.2 percent in 2009, is expected to grow 2.7 percent in 2010.

Pakistan's Economy

For Pakistan, stabilization efforts together with a decline in international commodity prices have succeeded in reducing external imbalances and rebuilding foreign exchange reserves. Pakistan accepted an IMF emergency loan package worth $ 7.6 billion to forestall a balance of payments crisis and beef up reserves in the year 2008. Looking at Pakistan's performance and an encouraging improvement in the important macroeconomic indicators, IMF increased the loan to $11.3 billion. While the economic stabilization programme has helped prop the economy, the macro economic progress still remains slightly uneven.

In addition to this, a group of 31 countries, Friends of Pakistan (FoP) met in Tokyo offering assistance worth $5.3 billion over the next 2 years. Though there have been some delays in this disbursement, but once received



it can help us gain more speed in economic recovery.

The security, law and order conditions pose perhaps the greatest challenge, threatening investor confidence and the investment inflow. The war on terror displaced thousands from their homes where the operations were being conducted, as a result the Government incurred additional spending for the Internally Displaced Persons (IDPs). However, the Federal Budget for the year 2010 provides a relief of Rs. 50 billion for IDPs assistance.

GDP growth rate was 2.00 per cent (2008: 4.1%) while inflation rate was 10.25% (2008: 23.3%) in December 2009. The State Bank of Pakistan has decided to keep the policy rate unchanged at 12.5 per cent.

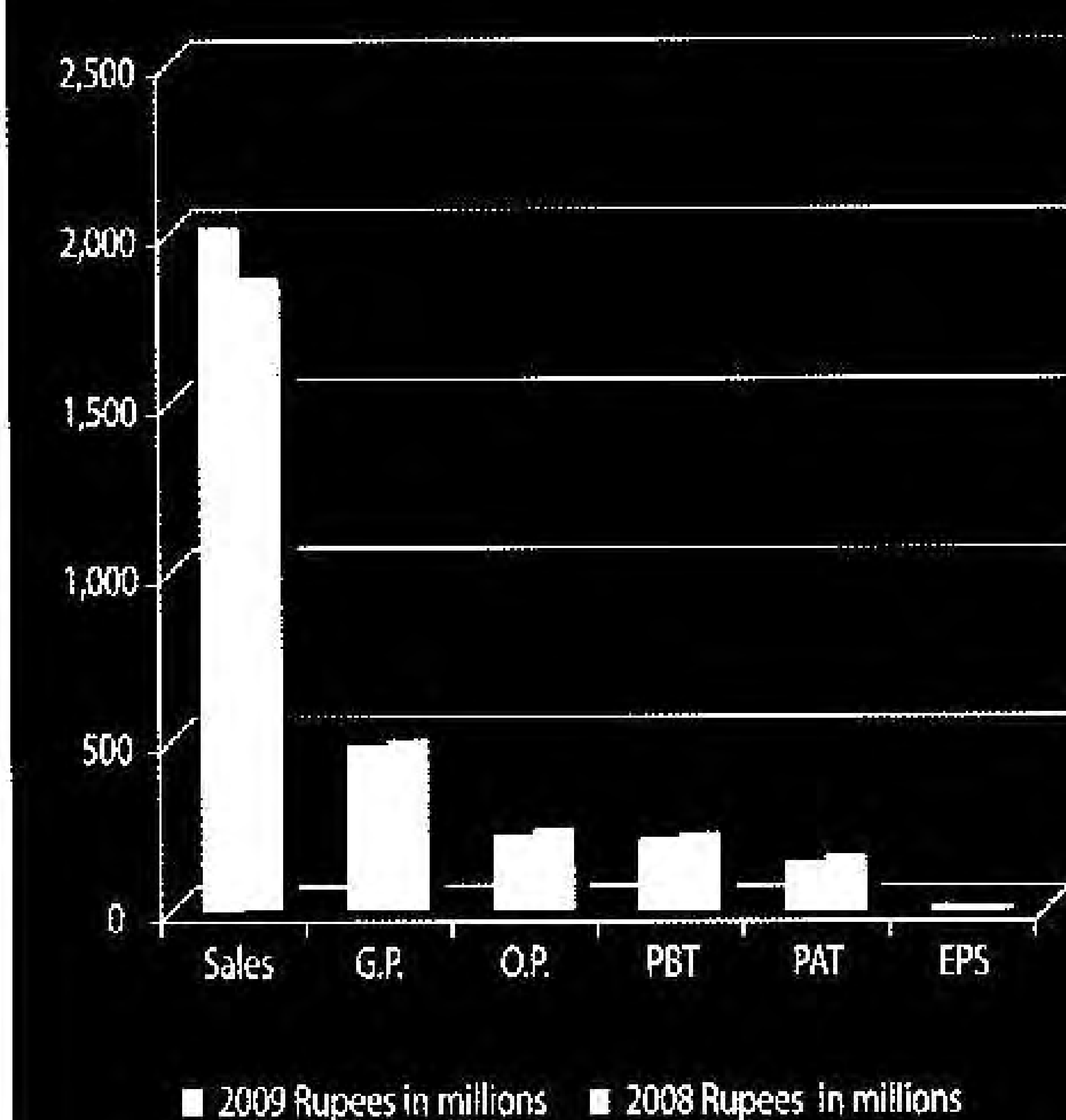
A significant development in the socio – political field is a consensus that has been reached between the Centre and the Provinces on the seventh National Finance Commission Award for the division of resources among the Provinces in the year 2009. This will surely help us invest, sustain and grow better. It is believed that the financial empowerment of the provinces will cater to addressing the needs of the people in these areas better. This will improve the support system of the Center and hopefully strengthen the overall infrastructure of the Country.

THE COMPANY

Financial Results

The comparative financial results for the year 2009 as against 2008 are as follows:

	2009 Rupees in '000	2008 Rupees in '000
Sales	2,024,248	1,876,445
Gross Profit	494,093	507,610
Operating Profit	224,209	245,558
Profit Before Tax	213,789	233,919
Profit After Tax	147,789	170,688
Earnings per Share (Rupees)	11.20	12.93



Sales

2009 has been a promising year for Order Intake. We have experienced a phenomenal growth in our Zaree segment by achieving an order intake of PKR 100 million. Our economically viable submersible product has helped us to successfully penetrate the NWFP and Baluchistan low-end water markets. This is an area that promises substantial potential for business in future. In addition to this, the growth pattern in Building Services was healthier than that in the last year and is forecasted to increase continuously. On the Industry side, we have further diversified our business through penetration into specific process industries like Fertilizer and Oil & Gas by providing solutions for process applications.

We have re-organized our sales structure to focus better on more lucrative market segments. Future efforts for enhancing the overall efficiency and improving responsiveness to our customers, include revamping the sales processes and bringing in resources from cross industry to add value and bring in better results.

Projects

Our Project Department has created history by winning the Clean Drinking Water for All (CDWA) project worth Rupees 1.86 billion in the year 2009, initiated by the Government of Pakistan. The project includes the installation of 793 filtration plants in Central Punjab-II Region. This project will not only enrich the experience of the Company in turnkey business but will also create employment opportunities for more than 800 people at different stages of the project.

Another milestone was the successful closure of the mega project for Rehabilitation of Sewerage System Chungi No. 9, Multan in 2009.

Production

The infrastructure improvement at the factory continued throughout the year as per master plan. A key seating machine was added in the machine shop which improves operational efficiency by reducing the lead time in key way cutting and optimizing the outsourced process through cost saving . The new production office was renovated on modern concepts allowing the engineers to have a better view of the production operation, while providing an excellent work environment. The cafeteria for employees at Hassanabdal has been renovated to provide a healthy atmosphere during lunch and tea breaks, enabling the teams to be truly rejuvenated.

A dedicated shop, for assembling the ultra filtration units for CDWA project is now fully operational to manufacture the units in large quantities and fully support the requirements of the this mega project.

Foundry

KSB Pakistan's Foundry, is the heart of its production facility. Our Foundry has the capability and expertise to produce any intricate casting. It is manufacturing sophisticated parts for the automotive industry alongside the castings for Pumps.

Another investment was done in the Rapid Quench Heat Treatment Furnace which boosts the foundry's capability to cast all grades of stainless steel. This investment will enable KSB Pakistan to produce high end castings in stainless and duplex steel, specially for tubular casing pumps.

Product Development

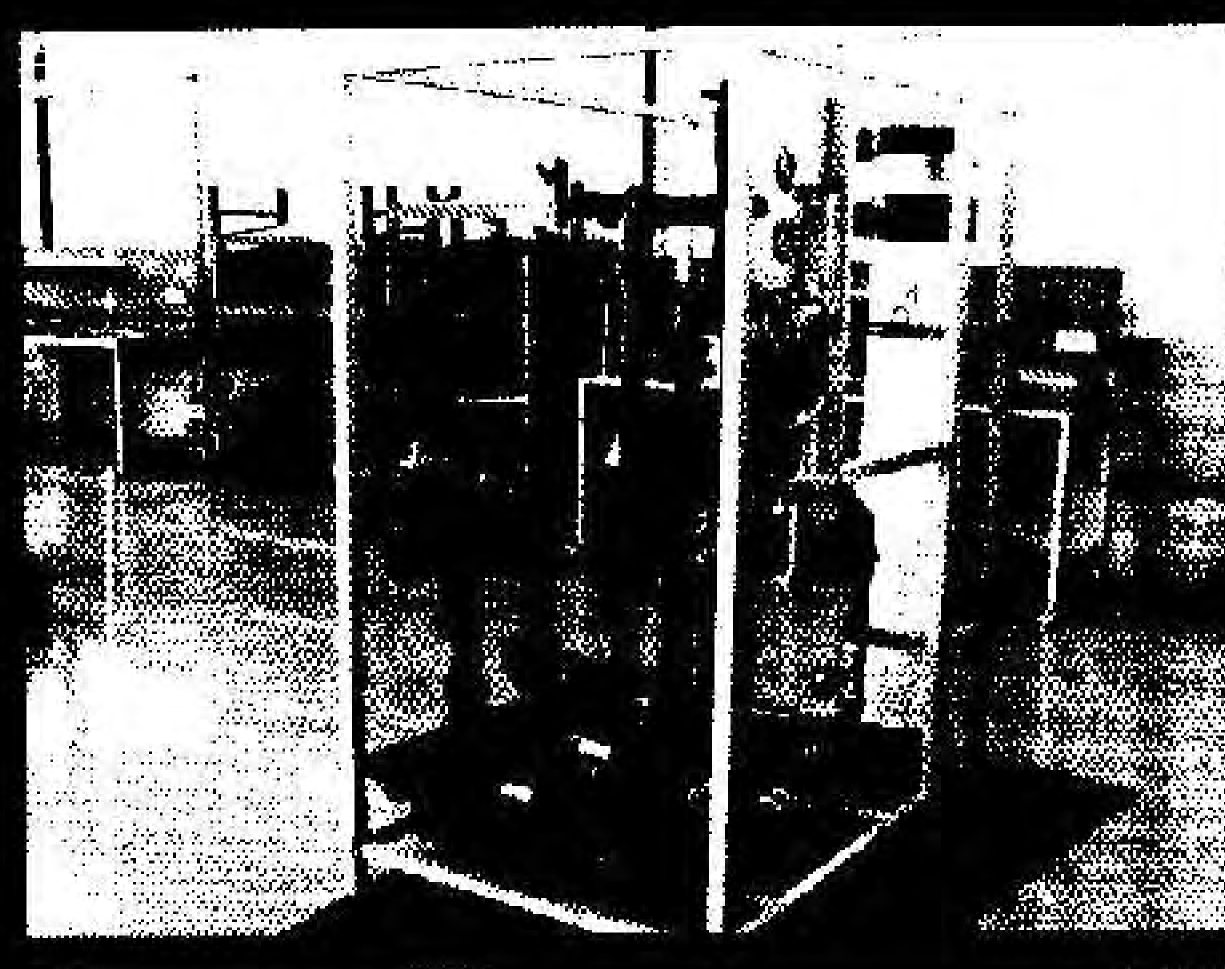
POCO & PEDO Series

KSB has successfully launched POCO & PEDO series through its franchise partner. POCO series consist of peripheral & centrifugal pumps for pumping clean water with low flow rates & high heads. Reliability, simplicity and economic viability make these pumps suitable for domestic use. PEDO is a range of submersible motor pumps for lifting clean water as well as sewage water. Due to its robust design, these pumps are outstanding in their reliability in fixed installations with automatic operation.

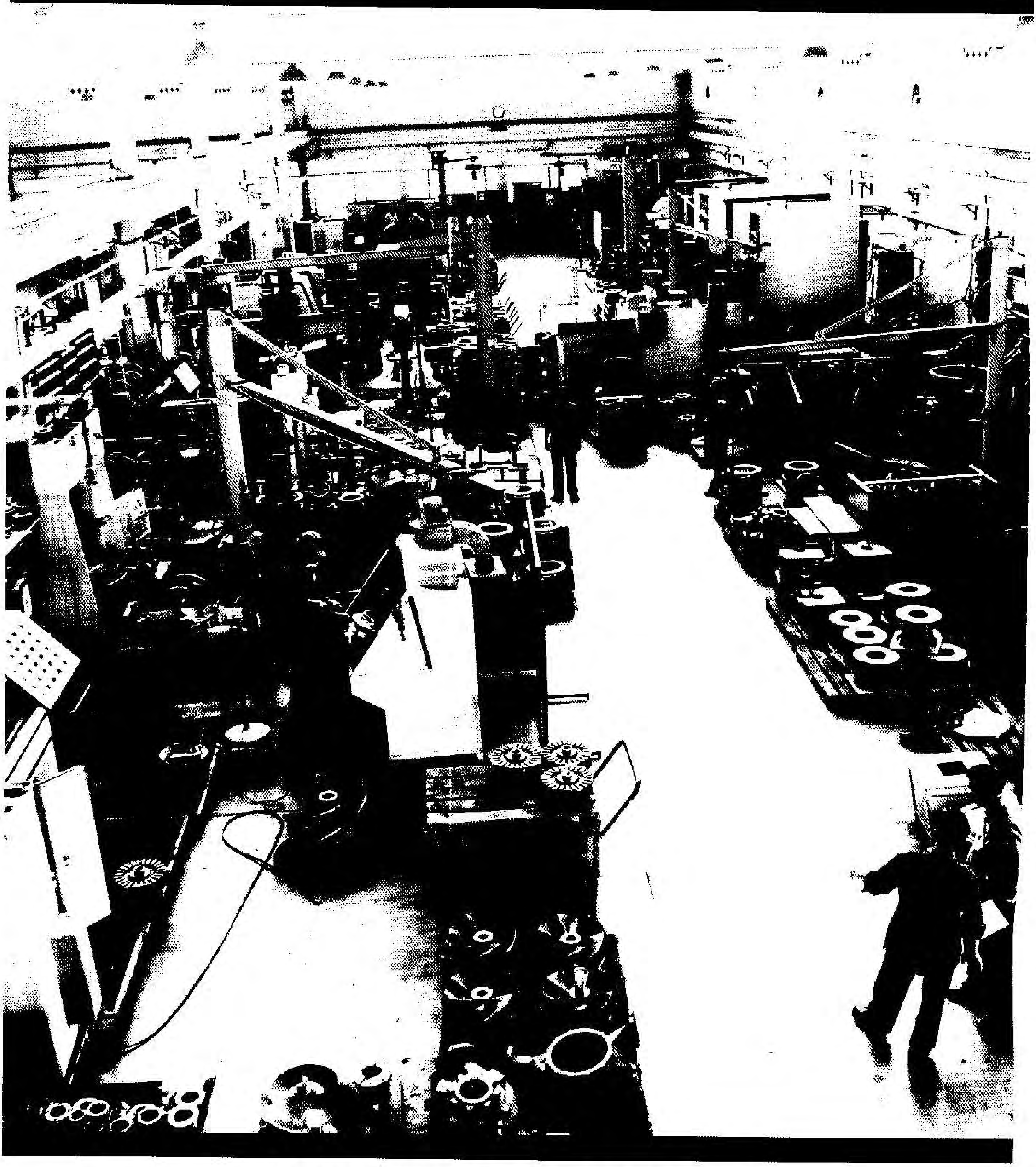
Tubular Casing Pumps for Sea water applications

Tubular casing pumps are an engineering package for sea water applications i.e. provision of seawater for desalination systems, transport of cooling water in power stations and industrial plants, water extraction and transport. The pumps have to supply large amount of water efficiently and safely. The pump is highly reliable with different types of installation and material variants along with back up technical support from our parent Company KSB AG, Germany.

Mr. Nadeem Hamid Butt, Director Projects & Production, KSB Pakistan (Right) and Mr. Hassan Nasir Jamy, Provincial Project Director, CDWA Project Punjab (Left) at the Signing Ceremony of the CDWA project



Ultra Filtration Plants developed for the CDWA Project



KSB Pakistan's world-class LEAN manufacturing facility at Works, Hassanabdal

Quality, Environment, Occupational Health And Safety Policy

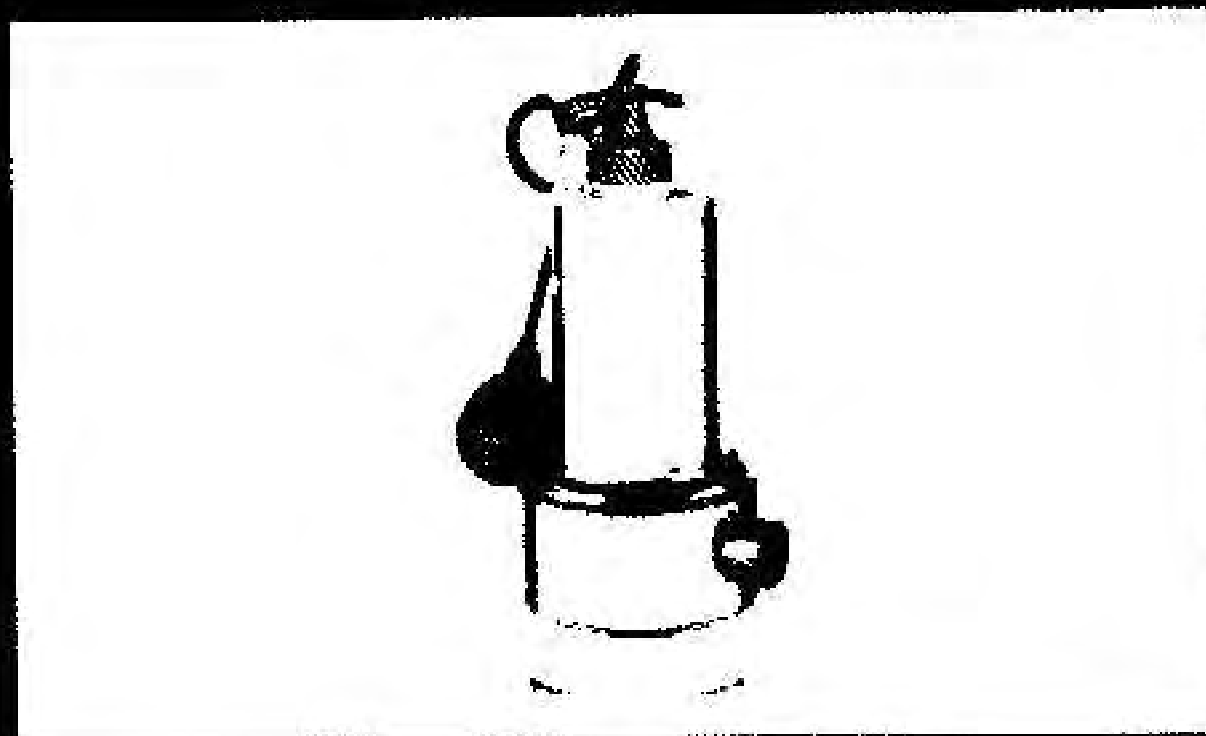
Assuring quality means careful documentation and following Standard Operating Procedures (SOPs) resulting in efficiency and excellence. KSB Pakistan takes great pride in having its products and plants certified for meeting international standards. KSB Pumps Company Limited is the first foundry based engineering company in Pakistan to have been certified for the Integrated Management System (ISO 9001, ISO 14001 & OHSAS 18001).

At KSB, we attach great importance to Quality, Environment, Occupational Health and Safety Policies. The European Foundation for Quality Management (EFQM) Model for the business excellence provides the framework of the KSB Policy for Quality, Environment, Occupational Health and Safety. The Total Quality Management (TQM) concept has been up held in all our operations to ensure a sustainable improvement in our products, processes, services and working conditions. The achievement of a favorable result, through its implementation, is demonstrated by the various national and international quality certifications that we have received over time.

Service: *fast & efficient*

A Centralized Customer Complaint Software facilitates our valued customers in registering their complaints round the clock. This software has enabled us to improve the response time substantially and generate a variety of reports which are helpful in further improving our complaint handling process.

The focus of the service team is to provide a



PEDO 10/50-I

PEDO II

POCO 60

POCO 150

"System Solution" to our valued customers. To further ensure effective use of our products at customer locations, technical trainings are now arranged for end users, acquainting them with the product features and their best use.

Fire-fighting drill conducted at KSB Pakistan's Head office, Lahore

Human Resource

In-house Training Resource Centre, which was initiated last year, is now working effectively. Under this initiative a training program on "Management Development" has been undertaken at the Factory. Also, Informal Learning Sessions in Head Office & Works support our idea of informal knowledge sharing.

Different sports activities were introduced to inculcate team spirit. These included Table Tennis and Cricket Matches. The bonding and positive spirit that resulted from these

team activities has definitely given a boost to the synergy between professional teams.

Human Resource Policy Manual has been revised to match HR best practices prevalent in the industry aligning KSB Pakistan's HR Policies with the market.

All key vacant and new positions have been effectively filled by HR with high potential individuals that have immensely contributed to the growth and sustainability of the business.

HR Department is emerging as a true strategic business partner along with gaining operational command in KSB Pakistan.

Achievements

Best Corporate Report Award 2008

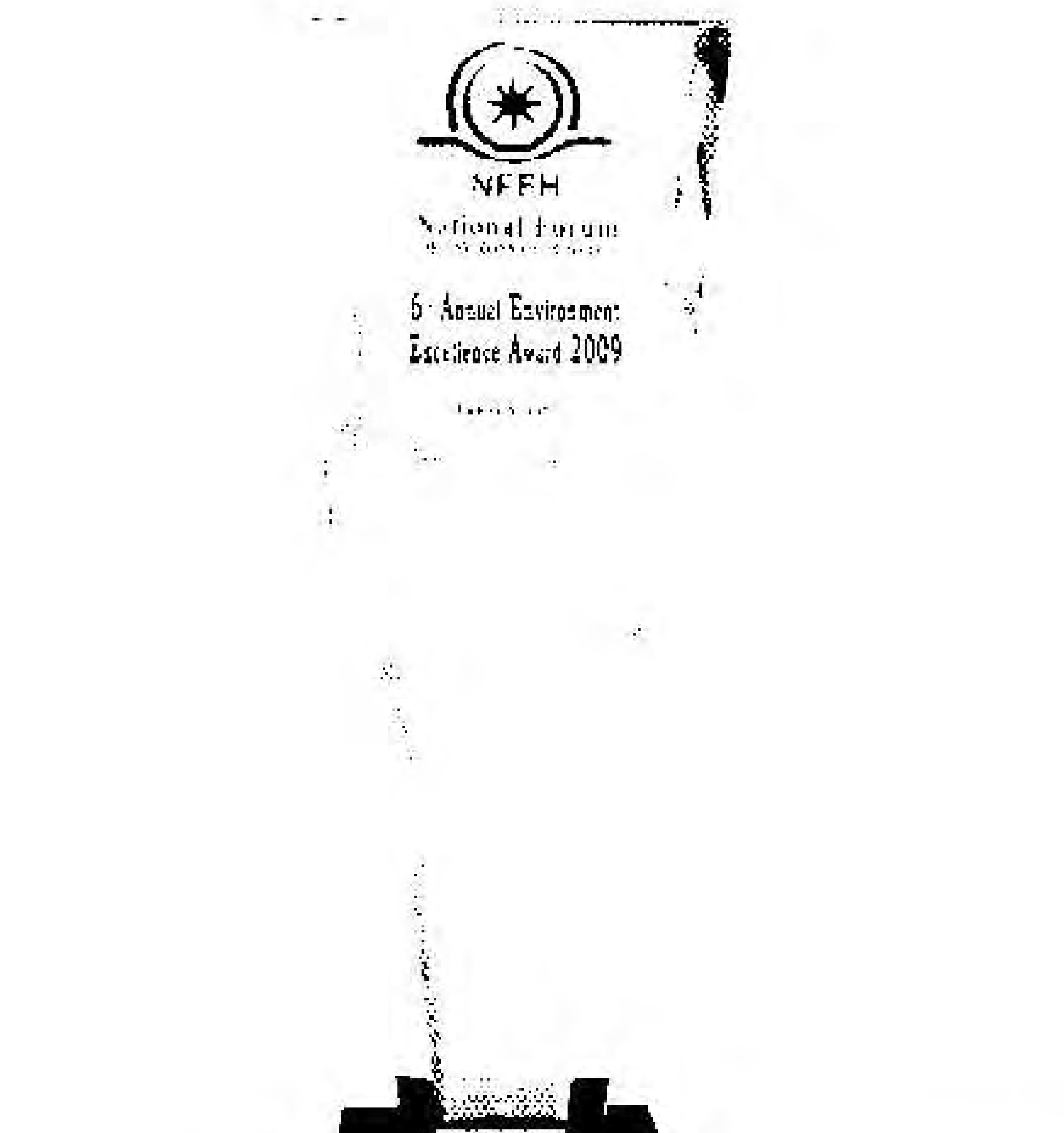
KSB Pakistan was awarded the Best Corporate Report Award in the Miscellenous Industry category for its annual report for the year 2008. The aim of this award is to encourage and give recognition to excellence in Annual Corporate Reporting and is jointly decided by The Institute of Chartered Accountants of Pakistan and The Institute of Cost & Management Accountants of Pakistan.

Environmental Excellence Performance Award 2009

Your Company has won the Best Environment Performance Award in the 6th Annual Environment Excellence Awards for its outstanding contributions in the field of environmental friendly policies. The award is supported by the United Nations Development Programs & Federation of Pakistan Chamber of Commerce & Industry. This achievement is a testimony of the

Glimpses of the Sales Review Meeting at River Ravi's bank

Mr. Masud Akhtar, MD & CEO KSB Pakistan receiving the Best Corporate Report Award from Syed Salim Raza, Governor State Bank of Pakistan, in the presence of Hasan Aziz Bilgrami, President of ICMAP and Mr. Asad Ali Shah , President ICAP.



KSB Pakistan received the 6th Annual Environment Excellence Award in 2009

Company's continuous efforts in sustaining its development policies and practices that have always helped in achieving economic and social prosperity, in line with the standards of quality, health and safety.

Golden Jubilee Celebrations

We celebrated our Golden Jubilee year in 2009. The line of activities for the entire year made it memorable for all the employees, past and present.

All company offices, across Pakistan, were branded with the Golden Jubilee theme. The celebrations kicked off with a Painting Competition, focusing on "KSB Pakistan's journey of 50 years of setting standards".

This was followed by a Patriotic Singing Competition in June 2009, where the employees participated individually and as teams to sing for their Country. The response to this was overwhelming and much appreciated by everyone, who was a part of it.

Another highlight of the celebrations was the cake cutting ceremony at 12 midnight on July 18, 2009 (the day KSB Pakistan completed 50 years) at the Head Office. The occasion was marked with celebration and emotions that combined to make the evening memorable for each one present.

The climax of the 50 years celebrations was the family gala at the factory and the 50 years celebration dinner at the head office. Both events were different in nature and equally enjoyed by the employees and their families. Where the gala at Hassanabdal focused on a fun fair theme from morning till evening with refreshments and lunch, the event at Lahore was a sit down dinner with performances from renowned artists.

At both events the Certificate of Commemoration and Memento presented to KSB Pakistan by the Board of Management, of KSB AG were unveiled.

Celebrations At KSB Pakistan

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.

KSB risk management is a continuous process for identifying the financial, operational and general business risks. Board of Directors has the overall responsibility for the Company's system of risk management and internal controls.

The Directors have delegated to Executive Management, the establishment and implementation of an internal control system. The controls reduce risks from unacceptable level, to a stage deemed acceptable by the Company. The system of internal controls provides reasonable but not absolute assurance that assets are safeguarded, transactions are authorized/recorded properly.

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 minimise 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 business, 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 (note 32) 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 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 (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 – APAC Program. It focused on providing a sustainable infrastructure and basic amenities to underprivileged students at schools in the rural areas of Pakistan, around our Production Facility in Hassanabdal. The activities under the KSB Care umbrella, ranged from provision of uniforms for students and making available comfortable classroom environments for effective learning to assist in strengthening the infrastructure. Our initiatives have received a very encouraging response from our beneficiaries. The enthusiasm and cooperation that they have shown has strengthened our belief in our efforts for raising the bar of education and helping the recipients of this act of goodwill even further.

In 2009, KSB Pakistan introduced another angle, also related to education. We offered the opportunity for giving scholarships to students who were bright and good performers but poverty barred them from completing their education. The limitation of insufficient funds for finishing high school is a dilemma often leading to frustration in the youth. KSB Pakistan initiated to deal with it under the KSB Care program, in its own small way as a contribution towards a brilliant future of Pakistan.

In a ceremony held in November 2009, 122 high achievers, who were unable to continue studies due to poverty, were awarded scholarships under the KSB Care program. This was a proud and encouraging moment for KSB Pakistan. It gave us the sense of contribution to the Country while touching the lives of many families in a manner that gave hope and security.

Alongside this the assistance in strengthening of school infrastructures and provision of comfortable learning environments continued as an ongoing effort.

Mr. Masud Akhtar, CEO & MD KSB Pakistan distributing scholarships among the students under the KSB Care Programme.

Future Outlook

Shaping our Future: Management Philosophy

KSB Germany has developed a new Management Vision.

Our strategy:

Aims to achieve a leading competitive position in attractive markets and sustained profitable growth to secure our long-term future.

Our organization:

Aims to establish customer focused units, clear responsibilities and lean processes.

Our corporate culture:

Aims to foster, positive values and behavior, that help to implement the strategy and organization

Projects

The CDWA project shall be the main focus of the Projects team which is all prepared to deliver as soon as the project execution starts. Over 50% of the project execution has been planned to complete in 2010.

Mega projects for water supply systems, and sewage disposal and treatment systems are planned by the water authorities of Faisalabad, Multan & Karachi for which KSB is on a strong ground to win a major share. We have been successfully pre-qualified for all projects on the basis of our past performance.

Our Projects Department is focusing on High Efficiency Irrigation Systems, which is fast developing into a strong market across the country and is directed towards the most effective use of water, a resource that is foreseen to become scarce due to its high demand and gross misuse.

Production

The investment shall be focused on productivity enhancement for which a CNC welding machine shall address the issue pertaining to increase the speed of B pumps production.
Major product development initiatives are under way where pattern making shall be in full swing for three products (SNW / PNW in Duplex Stainless Steel, SEWATEC & ETANORM). The pattern making facility has been extended to meet the strict timelines for the product development.
Construction on the new state-of the art Test Bed is initiated after technical approval from KSB AG, Germany in the year 2009.

Product development

New Waste Water Pumps

In response to the multitude of economical and ecological challenges in "Waste Water" we will offer a solution tailored to each individual case. With its innovative design and hydraulic concept, KSB marks the beginning of a new generation of dry-installed waste water pumps, thus setting a new standard. Modular design permits choice of hydraulic systems, materials, bearing assemblies and drive units. The option of either horizontal or vertical installation will cover any application that might be required in Waste Water. The service-friendly dry-well installation bears some clear advantages, such as high operational reliability, easy monitoring and clean maintenance.

Foundry

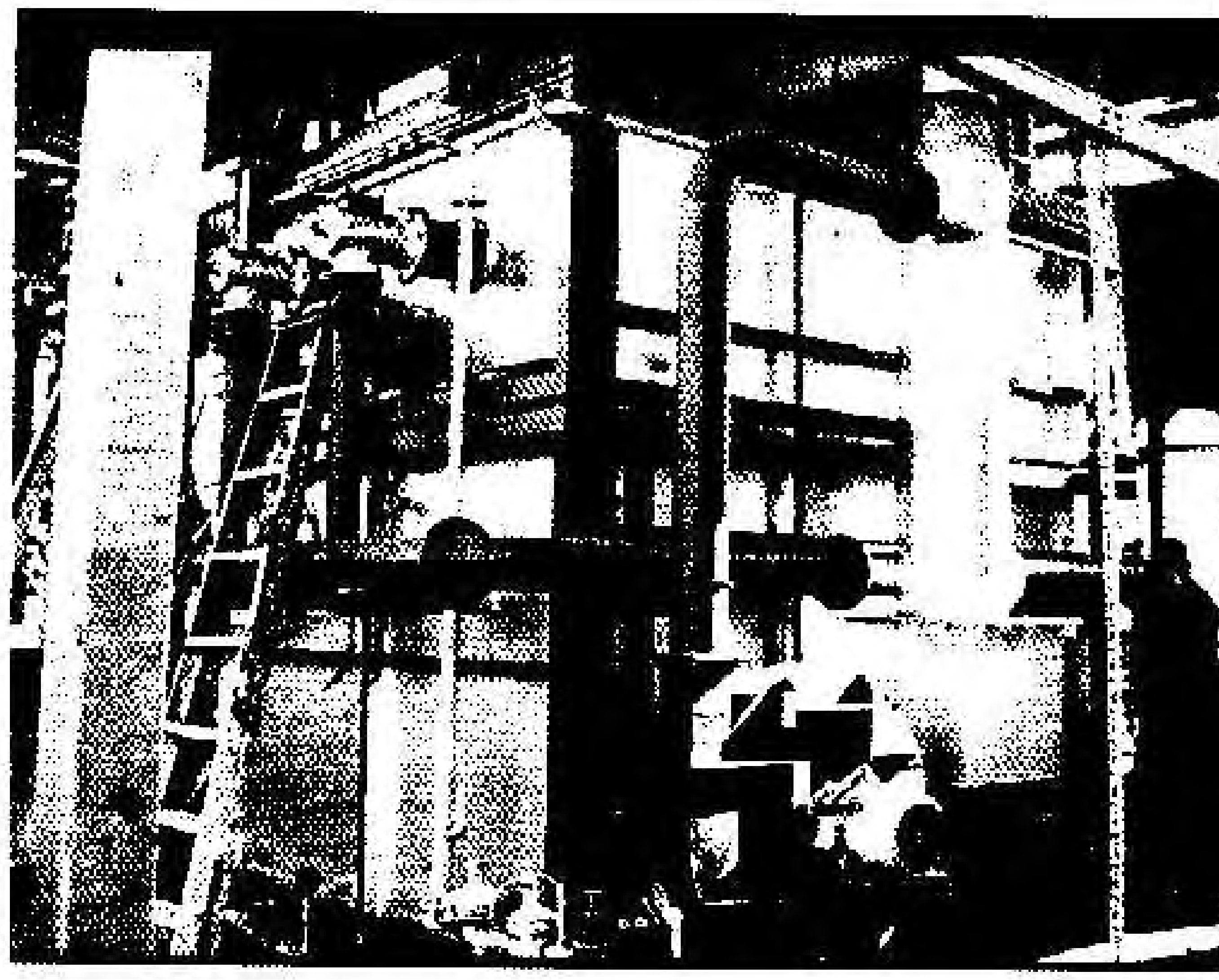
Foundry master plan shall be completed for approval outlining the advancements that are foreseen to convert it into one of the best in Pakistan. Phased investment is planned in this area.

Under GMN (Global Manufacturing Network) of KSB Group, there is a special range of pumps which are being manufactured in designated countries only. In order to assure the global quality parameters of these pumps, such pumps are subjected to a license certification called Made by KSB (MbK), which is the assurance that the pump produced is as good as it had been manufactured in any other site (including Germany). We have achieved MbK certification since year 2000 and latest revalidation was done in 2009.

IT Department

The Company has decided to switch from existing ERP, COMET to state of the art SAP system. A core team established for this purpose has been engaged with KSB Group Companies for hands on experience. The project is planned to kick off in the year 2010.

Foundry at Works, Hassanabdal



New Heat Treatment Furnace installed at KSB Foundry, Hassanabdal

Dedicated work force at our factory, Hasanabdal

KSB Partners - KSB Franchise Network

Bringing us closer to you !

KSB is a leading name in the pumps and valves industry for providing quality products and high standards of services. KSB now brings its experience at hand for all the customers through its franchise network KSB Partners, making our products available for everyone. KSB Partners will expand the dealership network of our standard pumps.

Appropriation

Result For The Year	Rupees '000'
Profit for the year before providing for taxation	213,789
Provision for taxation	66,000
Profit after taxation	147,789
Un-appropriated profit brought forward	232
Available for appropriation	148,021
Appropriated as under	
- Transfer to general reserve	101,000
- Proposed dividend @ Rs.3.50 per share (35%)	46,200
	147,200
Un appropriated profit carried forward	821

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, 2010 at a fee to be mutually agreed.

Statement of Ethics And Business Practices

The Board has already adopted the Statement of Ethics and Business Practices. All employees are informed of this statement and are required to observe these rules of conduct in relation to business and regulations.

Material Changes

There have been no material changes since December 31, 2009 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

Mr. Zahid Hussain, Director resigned during the course of the year and was succeeded by Mr. Aizaz Sarfraz. The Board wishes to place on record its deep appreciation for the valuable contribution and guidance provided by the outgoing Director during his association with the Company. The Board also extends a warm welcome to Mr. Aizaz Sarfraz.

Board of Directors Meeting

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

Name of Director	No. of Meetings Attended
Dr. Augus Lee	4
Mr. M. Masud Akhtar	4
Mr. Tonjes Cerovsky	4
Mr. Sajid Mahmood Awan	4
Mr. Jan Stoop	-
Mr. R. D. Ahmad	4
Mr. Hasan Aziz Bilgrami	3
Mr. Aizaz Sarfraz	2
Mr. Zahid Hussain	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 comprising of the following members:

Mr. Hasan Aziz Bilgrami	Chairman	Non Executive Director.
Mr. R. D. Ahmad	Member	Non Executive Director.
Mr. Tonjes Cerovsky	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.

Corporate and Financial 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 Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- 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 31.12.2008	Rs. 96.228 million.
2.	Gratuity Fund 31.12.2008	Rs. 49.525 million.

- No trading of shares 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, 2009 is annexed with the report.

Acknowledgement

The Board of Directors acknowledge the trust of shareholders, which has been a source of motivation for us to keep performing victoriously.

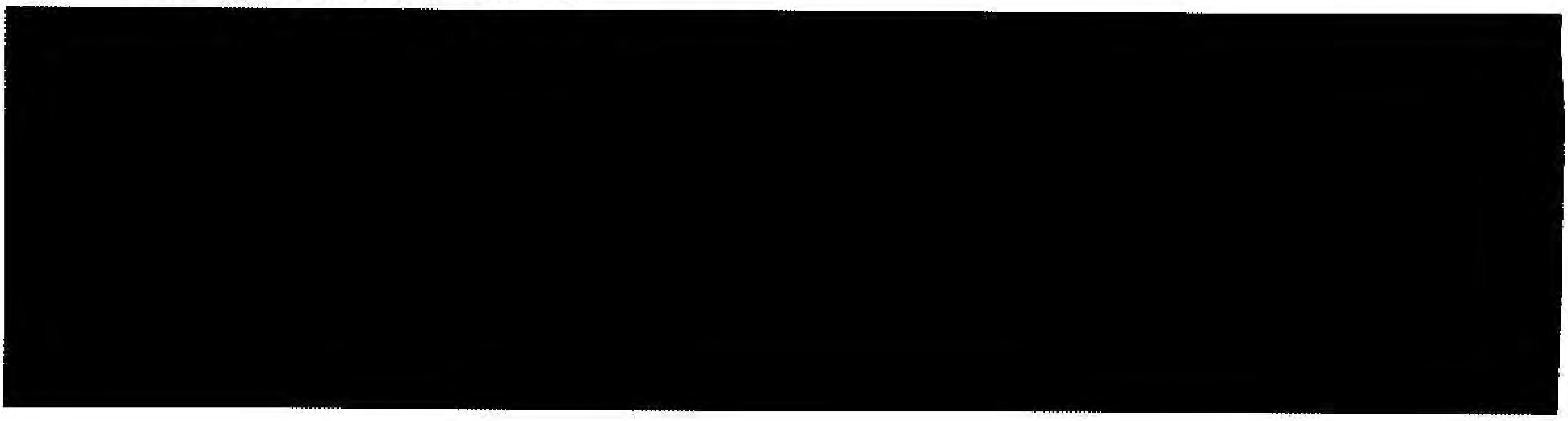
We are thankful for the excellent timely support and guidance provided to us by our parent company.

We are thankful to all employees of the Company who contributed for the success of the Company in a challenging year.

On behalf of the Board

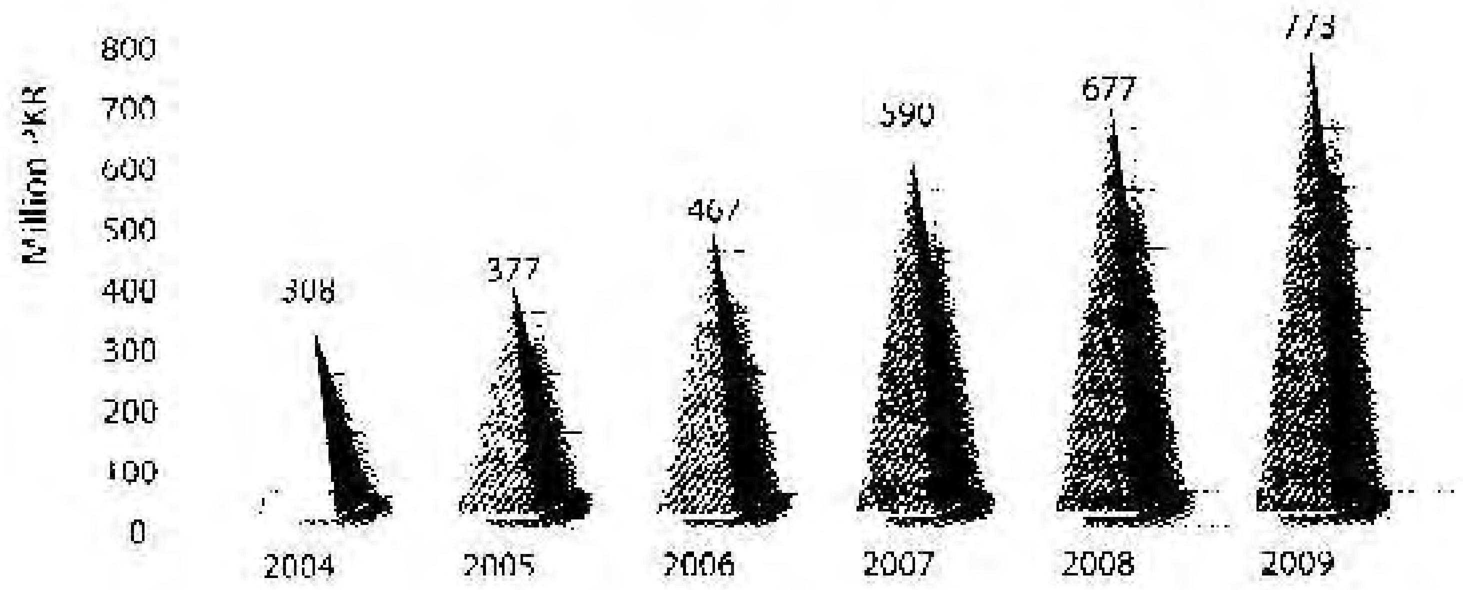
Mohammad Masud Akhtar
Chief Executive
March 25, 2010
Lahore.

Board of Directors KSB Pakistan

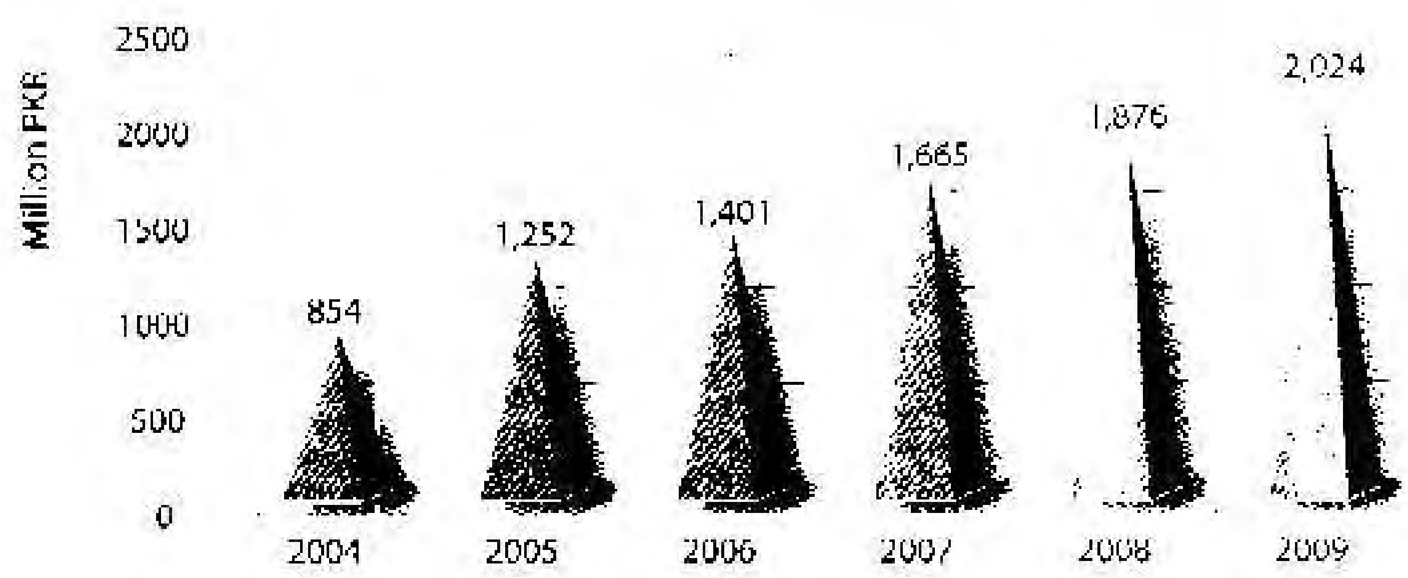


Highlights 6 Years

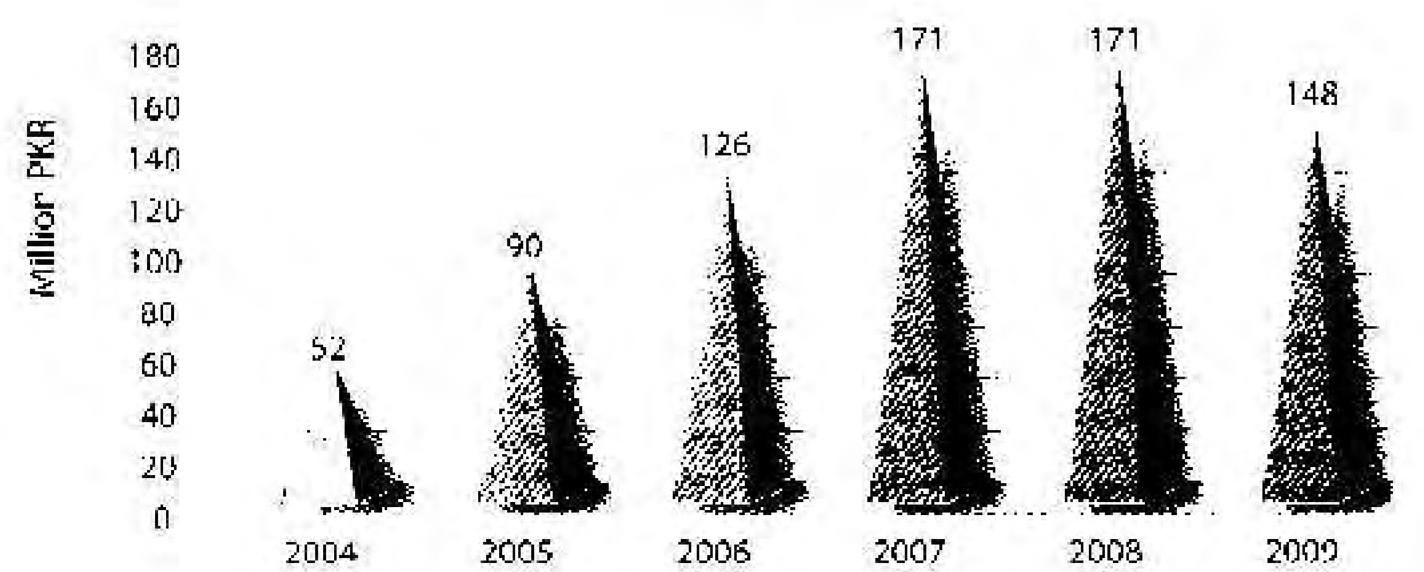
Equity



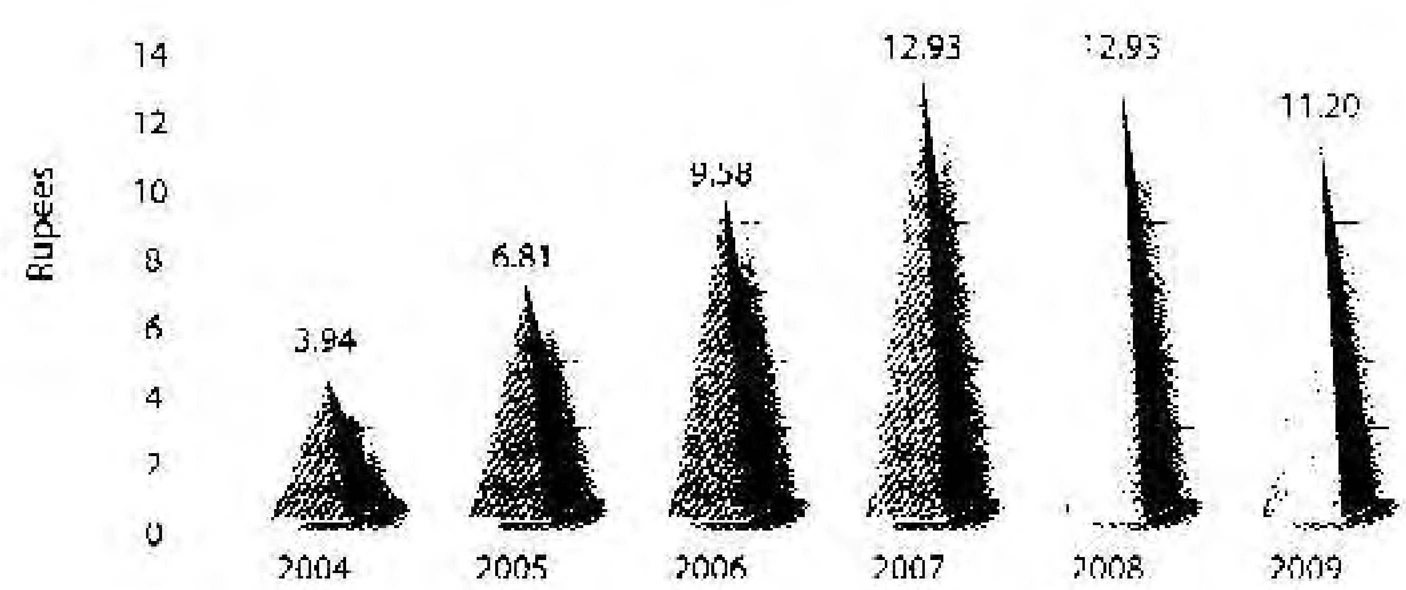
Sales



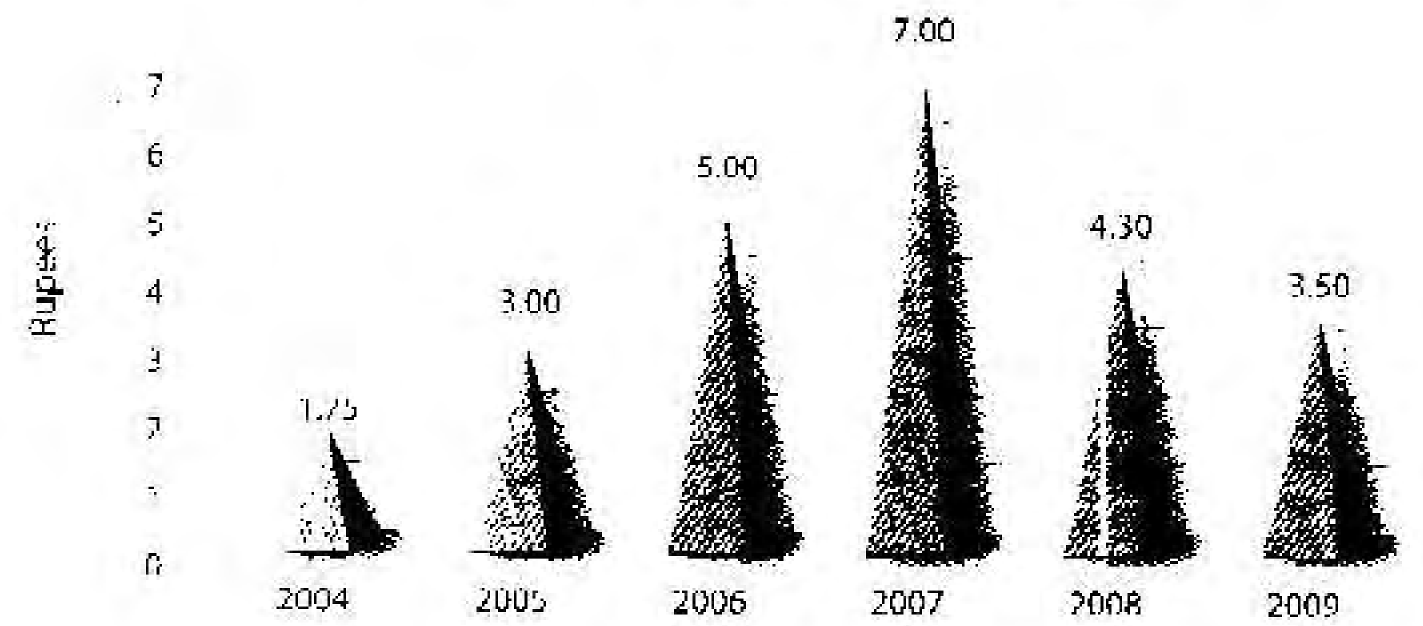
Net profit



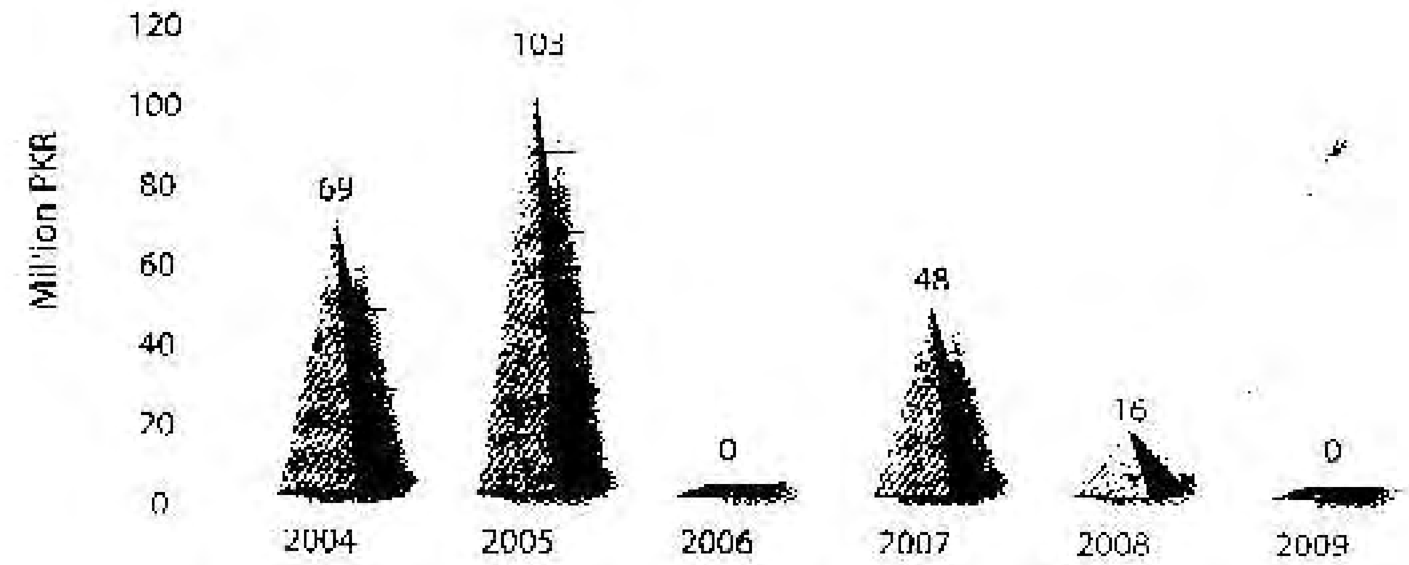
Earnings per share



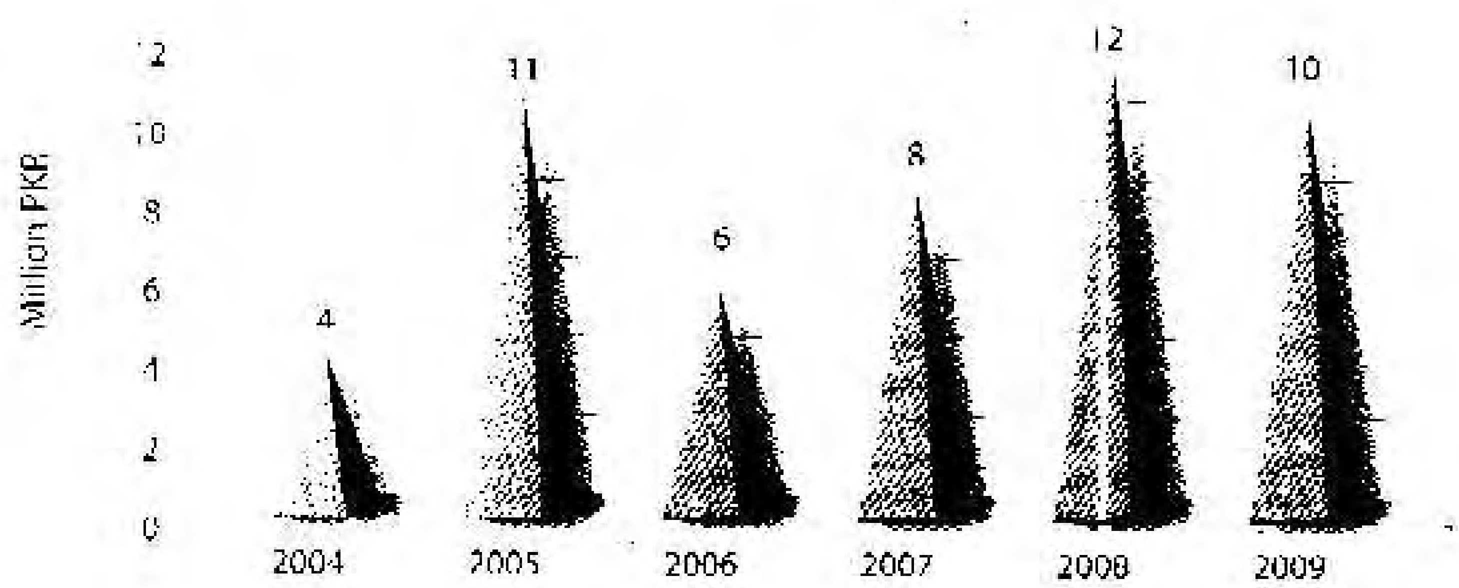
Cash Dividend Per Share



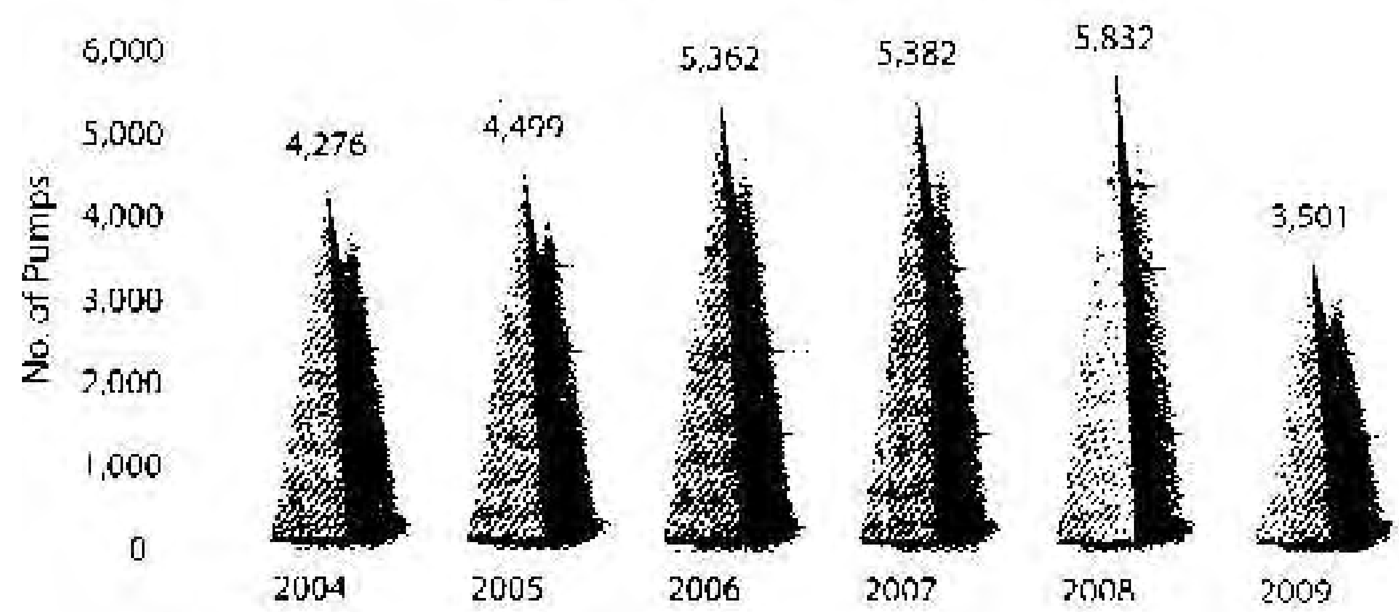
Short Term Finance



Financial Cost



No. of Pumps Produced



Vertical Analysis

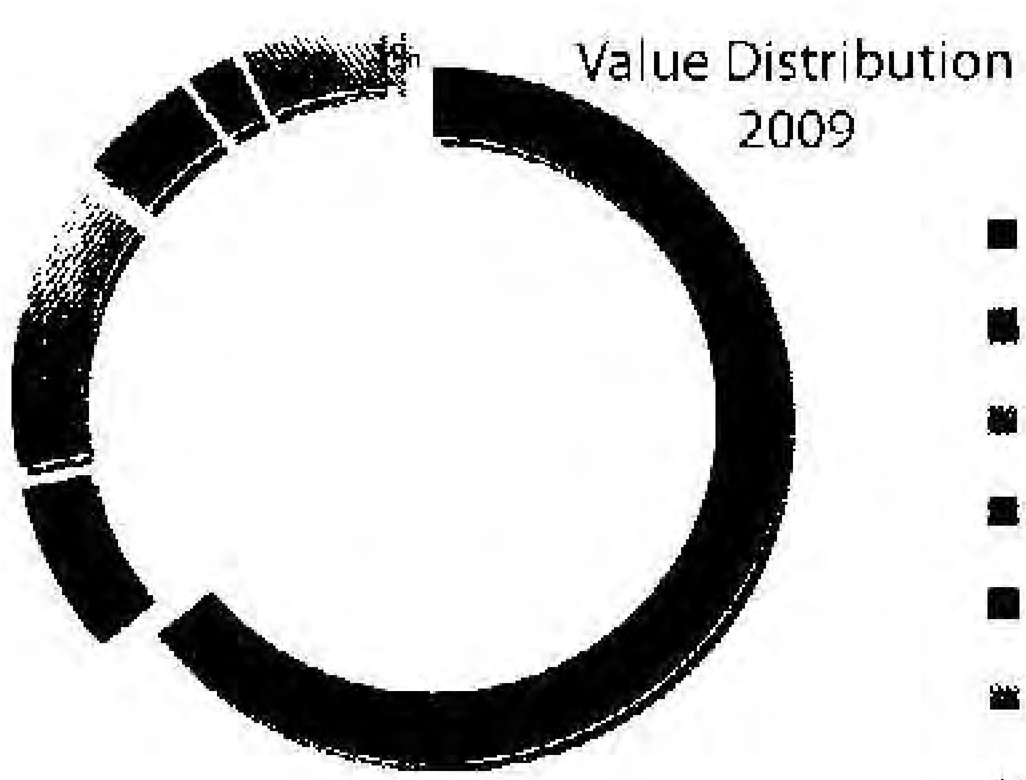
	2009 Rs. in '000	%age	2008 Rs. in '000	%age
BALANCE SHEET				
Net worth / shareholders equity	773,021	48.49%	676,832	55.28%
Non current liabilities	52,273	3.28%	42,302	3.46%
Short term running finances/bank borrowings	171	0.01%	16,421	1.34%
Creditors, accrued and other liabilities	768,645	48.22%	488,731	39.92%
Total liabilities and equity	1,594,110	100.00%	1,224,286	100.00%
Fixed Assets	251,639	15.79%	219,108	17.90%
Long Term Loans and Deposits	6,196	0.39%	7,885	0.64%
Current Assets	1,336,275	83.82%	997,293	81.46%
Total Assets	1,594,110	100.00%	1,224,286	100.00%
PROFIT AND LOSS ACCOUNT				
Sales	2,024,248	100.00%	1,876,445	100.00%
Cost of sales	(1,530,155)	-75.59%	(1,368,835)	-72.95%
Gross Profit	494,093	24.41%	507,610	27.05%
Distribution and marketing costs	(175,985)	-8.69%	(192,937)	-10.28%
Administrative expenses	(118,321)	-5.85%	(110,034)	-5.86%
Other operating expenses	(17,282)	-0.85%	(15,368)	-0.82%
Other operating income	41,704	2.06%	56,287	3.00%
Operating Profit	224,209	11.08%	245,558	13.09%
Finance Cost	(10,420)	-0.52%	(11,639)	-0.62%
Profit before tax	213,789	10.56%	233,919	12.47%
Taxation	(66,000)	-3.26%	(63,231)	-3.37%
Profit for the year	147,789	7.30%	170,688	9.10%

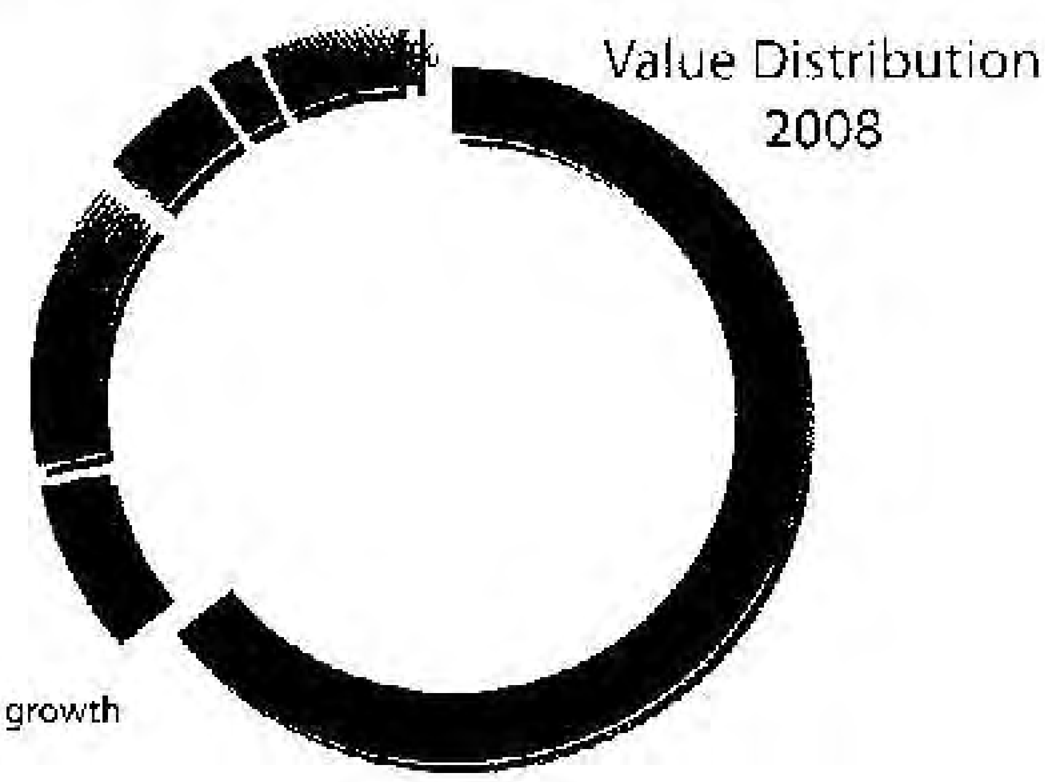
Horizontal Analysis

	2009 Rs. in '000	2008	Change	%age change
BALANCE SHEET				
Net worth / shareholders equity	773,021	676,832	96,189	14.21%
Non current liabilities	52,273	42,302	9,971	23.57%
Short term running finances/bank borrowings	171	16,421	(16,250)	-98.96%
Creditors, accrued and other liabilities	768,645	488,731	279,914	57.27%
Total liabilities and equity	1,594,110	1,224,286	369,824	30.21%
Fixed Assets	251,639	219,108	32,531	14.85%
Long Term Loans and Deposits	6,196	7,885	(1,689)	-21.42%
Current Assets	1,336,275	997,293	338,982	33.99%
Total Assets	1,594,110	1,224,286	369,824	30.21%
PROFIT AND LOSS ACCOUNT				
Sales	2,024,248	1,876,445	147,803	7.88%
Cost of sales	(1,530,155)	(1,368,835)	161,320	11.79%
Gross Profit	494,093	507,610	(13,517)	-2.66%
Distribution and marketing costs	(175,985)	(192,937)	(16,952)	-8.79%
Administrative expenses	(118,321)	(110,034)	8,287	7.53%
Other operating expenses	(17,282)	(15,368)	1,914	12.45%
Other operating income	41,704	56,287	(14,583)	-25.91%
Operating Profit	224,209	245,558	(21,349)	-8.69%
Finance Cost	(10,420)	(11,639)	(1,219)	-10.47%
Profit before tax	213,789	233,919	(20,130)	-8.61%
Taxation	(66,000)	(63,231)	2,769	4.38%
Profit for the year	147,789	170,688	(22,899)	-13.42%

Statement of Value Addition

	2009 Rs. in '000	%age	2008 Rs. in '000	%age
Value Addition				
Net sales	2,024,248	97.98	1,876,445	97.09
Other income	41,704	2.02	56,287	2.91
	2,065,952	100.00	1,932,732	100.00
Value Distribution				
Cost of sales (excluding employees' cost & Depreciation/Amortization)	1,326,371	64.20	1,185,615	61.34
Marketing, admin. & other expenses (excluding employees' cost & Depreciation)	155,923	7.55	172,250	8.91
Employees cost				
- Salaries, wages, amenities and staff welfare	268,813	13.01	241,659	12.50
- Workers' profit particiaption fund	11,451	0.55	12,500	0.65
	280,264	13.57	254,159	13.15
Government				
- Taxes & Duties	110,825	5.36	110,510	5.72
- Workers' welfare fund	3,787	0.18	2,647	0.14
	114,612	5.55	113,157	5.85
Shareholders				
- Dividend	46,200	2.24	51,600	2.67
- Bonus shares	-	0.00	12,000	0.62
	46,200	2.24	63,600	3.29
Retained in business for future growth				
- Depreciation & Amortization	30,573	1.48	25,224	1.31
- Retained profit	101,589	4.92	107,088	5.54
	132,162	6.40	132,312	6.85
Finance cost	10,420	0.50	11,639	0.60
	2,065,952	100.00	1,932,732	100.00





- Cost of sales
- M & A Expenses
- Employees cost
- Government taxes
- Shareholders
- Retained in business for future growth
- Finance cost

Key Financial Data for 6 Years

	2009	2008	2007	2006	2005	2004
			Rupees in '000			
BALANCE SHEET						
Paid up capital	132,000	120,000	120,000	120,000	120,000	120,000
Reserves	641,021	556,832	470,143	347,464	257,071	188,162
Net worth / sharesholders equity	773,021	676,832	590,143	467,464	377,071	308,162
Non current liabilities	52,273	42,302	32,602	15,072	18,183	19,162
Short term running finances/ bank borrowings	171	16,421	47,795	47	103,218	69,164
Creditors, accrued & other liabilities	768,645	488,731	411,413	347,361	347,242	272,937
Current liablitities	768,816	505,152	459,208	347,408	450,460	342,101
Total liabilities	821,089	547,454	491,810	362,480	468,643	361,263
Total Liabilities & Equity	1,594,110	1,224,286	1,081,953	829,944	845,714	669,425
Fixed assets	251,639	219,108	152,303	92,630	78,495	67,779
Long term loans and deposits	6,196	7,885	8,336	2,798	3,386	3,777
Deferred taxation	-	-	-	-	6,000	10,115
Current assets	1,336,275	997,293	921,314	734,516	757,833	587,754
Total assets	1,594,110	1,224,286	1,081,953	829,944	845,714	669,425

PROFIT AND LOSS

	2009	2008	2007	2006	2005	2004
Sales	2,024,248	1,876,445	1,664,543	1,401,145	1,252,166	853,674
Cost of goods sold	(1,530,155)	(1,368,835)	(1,198,453)	(976,120)	(914,070)	(651,320)
Gross Profit	494,093	507,610	466,090	425,025	338,096	202,354
Distribution and marketing cost	(175,985)	(192,937)	(161,897)	(159,195)	(115,954)	(85,748)
Administrative expenses	(118,321)	(110,034)	(90,562)	(80,305)	(79,775)	(60,730)
Other operating expenses	(17,282)	(15,368)	(18,654)	(19,286)	(14,293)	(5,961)
Other operating income	41,704	56,287	41,429	30,394	27,622	34,789
Operating Profit	224,209	245,558	236,406	196,633	155,696	84,703
Finance Cost	(10,420)	(11,639)	(8,413)	(5,790)	(10,672)	(4,029)
Profit before tax	213,789	233,919	227,993	190,843	145,024	80,674
Taxation	(66,000)	(63,231)	(57,313)	(64,450)	(55,115)	(28,631)
Net Profit	147,789	170,688	170,680	126,393	89,909	52,043

Key Performance Indicators

Description		2009	2008	2007	2006	2005	2004
Gross Margin	%	24.41	27.05	28.00	30.33	27.00	23.70
Net profit to Sales	%	7.30	9.10	10.25	9.02	7.18	6.10
Return on equity	%	19.32	25.22	28.92	27.04	23.84	16.89
Return on capital employed	%	27.17	34.15	37.96	40.75	39.39	25.88
Return on assets	%	9.92	14.89	16.55	15.93	11.89	8.38
EBITDA	Rupees in '000	254,782	270,782	255,115	211,111	170,419	100,214
EBITDA margin	%	12.59	14.43	15.33	15.07	13.61	11.74
Inventroy turnover ratio	Times	2.4	2.4	2.9	2.3	2.6	2.2
Inventory turnover in number of days	Days	149	149	125	161	140	165
Debtor Turnover ratio	Times	3.84	4.83	6.66	6.54	3.89	5.25
Collection period	Days	95	76	55	56	94	70
Creditors turnover	Times	2.09	3.01	3.33	3.32	2.81	2.41
Creditors turnover	Days	175	121	110	110	130	152
Opreating cycle	Days	69	103	70	106	104	83
Total assets trunover ratio	Times	1.27	1.53	1.54	1.69	1.48	1.28
Fixed assets turnover ratio	Times	8.04	8.56	10.93	15.13	15.95	12.59
Price earning ratio*	Times	6.70	17.86	15.36	8.34	9.04	11.79
Cash dividend per share	Rupees	3.50	4.30	7.00	4.00	3.00	1.75
Bonus shares	%	-	10.00	-		-	-
Dividend yield ratio	Times	0.05	0.02	0.04	0.06	0.05	0.04
Dividend pay out ratio*	Times	0.31	0.33	0.54	0.52	0.44	0.44
Dividend cover ratio*	Times	3.20	3.01	1.85	1.92	2.27	2.25
Earnings Per Share*	Rupees	11.20	12.93	12.93	9.58	6.81	3.94
Number of Shares	Number	13,200	12,000	12,000	12,000	12,000	12,000
Debt to Equity Ratio		0.02 : 99.98	2 : 98	8 : 92	1 : 99	27 : 73	22 : 78
Interest Cover ratio	Times	21.52	21.10	28.10	33.96	14.59	21.02
Current Ratio	Times	1.74	1.97	2.01	2.11	1.68	1.72
Acid test ratio	Times	1.20	1.19	1.38	1.23	1.17	1.17
Break up value per share	Rupees	58.56	51.28	44.71	35.41	28.57	23.35
Market Value of shares - year end	Rupees	75.02	230.98	198.60	79.90	61.55	46.50
Market Value of shares - high	Rupees	230.98	230.98	294.95	97.00	71.85	46.45
Market Value of shares - low	Rupees	71.42	152.25	75.10	63.00	38.00	21.05
Summary of cash flow statement							
Operating activities		289,729	14,955	208,487	183,174	62	84,757
Investing activities		(65,321)	(91,583)	(77,500)	(27,728)	(24,852)	(17,493)
Financing Activities		(51,410)	(83,634)	(47,790)	(35,836)	(25,005)	(14,370)
Cash and cash equivelent- closing balance		231,951	58,953	219,215	136,019	16,406	66,201

*Ratios have been recalculated due to issue of bonus shares in 2009

Pattern of Shareholding as at December 31, 2009

Number of Shareholders			Shareholders		Total shares held
218	From	1	To	100	7,793
225	From	101	To	500	59,272
243	From	501	To	1,000	138,430
119	From	1,001	To	5,000	238,424
18	From	5,001	To	10,000	119,593
6	From	10,001	To	15,000	74,447
2	From	15,001	To	20,000	37,475
3	From	25,001	To	30,000	85,896
2	From	30,001	To	35,000	64,203
1	From	45,001	To	50,000	48,070
1	From	70,001	To	75,000	70,180
1	From	115,001	To	120,000	118,577
1	From	125,001	To	130,000	125,694
1	From	245,001	To	250,000	250,000
1	From	270,001	To	275,000	272,373
1	From	330,001	To	335,000	331,178
1	From	335,001	To	340,000	336,575
1	From	3,045,001	To	3,050,000	3,048,845
1	From	7,770,001	To	7,775,000	7,772,975
846					13,200,000

Categories of Shareholders	Number	Shares held	Percentage
Individuals	824	1,541,469	11.68
Associated Companies	1	7,772,975	58.89
Insurance Companies	1	272,373	2.06
Joint Stock Companies	13	58,970	0.45
Financial Institutions	4	3,202,330	24.26
Mutual Funds	1	250,000	1.89
Others			
- Habib Bank Limted A/c Mohammed Amin Wakf Estate	1	31,703	0.24
- Trustees Nestle Pakistan Ltd Emoloyees Provident Fund	1	70,180	0.53
	846	13,200,000	100

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
NIT and ICP		
Investment Corporation of Pakistan	Nil	Nil
National Bank of Pakistan, Trustee Department (NIT)	1	3,048,845
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	Nil	Nil
Banks, Development Finance Institutions, Non Banking Finance Institutions, Insurance Companies, Modaraba, Mutual Funds and Joint Stock Companies	18	734,828
General Public	824	1,541,469
Others	2	101,883
Total	846	13,200,000

Shareholders holding 10% 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	3,048,845

Statement Of Compliance With The Code Of Corporate Governance For The Year Ended December 31, 2009

This statement is being presented to comply with the Code of Corporate Governance as contained in the listing regulations 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. During the year 2009 Board included eight Directors. At present the CEO and CFO are the only Executive Directors.
2. The Directors have confirmed that none of them is serving as a Director in more than ten 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. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by the Directors and all employees of the Company.
5. 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.
6. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. A casual vacancy occurred on the Board due to resignation of Director during the year was filled in within the stipulated time.
7. 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.
8. The Company provided information to foreign resident Directors of their duties and responsibilities. Other Directors being professionals and Directors of other local companies are already aware of their duties and responsibilities.
9. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
10. All quarterly, half yearly and annual financial statements presented to the Board for approval were duly signed by the CEO and the CFO before presenting to Board for its approval.
11. 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.

12. The Company has complied with all the corporate and financial reporting requirements of the Code.
13. The Board has formed an audit committee. It comprises of three members, who are non executive Directors including the chairman of the committee.
14. 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 Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
15. 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.
16. 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.
17. 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.
18. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Mohammad Masud Akhtar
Chief Executive Officer
March 25, 2010
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 (the Code) for the year ended December 31, 2009 prepared by the Board of Directors of KSB Pumps Company Limited (the company) to comply with the Listing Regulation No. 35 of the Lahore Stock Exchange (Guarantee) Limited and the Karachi Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code 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 and report if it does not. A review is limited primarily to enquiries 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 of the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-Regulations (xiii-a) of Listing Regulations 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 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 which are not executed at the arm's length price regarding proper justification for using such alternate pricing mechanism. Further, all such transactions also required to be separately placed before the audit committee. We are only required and have insured 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 the 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, 2009.

A.F. Ferguson & Co
Chartered Accountants
March 25, 2010
Lahore

Auditors' Report to the Members

We have audited the annexed balance sheet of KSB PumpsCompany Limited as at December 31, 2009 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement 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 excepr for the changes in accounting policies as stated in note 2.2.1 to annexed financial statement with which we concur;

(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, statement of changes in equity and statement of cash flow together with the notes forming part there of 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, 2009 and of the profit, total comprehensive income, changes in equity and its cash flows 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
March 25, 2010
Lahore

Engagement Partner: Muhammad Masood

Balance Sheet

	Note	**2009 Rupees**	2008 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital			
15,000,000 (2008: 15,000,000) ordinary shares of Rs 10 each		150,000,000	150,000,000
Issued, subscribed and paid up capital			
13,200,000 (2008: 12,000,000) ordinary shares of Rs 10 each	5	132,000,000	120,000,000
General reserve		493,000,000	386,000,000
Unappropriated profit		148,020,657	170,831,724
		773,020,657	676,831,724
NON CURRENT LIABILITIES			
Employees' retirement and other benefits	6	17,239,632	14,656,168
Deferred liabilities	7	35,033,677	27,645,883
		52,273,309	42,302,051
CURRENT LIABILITIES			
Short term finances - secured	8	171,346	16,421,278
Trade and other payables	9	732,617,290	455,121,265
Provision for other liabilities and charges	10	34,678,642	32,153,159
Accrued finance cost		1,348,320	1,456,927
		768,815,598	505,152,629
CONTINGENCIES AND COMMITMENTS	11		
		1,594,109,564	1,224,286,404

The annexed notes 1 to 40 form an integral part of these financial statements.

Director

	Note	**2009 Rupees**	2008 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	243,000,490	190,799,312
Investment property	13	2,077,392	2,289,146
Intangible Assets	14	5,349,470	-
Capital work in progress	15	1,211,530	26,019,820
Long term loans and deposits	16	6,196,220	7,885,266
		257,835,102	226,993,544
CURRENT ASSETS			
Stores, spares and loose tools	17	43,949,476	46,333,060
Stock-in-trade	18	370,189,424	348,155,372
Trade debts	19	526,560,488	388,554,554
Advances, deposits, prepayments and other receivables	20	163,453,100	138,875,926
Cash and bank balances	21	232,121,974	75,373,948
		1,336,274,462	997,292,860
		1,594,109,564	1,224,286,404

Chief Executive

Profit and Loss Account for the year ended December 31, 2009

	Note	**2009 Rupees**	2008 Rupees
Sales	22	2,024,247,695	1,876,445,136
Cost of sales	23	(1,530,154,798)	(1,368,834,662)
Gross profit		494,092,897	507,610,474
Distribution and marketing expenses	24	(175,984,554)	(192,936,951)
Administration expenses	25	(118,320,508)	(110,034,446)
Other operating expenses	26	(17,281,928)	(15,368,343)
Other operating income	27	41,703,532	56,287,292
Profit from operations		224,209,439	245,558,026
Finance cost	28	(10,420,506)	(11,638,741)
Profit before tax		213,788,933	233,919,285
Taxation	29	(66,000,000)	(63,231,076)
Profit for the year		147,788,933	170,688,209
Earnings per share - basic and diluted	36	11.20	12.93

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

The annexed notes 1 to 40 form an integral part of these financial statements.

Director

Chief Executive

Statement of Comprehensive Income for the year ended December 31, 2009

	2009 Rupees	2008 Rupees
Profit after taxation	147,788,933	170,688,209
Other comprehensive income for the year	-	-
Total comprehensive income for the year	147,788,933	170,688,209

The annexed notes 1 to 40 form an integral part of these financial statements.

Director **Chief Executive**

Cash Flow Statement for the year ended December 31, 2009

	Note	2009 Rupees	2008 Rupees
Cash flows from operating activities			
Cash generated from operations	31	378,791,750	121,371,213
Finance cost paid		(10,529,113)	(10,937,680)
Taxes paid		(71,675,395)	(87,346,618)
Payments for accumulating compensated absences		(873,028)	(1,194,808)
Employees' retirement and other benefits paid		(7,674,250)	(7,474,973)
Net decrease in long term loans and deposits		1,689,046	537,619
Net cash from operating activities		289,729,010	14,954,753
Cash flows from investing activities			
Fixed capital expenditure		(67,907,000)	(92,300,462)
Proceeds from sale of property, plant and equipment		2,585,714	717,000
Net cash used in investing activities		(65,321,286)	(91,583,462)
Cash flows from financing activities			
Dividend paid		(51,409,766)	(83,634,108)
Net cash used in financing activities		(51,409,766)	(83,634,108)
Net (decrease) / increase in cash and cash equivalents		172,997,958	(160,262,817)
Cash and cash equivalents at the beginning of the year		58,952,670	219,215,487
Cash and cash equivalents at the end of the year	32	231,950,628	58,952,670

The annexed notes 1 to 40 form an integral part of these financial statements.

Director **Chief Executive**

Statement of Changes In Equity for the year ended December 31, 2009

	Share capital	General reserves	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees
Balance as at December 31, 2007	120,000,000	299,000,000	171,143,515	590,143,515
Final dividend for the year ended December 31, 2007 Rs 7.00 per share	-	-	(84,000,000)	(84,000,000)
Transfer to general reserve	-	87,000,000	(87,000,000)	-
Profit for the year	-	-	170,688,209	170,688,209
Balance as at December 31, 2008	120,000,000	386,000,000	170,831,724	676,831,724
1,200,000 ordinary shares of Rs.10 each issued as fully paid bonus shares	12,000,000	-	(12,000,000)	-
Final dividend for the year ended December 31, 2008 Rs 4.30 per share	-	-	(51,600,000)	(51,600,000)
Transfer to general reserve	-	107,000,000	(107,000,000)	-
Profit for the year	-	-	147,788,933	147,788,933
Balance as at December 31, 2009	132,000,000	493,000,000	148,020,657	773,020,657

The annexed notes 1 to 40 form an integral part of these financial statements.

Director **Chief Executive**

Notes to the Financial Statements for the year ended December 31, 2009

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. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 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 that are effective in 2009 and are relevant to the Company

- IAS 1 (Revised), 'Presentation of financial statements' is effective from January 01, 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

  The Company has preferred to present two statements; a profit and loss account (income statement) and a statement of other comprehensive income. The financial statements have been prepared under revised disclosure requirements.

- IFRS 7, 'Financial instruments: Disclosures', is effective from January 1, 2009. IFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and measurement of the Company's financial instruments. The application of IFRS 7 has resulted in additional disclosures in the Company's financial statements, however, there is no impact on profit for the year.

- IAS 23 (amendment), 'Borrowing costs' is effective from January 1, 2009. The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The Company's current accounting policy is in compliance with this amendment, and therefore there is no impact on the Company's financial statements.

2.2.2 Standards, amendments to published standards and interpretations that are effective in 2009 but not relevant to the Company

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 are considered not to be relevant or to have any significant impact on the Company's financial reporting and operations.

2.2.3 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2010 or later periods, but the Company has not early adopted them:

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company will apply IAS 1 (amendment) from January 1, 2010. It is not expected to have a material impact on the Company's financial statements.

- IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in any significant impact on the Company's financial statements.

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 recognised. 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 realisable value. The net realisable value is assessed by the Company having regard to the budgeted cost of completion, estimated selling price and knowledge of recent comparable transactions.

3.1 Changes in accounting estimates

Previously, upto December 31, 2008, depreciation was provided on the following items of property, plant and equipment including investment property at annual rates mentioned below:

Building	
- Factory	5.00%
- Office	2.50%
Plant and machinery	6.66 and 10%
Tools, jigs, attachments	10.00%
Patterns	10.00%
Other equipment	12.50%
Furniture and Fixtures	10.00%
Office machines and appliances	33.33%
Vehicles	25.00%

During the year, the management carried out a comprehensive review of useful lives of property, plant and equipment and pattern of consumption of their economic benefits to bring it in line with the estimates used by the holding company KSB AG, Germany. The Company now charges depreciation in respect of such assets so as to write off the book value over their remaining re-estimated useful lives after taking into account their residual values at the following annual rates:

Building	
- Factory	3.33%
- Office	3.33%
Plant and machinery	6.66%-10%
Tools, jigs, attachments	10.00%
Patterns	16.67%
Other equipment	12.50%
Furniture and Fixtures	6.67%
Office machines and appliances	20.00%
Vehicles	20.00%

Such a change has been accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors".

Had there been no change in the accounting estimate, the profit after tax for the year ended December 31, 2009 would have been lower by Rs 0.8512 million and carrying value of property, plant and equipment would have been lower by Rs 0.953 million and carrying value of investment property as that date would have been higher by Rs 0.1018 million respectively.

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 recognised for all taxable temporary differences and deferred tax assets are recognised 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 utilised.

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 follow:

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 5.241 million (2008: Rs 4.005 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	10.75% per annum
Expected rate of return	12.75% per annum
Discount rate	12.75% per annum

Plan assets include long-term Government bonds and equity instruments of listed companies. 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 7.676 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 unionised 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 recognised in the balance sheet represents the present value of defined benefit obligation adjusted for unrecognised 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	11% per annum
Discount rate	12% 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 recognised in the balance sheet represents the present value of defined benefit obligation. Actuarial gains/losses are recognised 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	11% per annum
Discount rate	12% per annum

The latest actuarial valuation of all defined benefit plans was carried out as at December 31, 2009

4.2.2 Defined contribution plans

The Company operates an approved contributory provident fund for all employees. Equal monthly contribution 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 revised rates as per note 3.1

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, 2009 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 capitalised, 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 recognised 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 recognised, 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 recognised 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 recognised as an income or expense.

4.4 Intangible Assets

An intangible asset is recognised 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 amortisation 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. Amortisation 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 asses 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 buildings and is valued using the cost method i.e., at cost less accumulated depreciation and identified impairment loss.

Depreciation on buildings 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 at the rate of 3.33% per annum. Depreciation on additions is charged from the month in which an asset is acquired or capitalised 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 recognised 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 recognised, 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 recognised as an 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 recognised on a straight-line basis over the lease term.

4.8 Store, spares and loose tools

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

Net realisable 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 realisable 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 realisable 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 the amount remaining unpaid.

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 recognised 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 amortised cost.

All financial assets are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised 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 recognised at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognised 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 amortised 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 recognised 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 recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised 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 recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised 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 Company of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the profit and loss account. Impairment losses recognised 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 recognised at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised 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 recognised 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 recognised amount and the Company intends either to settle on a net basis or to realise 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'). The consolidated financial statements are presented in 'Pak Rupees', which is the company's functional and the group's 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 recognised 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 analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised 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 recognised on shipment or acceptance of products depending on the terms of supply. Service revenue is recognised over the contractual period or as and when services are rendered to customers. Contract revenue is recognised 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 recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised 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 recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Company uses the 'percentage of completion method' to determine the appropriate amount to recognise 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 recognised profits (less recognised 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 recognised profits (less recognised losses) is included in trade and other payables.

The aggregate amount of costs incurred and recognised profits (less recognised losses) for contract in progress at the balance sheet date was Rs 996.26 million (2008: Rs 657.120 million).

4.20 Dividend

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

5. Issued subscribed and paid up capital

2009 (Number of shares)	2008 (Number of shares)		**2009 Rupees**	2008 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	11,018,900	Ordinary shares of Rs 10 each issued as fully paid bonus shares	122,189,000	110,189,000
13,200,000	12,000,000		132,000,000	120,000,000

As at December 31, 2009, the holding company KSB AG, Germany held 7,772,975 (2008: 7,066,341) shares of the company.

	2009 (Number of shares)	2008 (Number of shares)
The movement of ordinary shares is as follows:		
Opening balance	12,000,000	12,000,000
Add: Bonus shares issued during the year	1,200,000	-
Closing balance	13,200,000	12,000,000

		2009 Rupees	2008 Rupees
6. Employees' retirement and other benefits			
These are composed of:			
Gratuity fund	- note 6.1	623,781	84,134
Ex-gratia scheme	-note 6.2	16,615,851	14,572,034
		17,239,632	14,656,168

6.1 Gratuity fund

	2009 Rupees	2008 Rupees
Present value of defined benefit obligation	64,278,263	57,344,278
Fair value of plan assets	(57,893,500)	(51,584,648)
Unrecognised actuarial losses	(5,763,160)	(5,675,496)
Liability as at December 31	621,603	84,134
Liability as at January 1	84,134	976,842
Charged to profit and loss account	7,485,369	6,382,057
Contribution by the company	(6,947,900)	(7,274,765)
Liability as at December 31	621,603	84,134
The movement in the present value of defined benefit obligation is as follows:		
Present value as at January 1	57,344,278	54,798,733
Current service cost	6,663,972	5,722,309
Interest cost	8,922,568	5,510,128
Benefits paid	(6,146,986)	(6,694,775)
Experience gain / (loss)	(2,505,569)	(1,992,117)
Present value as at December 31	64,278,263	57,344,278
The movement in fair value of plan assets is as follows:		
Fair value as at January 1	51,585,648	48,142,815
Expected return on plan assets	8,101,171	4,865,703
Company's contributions	6,947,900	7,274,765
Benefits paid	(6,146,986)	(6,694,775)
Experience gain / (loss)	(2,594,233)	(2,003,860)
Fair value as at December 31	57,893,500	51,584,648
Plan assets are comprised of as follows:		
Debt	56,628,350	47,818,778
Mixed Funds	-	(313,987)
Cash	1,265,150	4,079,857
	57,893,500	51,584,648

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

	2009	2008	2007	2006	2005
					Rupees
As at December 31					
Present value of defined benefit obligation	64,278,263	57,344,278	54,798,733	46,830,807	43,461,278
Fair value of plan assets	57,893,500	51,584,648	48,142,815	48,992,439	42,423,000
Surplus / (deficit)	(6,384,763)	(5,759,630)	(6,655,918)	2,161,632	(1,038,278)
Experience adjustment on obligation	(4)%	10%	12%	8%	9%
Experience adjustment on plan assets	(5)%	(2)%	5%	5%	5%

		2009 Rupees	2008 Rupees
6.2 Ex-gratia			
Present value of defined benefit obligation		15,295,690	13,686,936
Unrecognised actuarial gains		1,320,161	885,098
Liability as at December 31		16,615,851	14,572,034
Liability as at January 1		14,572,034	12,657,141
Charged to profit and loss account		2,772,345	2,115,101
Payments made by the company		(728,528)	(200,208)
Liability as at December 31		16,615,851	14,572,034
7. Deferred liabilities			
Deferred taxation	- note 7.1	24,000,000	18,000,000
Accumulating compensated absences	- note 7.2	11,033,677	9,645,883
		35,033,677	27,645,883
7.1 Deferred taxation			
This comprises temporary differences relating to:			
Employees' retirement and other benefits		(8,800,000)	(7,700,000)
Accelerated tax depreciation allowances		32,800,000	25,700,000
		24,000,000	18,000,000

	2009 Rupees	2008 Rupees
7.2 Accumulating compensated absences		
Liability as at January 1	9,645,883	7,967,885
Charged to profit and loss account	2,260,822	2,872,806
Payments made by the company	(873,028)	(1,194,808)
Liability as at December 31	11,033,677	9,645,883

8. Short term finances - secured

Finances available from commercial banks under mark up arrangements amount to Rs 1.11 billion (2008: Rs 716 million). The rates of mark up range from Re 0.3463 to Re 0.5068 per Rs 1,000 per diem or part thereof on the balance outstanding.

Of aggregate facility of letters of credit of Rs 798 million (2008: Rs 498 million) and guarantees of Rs 1.468 billion (2008: Rs 766 million), the amounts utilised as at December 31, 2009 was Rs 28.822 million (2008: Rs 35.626 million) and Rs 651.532 million (2008: Rs 168.234 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

		2009 Rupees	2008 Rupees
Trade creditors	-note 9.1	166,238,280	175,306,933
Accrued liabilities	-note 9.2	100,751,890	89,286,523
Advances from customers		384,507,258	74,259,859
Due against construction work in progress		47,171,000	77,031,000
Workers' profit participation fund	-note 9.3	2,637,360	15,521,014
Workers' welfare fund		4,300,000	4,700,000
Rent received in advance		5,796,688	2,151,232
Unclaimed dividends		1,582,214	1,391,980
Other liabilities		19,632,600	15,472,724
		732,617,290	455,121,265

9.1 Trade creditors include amount due to holding company of Rs 52.878 million (2008: Rs 37.880 million) and associated undertakings of Rs 1.771 million (2008: Rs 47.894 million).

9.2 Accrued liabilities include amount due to holding company of Rs 4.371 million (2008: Rs 4.230 million) and associated undertakings of Rs 1.468 million (2008: Rs 7.651 million). Due to associated undertaking includes amount due to provident fund of Rs 1.468 million (2008: Rs 1.483 million).

		2009 Rupees	2008 Rupees

9.3 Workers' profit participation fund

		2009 Rupees	2008 Rupees
Balance at beginning of the year		15,521,014	13,679,700
Allocation for the year	-note 26	11,451,360	12,500,000
Interest payable on funds utilized by the company	-note 28	158,000	1,736,918
		27,130,374	27,916,618
Less: Payments made during the year		24,493,014	12,395,604
Balance at the end of the year		2,637,360	15,521,014

10. Provisions for other liabilities and charges

		2009 Rupees	2008 Rupees
Bonus to employees	-note 10.1	21,398,080	20,533,068
Sales incentive scheme	-note 10.2	13,280,562	11,620,091
		34,678,642	32,153,159

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, 2009	20,533,068	11,620,091	32,153,159
Additional provisions made during the year	21,435,210	13,513,825	34,949,035
Provisions used during the year	(20,570,198)	(11,853,354)	(32,423,552)
Balance as at December 31, 2009	21,398,080	13,280,562	34,678,642

10.1 Bonus to employees

This provision presents bonus equal to seven months' basic salary and three months' basic salary payable to unionised 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, 2009 are expected to be utilised in the next financial year.

11. Contingencies and commitments

11.1 Contingencies

(i) Liabilities, if any, which may arise from the outstanding warranties and guarantees to the customers as to performance, free of charge replacement of faulty materials or bad workmanship etc. are not ascertainable. Based on past experience, however, the amount of contingent loss, if any, arising from other warranties and guarantees is not likely to be material and no provision has, therefore, been made in these financial statements.

(ii) The company has issued guarantees of Rs 651.728 million (2008: Rs 168.234 million) against the performance of various contracts.

11.2 Commitments in respect of

Letters of credit other than for capital expenditure approximately Rs 28.823 million (2008: Rs 35.626 million).

12. Property, plant and equipment

2009 — Rupees

	Cost as at January 1, 2009	Additions/ (deletions)	Cost as at December 31, 2009	Accumulated depreciation as at January 1, 2009	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at December 31, 2009	Book value as at December 31, 2009
Freehold land	1,372,520	-	1,372,520	-	-		1,372,520
Buildings on freehold land	32,320,567	-	32,320,567	24,437,469	1,068,450	25,505,919	6,814,648
Plant and machinery	189,351,583	44,456,356	233,807,939	96,371,253	10,256,378	106,627,631	127,180,308
Tools, jigs and attachments	44,559,804	311,940 (710,025)	44,161,719	31,146,498	2,114,658 (683,568)	32,577,588	11,584,131
Patterns	52,016,468	3,186,704	55,203,172	42,954,657	5,226,783	48,181,440	7,021,732
Other equipment	32,305,644	4,177,837	36,483,481	10,008,569	3,600,846	13,609,415	22,874,066
Furniture and fixtures	9,985,876	2,440,610	12,426,486	5,712,019	289,941	6,001,960	6,424,526
Office machines and appliances	53,898,636	7,683,179 (6,507,370)	55,074,446	45,714,548	2,166,346 (6,489,424)	41,391,470	13,682,976
Vehicles	52,979,190	20,309,417 (2,743,500)	70,545,107	21,645,963	3,855,085 (1,001,524)	24,499,524	46,045,583
2009	468,790,288	82,566,043 (9,960,895)	541,395,437	277,990,976	28,578,487 (8,174,516)	298,394,947	243,000,490

2008 — Rupees

	Cost as at January 1, 2008	Additions/ (deletions)	Cost as at December 31, 2008	Accumulated depreciation as at January 1, 2008	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at December 31, 2008	Book value as at December 31, 2008
Freehold land	1,372,520	-	1,372,520	-	-	-	1,372,520
Buildings on freehold land	31,608,807	711,760	32,320,567	23,593,877	843,592	24,437,469	7,883,098
Plant and machinery	166,922,029	22,429,554	189,351,583	88,462,574	7,908,679	96,371,253	92,980,330
Tools, jigs and attachments	37,768,087	6,791,717	44,559,804	29,384,966	1,761,532	31,146,498	13,413,306
Patterns	48,882,717	3,133,751	52,016,468	40,604,966	2,349,691	42,954,657	9,061,811
Other equipment	16,360,036	15,945,608	32,305,644	7,545,543	2,463,026	10,008,569	22,297,075
Furniture and fixtures	8,540,005	2,360,530 (914,659)	9,985,876	6,135,189	421,521 (844,691)	5,712,019	4,273,857
Office machines and appliances	48,910,356	5,257,958 (269,678)	53,898,636	41,703,873	4,280,352 (269,677)	45,714,548	8,184,088
Vehicles	41,665,287	12,082,164 (768,261)	52,979,190	17,127,810	5,085,812 (567,659)	21,645,963	31,333,227
2008	402,029,844	68,713,042 (1,952,598)	468,790,288	254,558,798	25,114,205 (1,682,027)	277,990,976	190,799,312

The cost of fully depreciated property, plant and equipment which are still in use as at December 31, 2009 is Rs 217.706 million (2008: Rs 191.698 million).

		2009 Rupees	2008 Rupees

12.1 The depreciation charge for the year has been allocated as follows:

		2009 Rupees	2008 Rupees
Cost of sales	- note 23	24,466,088	18,721,775
Distribution and marketing expenses	- note 24	2,379,208	3,586,866
Administration expenses	- note 25	1,733,192	2,805,564
		28,578,488	25,114,205

12.2 Disposal of property, plant and equipment

2009 — Rupees

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Vehicles						
	Employees					
Honda City	Naeem Haider	883,500	474,881	408,619	512,334	Company Policy
Suzuki Cultus	Adil Fawad	662,000	55,167	606,833	692,459	Company Policy
Suzuki Cultus	Mamoon Riaz	595,000	283,038	311,962	333,550	Company Policy
Suzuki Cultus	Ghulam Nabi	603,000	188,438	414,562	506,270	Company Policy
Other assets with book value less than Rs 50,000		7,217,394	7,172,992	44,402	541,100	Tender
		9,960,894	8,174,516	1,786,379	2,585,713	

2008 — Rupees

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Furniture and fixtures	**Outsiders** M/s Techno Builder	763,300	747,170	16,130	41,000	Negotiation
Vehicles	**Outsiders** Mr. Liaqat Ali Khan	768,261	567,660	200,601	610,000	Tender
Other assets with book value less than Rs 50,000		421,037	367,197	53,840	66,000	-
		1,952,598	1,682,027	270,571	717,000	-

13. Investment property

Rupees

	Cost as at January 1, 2009	Additions/ (deletions)	Cost as at December 31, 2009	Accumulated depreciation as at January 1, 2009	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at December 31, 2009	Book value as at December 31, 2009
Building on freehold land	4,400,000		4,400,000	2,110,854	211,754	2,322,608	2,077,392
2009	4,400,000	-	4,400,000	2,110,854	211,754	2,322,608	2,077,392
2008	4,400,000	-	4,400,000	2,000,854	110,000	2,110,854	2,289,146

13.1 Depreciation charge for the year has been allocated to administration expenses.

13.2 Fair value of the investment property, based on the valuation carried out by an independent valuer, as at December 31, 2009 is Rs 73.638 million (2008: Rs 69.483 million).

14. Intangible Assets

Rupees

	Cost as at January 1, 2009	Additions/ (deletions)	Cost as at December 31, 2009	Accumulated amortization as at January 1, 2009	Amortization charge for the year	Accumulated amortization as at December 31, 2009	Book value as at December 31, 2009
Intangible Assets	-	7,132,389	7,132,389	-	1,782,919	1,782,919	5,349,470
2009	-	7,132,389	7,132,389	-	1,782,919	1,782,919	5,349,470
2008	-	-	-	-	-	-	-

14.1 Depreciation charge for the year has been allocated to cost of sales.

		2009 Rupees	2008 Rupees
15.	**Capital work in progress**		
	Advance for land	229,800	229,800
	Advance for vehicles	981,730	-
	Plant and machinery	-	25,790,020
		1,211,530	26,019,820
16.	**Long term loans and deposits**		
	Loans to employees - considered good		
	- Director	2,740,000	4,140,000
	- Executives	-	-
	- Others	4,780,539	6,258,375
		7,520,539	10,398,375
	Less: Receivable within one year - note 20	3,884,499	3,946,489
		3,636,040	6,451,886
	Security deposits	2,560,180	1,433,380
		6,196,220	7,885,266

Reconciliation of the carrying amount of loans to:

	Director		Executives	
	2009	2008	**2009**	2008
Balance as at January 1	4,140,000	5,540,000	-	171,846
Disbursements during the year	-	-	-	-
Repayments during the year	(1,400,000)	(1,400,000)	-	(171,846)
Balance as at December 31	2,740,000	4,140,000	-	-

These represent un-secured interest free loans,other than loan to Chief Executive Officer which is secured against his 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 director and executives at any time during the year was Rs 4.140 million (2008: Rs 5.540 million) and Nil (2008: Rs 0.172 million) respectively.

	2009 Rupees	2008 Rupees
17. Stores, spares and loose tools		
Stores	21,756,650	20,250,256
Spares	10,385,495	12,571,961
Loose tools	11,807,331	13,510,843
	43,949,476	46,333,060

17.1 Stores and spares, having cost of Rs 8.169 million (2008: Rs 9.221 million) are being carried at net realisable value and an amount of Rs 2.289 million (2008: 3.079 million) has been charged to cost of sales, being the cost of inventory written down during the year.

	2009 Rupees	2008 Rupees
18. Stock in trade		
Raw materials [including in transit Rs 14.911 million (2008: Rs 19.172 million)]	218,870,153	188,287,534
Work in process	77,182,748	93,231,810
Finished goods	74,136,523	66,636,028
	370,189,424	348,155,372

18.1 Stock-in-trade, having cost of Rs 27.143 million (2008: Rs 27.818 million) are being carried at net realisable value and an amount of Rs 4.333 million (2008: 3.144 million) has been charged to cost of sales, being the cost of inventory written down during the year.

18.2 Included in work-in-process are certain items of Rs 3.068 million (2008: Rs 0.416 million) held by the following contractors for machining on behalf of the company:

	2009 Rupees	2008 Rupees
Lateef Industries	916,910	-
Masood & Brothers	45,415	-
Mughal Engineering Works	4,259	-
Nazir Engineering Works	290,706	-
Qadri Industrial Enterprises	1,808,156	416,160
Shaheen Engg. Works	2,359	-
	3,067,805	416,160

		2009 Rupees	2008 Rupees
19. Trade debts - unsecured			
Considered good			
- Related parties	- note 19.1	41,464,483	29,651,756
- Others		407,086,005	352,626,798
- Due against construction work in progress		78,010,000	6,276,000
		526,560,488	388,554,554
Considered doubtful		39,176,567	44,936,894
		565,737,055	433,491,448
Less: Provision for doubtful debts	- note 19.2	(39,176,567)	(44,936,894)
		526,560,488	388,554,554

19.1 Related parties

	2009 Rupees	2008 Rupees
Holding Company		
- KSB Aktiengesellschaft, Germany	24,403,817	10,759,569
Associated undertakings		
Pt KSB Indonesia	419,165	915,656
KSB Ajax Pumps pty. Limited, New Zealand	2,064,298	-
- KSB Mörck AB, Sweden	2,011,924	79,600
- KSB Amri (A.P) Pte Ltd.	1,171,513	-
- KSB Pumps Company Limited Thailand	897,885	1,405,934
- KSB Company Limited, Taiwan	-	4,791,924
- KSB South Africa	1,666,862	-
- KSB Pompy Armatura, Poland	916,690	2,446,062
- KSB S.A. Cedex, France	59,290	5,359,308
- KSB Singapore (Asia Pacific)	7,695,150	-
- KSB Pumps and Valves (Pty) Limited	-	2,480,600
- KSB Pompa Armatur, Turkey	-	1,301,283
- General Tyre & Rubber Company		111,820
- Oil and Gas Development Company Ltd.	157,889	-
	41,464,483	29,651,756

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

19.2 Provision for doubtful debts

	2009 Rupees	2008 Rupees
Opening balance	44,936,893	37,760,498
Provision for the year	6,408,774	19,863,065
	51,345,667	57,623,563
Less: Bad debts written off against provision	12,169,100	12,686,670
Closing balance	39,176,567	44,936,893

		2009 Rupees	2008 Rupees
20. Advances, deposits, prepayments and other receivables			
Current portion of long term loans to employees	- note 16	3,884,499	3,946,489
Short term advances to employees- considered good	- note 20.1	7,024,161	5,224,238
Advances to suppliers and contractors			
- Considered good		44,265,361	26,448,887
- Considered doubtful		172,500	283,479
		44,437,861	26,732,366
Due from related parties	- note 20.2	10,900,084	8,389,212
Trade deposits and prepayments			
- Considered good		53,365,378	53,302,099
- Considered doubtful		3,784,093	7,932,742
		57,149,471	61,234,841
Letters of credit, deposits and opening charges		1,952,756	9,186,756
Profit receivable on bank deposits		1,746,635	136,119
Claims Recoverable from Government			
- Sales Tax		18,783,353	20,564,970
- Income Tax		19,528,359	9,889,908
		38,311,712	30,454,878
Other receivables			
- Considered good		2,002,514	1,787,248
- Considered doubtful		446,581	210,965
		2,449,095	1,998,213
		167,856,274	147,303,112
Less: Provision for doubtful amounts	- note 20.3	(4,403,174)	(8,427,186)
		163,453,100	138,875,926

20.1 Included in short term advances to employees is amount due from executives of Rs 1.269 million (2008: 0.211 million).

20.2 Due from related parties

	2009 Rupees	2008 Rupees
Holding company		
- KSB Aktiengeselischaft, Germany	10,062,918	7,937,117
Associated undertakings		
- KSB S.A. Cedex, France	837,166	452,095
	10,900,084	8,389,212

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

		2009 Rupees	2008 Rupees
20.3	**Provision for doubtful amounts**		
	Opening balance	8,427,186	6,794,797
	Provision / (reversed) made during the year	(3,301,503)	1,782,402
		5,125,683	8,577,199
	Less: Amount written off against provision	722,509	150,013
	Closing balance	4,403,174	8,427,186
21.	**Cash and bank balances**		
	At banks		
	- on term deposit accounts	100,000,000	-
	- on saving accounts	103,305,858	41,784,552
	- on current accounts	17,890,207	18,947,830
		221,196,065	60,732,382
	Cash in hand [including cheques in hand of Rs 9.947 million (2008: Rs 13.267 million)]	10,925,909	14,641,566
		232,121,974	75,373,948

21.1 The balances in saving and deposit accounts bear mark-up which ranges from 5% to 12% per annum.

			2009 Rupees	2008 Rupees
22.	**Sales**			
	Local sales	- note 22.1	1,857,034,766	1,784,252,039
	Export sales		209,046,921	127,641,843
			2,066,081,687	1,911,893,882
	Less: Sales tax		(41,833,992)	(35,448,746)
			2,024,247,695	1,876,445,136

22.1 Sales are inclusive of revenue from rendering of contract and services of Rs 339.140 million (2008: Rs 282.225 million) and Rs. 33.344 million (2008: Rs. 22.994 million) respectively.

		2009 Rupees	2008 Rupees
23. Cost of sales			
Raw material consumed		936,387,820	934,303,425
Salaries, wages, amenities and staff welfare	- note 23.1	132,709,813	117,219,351
Staff training		556,171	1,032,153
Electricity and power		31,516,179	34,039,951
Stores and spares consumed		66,499,357	72,763,313
Insurance		1,884,575	1,620,460
Traveling and conveyance		21,172,503	20,172,363
Postage and telephone		3,541,003	3,577,756
Rent, rates and taxes		3,758,899	2,508,398
Repairs and maintenance		18,368,147	17,863,706
Legal & Professional charges		1,435,481	6,876,047
Packing expenses		17,499,697	21,506,547
Outside services		253,222,488	146,571,887
Depreciation on property, plant and equipment	- note 12.1	24,466,087	18,721,775
Amortisation of intangible assets	- note 14.1	1,782,919	-
Royalty		4,371,000	4,230,000
Other expenses		4,049,386	9,347,126
		1,523,221,525	1,412,354,258
Opening work-in-process		93,231,810	69,717,874
Less: Closing work-in-process		77,182,748	93,231,810
		16,049,062	(23,513,936)
Cost of goods manufactured		1,539,270,587	1,388,840,322
Opening stock of finished goods		66,636,028	48,690,033
Less: Closing stock of finished goods		74,136,523	66,636,028
		(7,500,495)	(17,945,995)
		1,531,770,092	1,370,894,327
Less: Cost of capital assets manufactured		(1,615,294)	(2,059,665)
		1,530,154,798	1,368,834,662
Cost of sales include the following in respect of:			
Contract cost		296,734,000	222,312,000
Raw material written off		1,437,527	1,353,541
Work-in-process written off		2,190,137	1,424,104
Finished goods written off		705,408	366,423
Stores, spares and loose tools written off		2,289,095	3,079,283

	2009 Rupees	2008 Rupees

23.1 Salaries, wages, amenities and staff welfare

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

	2009 Rupees	2008 Rupees
Gratuity fund		
Current service cost	2,601,783	2,112,502
Interest cost	3,483,596	2,034,171
Expected return on plan assets	(3,162,902)	(1,796,269)
Recognition of loss	-	5,657
	2,922,477	2,356,061
Ex-gratia		
Current service cost	719,306	821,216
Interest cost	2,053,043	1,274,667
	2,772,349	2,095,883

In addition to above, salaries, wages, amenities and staff welfare include Rs 4.367 million (2008: Rs 3.917 million) and Rs 0.910 million (2008: Rs 1.536 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

24. Distribution and marketing expenses

		2009 Rupees	2008 Rupees
Salaries, wages, amenities and staff welfare	- note 24.1	68,087,878	60,069,950
Staff training		221,065	1,429,671
Traveling, conveyance and representations		19,930,982	20,634,554
Rent, rates and taxes		2,602,781	3,404,716
Publicity charges		7,491,513	8,399,561
Electricity, gas and water		3,295,299	2,416,341
Postage and telephone		3,480,605	3,690,359
Printing and stationery		1,334,054	1,407,514
Repairs and maintenance		1,150,585	6,516,479
Forwarding expenses		18,031,185	18,946,342
Commission expenses		39,398,907	35,528,204
Provision for doubtful debts and receivables		3,098,230	21,645,467
Depreciation on property, plant and equipment	- note 12.1	2,379,208	3,586,866
Other expenses		5,482,262	5,260,927
		175,984,554	192,936,951

	2009 Rupees	2008 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

	2009 Rupees	2008 Rupees
Current service cost	1,922,597	1,752,621
Interest cost	2,574,215	1,687,635
Expected return on plan assets	(2,337,237)	(1,490,261)
Recognition of loss	-	4,693
	2,159,575	1,954,688

In addition to above, salaries, wages, amenities and staff welfare include Rs 2.144 million (2008: Rs 1.934 million) and Rs 0.776 million (2008: Rs 0.411 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

25. Administration expenses

		2009 Rupees	2008 Rupees
Salaries, wages, amenities and staff welfare	- note 25.1	68,014,617	64,369,856
Staff training		495,493	1,191,972
Traveling, conveyance and representations		12,323,234	13,825,542
Rent, rates and taxes		1,253,745	996,245
Electricity, gas and water		4,538,488	3,472,297
Postage and telephone		6,842,285	6,166,730
Printing and stationery		1,970,049	1,592,311
Repairs and maintenance		2,883,591	3,408,263
Professional services	- note 25.2	4,606,794	6,151,513
Depreciation on:			
- Property, plant and equipment	- note 12.1	1,733,192	2,805,564
- Investment property	- note 13.1	211,754	110,000
Other expenses		13,447,266	5,944,153
		118,320,508	110,034,446

25.1 Salaries, wages, amenities and staff welfare

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

	2009 Rupees	2008 Rupees
Gratuity fund		
Current service cost	2,139,578	1,857,186
Interest cost	2,864,738	1,788,322
Expected return on plan assets	(2,601,015)	(1,579,173)
Recognition of loss	-	4,973
	2,403,301	2,071,308
Ex-gratia		
Current service cost	-	7,528
Interest cost	-	11,686
	-	19,214

In addition to above, salaries, wages, amenities and staff welfare include Rs 2.605 million (2008: Rs 2.398 million) and Rs 0.575 million (2008: Rs 0.925 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

	2009 Rupees	2008 Rupees

25.2 Professional services

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

	2009 Rupees	2008 Rupees
Statutory audit	250,000	250,000
Review of half yearly financial statements	150,000	150,000
Audit of funds, consolidation forms and sundry services	330,000	416,000
Taxation services	1,610,000	455,000
Out of pocket expenses	178,327	97,953
	2,518,327	1,368,953

26. Other operating expenses

		2009 Rupees	2008 Rupees
Workers' profit participation fund	- note 9.3	11,451,360	12,500,000
Workers' welfare fund		3,786,887	2,646,843
Donations	- note 26.1	120,000	221,500
Exchange loss		1,923,681	-
		17,281,928	15,368,343

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

		2009 Rupees	2008 Rupees
27.	**Other operating income**		
	Income from financial assets		
	Profit on bank accounts	10,518,670	11,479,079
	Income from non-financial assets		
	Commission Income	4,239,553	9,143,554
	Rental income on investment property	5,042,886	4,359,710
	Scrap sales	5,962,980	4,385,047
	Profit on sale of property, plant and equipment	799,335	446,429
	Provisions no longer considered necessary and unclaimed balances written back	13,029,656	9,038,702
	Exchange gain	-	15,523,414
	Sundry income	2,110,452	1,911,357
		31,184,862	44,808,213
		41,703,532	56,287,292
28.	**Finance cost**		
	Mark-up on short term finances - secured	5,700,422	6,281,520
	Interest on workers' profit participation fund - note 9.3	158,000	1,736,918
	Bank and other charges	4,562,084	3,620,303
		10,420,506	11,638,741
29.	**Taxation**		
	For the year		
	- Current	60,000,000	67,000,000
	- Deferred	6,800,000	7,000,000
		66,800,000	74,000,000
	Prior year		
	- Current	-	(10,768,924)
	- Deferred	(800,000)	-
		(800,000)	(10,768,924)
		66,000,000	63,231,076

	2009 %	2008 %

29.1 Tax charge reconciliation

	2009 %	2008 %
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	(0.35)	(0.27)
Effect of change in prior year's tax	(3.78)	(7.70)
Average effective tax rate charged to profit and loss account	30.87	27.03

30. Rates of exchange

Foreign currency liabilities have been translated into Pak Rupees at US $ 1.1862 (2008: US $ 1.2674), EURO 0.8258 (2008: EURO 0.9000), GBP 0.7386 (2008: GBP 0.8780), DHR 4.3573 (2008: DHR 4.655), SFR 1.2277 (2008: SFR 1.3414), YEN 109.5770 (2008: YEN 114.495), and HK$ 9.1996 (2008: HK$ 9.8232) equal to Rs 100. Foreign currency assets have been translated at US $ 1.1916 (2008: US $ 1.2706) equal to Rs 100.

31. Cash generated from operations

		2009 Rupees	2008 Rupees
Profit before taxation		213,788,933	233,919,285
Adjustment for:			
Depreciation on:			
- Property, plant and equipment		28,578,487	25,114,205
- Investment property		211,754	110,000
- Intangible Assets		1,782,919	-
Profit on sale of property, plant and equipment		(799,335)	(446,429)
Accumulating compensated absences		2,260,822	2,872,806
Employees' retirement and other benefits		10,257,714	8,497,158
Provision for doubtful debts and receivables		3,098,230	21,645,467
Stores, spares and loose tools written off		2,289,095	3,079,283
Stock-in-trade written off		4,333,072	3,144,068
Provisions no longer considered necessary and unclaimed balances written back		(13,029,656)	(9,038,702)
Finance cost		10,420,506	11,638,741
Exchange loss/(gain)		1,923,681	(15,523,414)
Working capital changes	- note 31.1	113,675,528	(163,641,255)
		378,791,750	121,371,213

	2009 Rupees	2008 Rupees

31.1 Working capital changes

	2009 Rupees	2008 Rupees
(Increase)/decrease in current assets:		
Stores, spares and loose tools	94,489	(5,946,204)
Stock-in-trade	(26,367,124)	(106,418,545)
Trade debts	(141,104,164)	(102,746,143)
Advances, deposits, prepayments and other receivables	(11,921,866)	(14,959,566)
	(179,298,665)	(230,070,458)
Increase/(decrease) in current liabilities:		
Trade and other payables	290,448,710	63,813,606
Provision for other liabilities and charges	2,525,483	2,615,597
	113,675,528	(163,641,255)

32. Cash and cash equivalents

Cash and cash equivalents comprise the following items:

		2009 Rupees	2008 Rupees
Cash and bank balances	- note 21	232,121,974	75,373,948
Short term finances - secured	- note 8	(171,346)	(16,421,278)
		231,950,628	58,952,670

33. Remuneration of Chief Executive, Directors and Executives

33.1 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	
	2009	2008	**2009**	2008	**2009**	2008
Short term employee benefits						
Managerial remuneration	7,260,000	6,480,000	2,027,338	1,874,100	31,422,684	27,124,224
Bonus	4,682,700	4,054,500	335,854	450,000	7,907,906	7,930,110
Ex-gratia	605,000	-	166,241	-	2,658,715	-
House rent	-	-	871,151	816,962	14,077,048	12,205,901
Utilities	-	-	193,588	181,546	3,128,240	2,712,422
Medical and other expenses	-	-	240,000	240,000	4,538,439	5,850,440
	12,547,700	10,534,500	3,834,172	3,562,608	63,733,032	55,823,097
Post employment benefits						
Contribution to gratuity and provident fund	1,331,000	1,296,000	365,729	338,386	5,912,708	5,131,413
Other long term benefits						
Accumulating compensated absences		-	370,231		6,482,428	5,178,975
	13,878,700	11,830,500	4,570,132	3,900,994	76,128,168	66,133,485
Number of persons	1	1	1	1	41	36

33.2 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, 2 executives have also been provided with rent free furnished accommodation.

33.3 Aggregate amount charged in the financial statements for the year for fee to 8 directors (2008: 7 directors) was Rs. 45,000 (2008: Rs 55,000).

34. 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 33 . Other significant transactions with related parties are as follows:

	2009 Rupees	2008 Rupees
Holding company		
Sales	101,532,975	17,714,130
Purchases	124,906,671	62,057,229
Commission income	1,318,190	7,655,755
Royalty	4,371,000	4,230,000
Associated undertakings		
Sales	81,988,398	50,461,701
Purchases	66,614,291	246,047,890
Commission income	297,778	389,007
Commission expense	9,324,125	12,407,429
Key management personnel		
Sale of property, plant and equipment	1,352,154	
Post employment benefit plan		
Expense charged in respect of:		
- Gratuity fund	7,485,361	6,403,877
- Ex-gratia scheme	10,850,378	2,115,097
- Provident fund	9,116,404	8,259,112
- Accumulated compensated absences	2,260,824	2,872,806

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

35. Plant capacity and production

	Capacity		Actual production	
	2009	2008	**2009**	2008
				Number
Power driven pumps	6,000	6,000	3501	5,832

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

		2009	2008

36. Earnings per share

36.1 Basic earnings per share

		2009	2008
Profit for the year	**Rupees**	147,788,933	170,688,209
Weighted average number of ordinary shares	**Numbers**	13,200,000	13,200,000
Earnings per share	**Rupees**	11.20	12.93

36.2 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, 2009 and December 31, 2008 which would have any effect on the earnings per share if the option to convert is exercised.

37. Financial risk management

37.1 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 minimise potential adverse effects on the financial performance.

Risk management is carried out 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 recognised assets and liabilities.

	2009	2008
Advances deposits and other receivables - USD	82,157	71,883
Trade debts - USD	696,474	1,201,140
Trade and other payables - USD	646,356	617,610
Net exposure - USD	132,275	655,413
Advances deposits and other receivables - EURO	33,033	26,538
Trade and other payables - EURO	136,730	131,948
Net exposure - EURO	(103,697)	(105,410)

The following significant exchange rates were applied during the year:

Rupees per USD	**2009**	2008
Average rate	81.94	71.04
Reporting date rate	84.30	78.70

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 0.558 million (2008: Rs 2.579 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	**2009**	2008
Average rate	114.08	104.66
Reporting date rate	120.81	110.83

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 0.626 million (2008: Rs 0.584 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.

(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:

	2009 Rupees	2008 Rupees
Fixed rate instruments		
Financial assets		
Bank balances - deposits	100,000,000	-
Bank balances - savings	103,305,858	41,784,552
Financial liabilities		-
Net exposure	203,305,858	41,784,552
Floating rate instruments		
Financial assets	-	-
Financial liabilities		
Short term finances - secured	171,346	16,421,278
Net exposure	(171,346)	(16,421,278)

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 0.00171 million (2008: Rs 0.164 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 utilisation 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:

	2009 Rupees	2008 Rupees
Long term loans and deposits	6,196,220	7,885,266
Trade debts	565,737,055	433,491,448
Loans, advances, deposits, prepayments and other receivables	129,544,562	116,848,234
Cash and bank balances	221,196,065	60,732,382
	922,673,902	618,957,330

The age of trade receivables and related impairment loss at balance sheet date is as follows:

	2009 Rupees	2008 Rupees
The age of trade receivables		
- Not past due	-	-
- Past due 0 - 180 days	383,792,621	339,879,936
- Past due 181 - 365 days	60,333,267	43,966,515
- Over 365 days	121,611,167	43,368,997
	565,737,055	427,215,448
The age of impairment loss against trade receivables		
- Not past due	-	-
- Past due 0 - 180 days		-
- Past due 181 - 365 days		-
- Over 365 days	39,176,567	44,936,894
	39,176,567	44,936,894

(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	2009 (Rupees)	2008 (Rupees)
National Bank of Pakistan	A-1+	AAA	JCR-VIS	3,301,664	1,722,824
MCB Bank Limited	A1+	AA+	PACRA	56,481,924	52,497,025
United Bank Limited	A1+	AA+	JCR-VIS	169,613	840,228
Deutsche Bank A.G.	A1	A+	S&P	1,793,524	263,520
Standard Chartered Bank (Pakistan) Limited	A1+	AA+	JCR-VIS	5,332	595,248
Allied Bank Limited	A1+	AA	PACRA	-	221,492
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	-	27,210
Royal Bank of Scotland Limited	A1+	AA	PACRA	-	451,860
HSBC Bank Middle East Limited	P1	AA2	Moody's	10,720	10,720
NIB Bank Limited	A1+	AA-	PACRA	159,433,288	4,102,255
				221,196,065	60,732,382

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 note 32 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 cashflows 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, 2009:

	Carrying amount	**Less than one year**	**One to five years**	**More than five years**
	Rupees			
Trade and other payables	725,679,930	725,679,930	-	-
Accrued finance cost	1,348,320	1,348,320	-	-
	727,028,250	727,028,250	-	-

The following are the contractual maturities of financial liabilities as at December 31, 2008:

	Carrying amount	Less than one year	One to five years	More than five years
	Rupees			
Trade and other payables	434,900,251	434,900,251	-	-
Accrued finance cost	1,456,927	1,456,927	-	-
	436,357,178	436,357,178	-	-

37.2 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.

37.3 Financial instruments by categories

	Loans and receivables	
	2009 Rupees	2008 Rupees
Assets as per balance sheet		
Long term loans and deposits	6,196,220	7,885,266
Trade debts	565,737,055	433,491,448
Loans, advances, deposits, prepayments and other receivables	56,845,444	44,713,946
Cash and bank balances	221,196,065	60,732,382
	849,974,784	546,823,042

	Financial liabilities at amortised cost	
	2009 Rupees	2008 Rupees
Liabilities as per balance sheet		
Trade and other payables	725,679,930	434,900,251
Accrued finance cost	1,348,320	1,456,927
	727,028,250	436,357,178

37.4 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 (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.

38. Date of authorisation for issue

These financial statements were authorised for issue on March 25, 2010 by the board of directors of the company.

39. Events after the balance sheet date

The Board of Directors have proposed a final dividend for the year ended December 31, 2009 of Rs 3.5 (2008: Rs 4.3) per share, amounting to Rs 46.2 million (2008: Rs 51.6 million) at their meeting held on March 25, 2010 for approval of members at the Annual General Meeting to be held on April 30, 2010. The board has also proposed transfer of Rs 101 million (2008: Rs 107million) to general reserve from unappropriated profit. These financial statements do not reflect this dividend payable and other appropriations.

40. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. Significant re-arrangement made is as follows:

	Rupees
Amount due from customers against construction work in progress was previously net off against advance from customers against construction work in progress, has now been reclassified under trade debtors as amount due from customers under construction work in progress	6,276,000

Director **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 ____________ (No. of Shares) shares as per Share Register folio number

____________ 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 Friday, April 30, 2010 and at any adjournment thereof.

Signed this ____________ day ____________ of 2010.

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.